

## IMPORTANT NOTICE

**IMPORTANT: You must read the following notice before continuing.** The following notice applies to the offering circular (the “**Offering Circular**”) following this notice, and you are therefore advised to read this carefully before reading, accessing or making any other use of this Offering Circular. In accessing this Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them, from time to time, each time you receive any information from us as a result of such access. You acknowledge that this electronic transmission and the delivery of the attached Offering Circular is confidential and intended only for you and you agree you will not forward, reproduce, copy, download or publish this electronic transmission or the attached Offering Circular (electronically or otherwise) to any other person.

This Offering Circular and the offering described herein when made are only addressed to and directed at persons in member states of the European Economic Area (“**EEA**”) who are “*qualified investors*” within the meaning of Article 2(1)(e) of the Prospectus Directive (Directive 2003/71/EC and amendments thereto, including Directive 2010/73/EU, to the extent implemented in the relevant Member State of the EEA) and any implementing measure in each relevant Member State of the EEA (the “**Prospectus Directive**”) (the “**Qualified Investors**”). In addition, in the United Kingdom (“**UK**”), this Offering Circular is being distributed only to, and is directed only at, Qualified Investors (i) who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the “**Order**”) or (ii) who fall within Article 49(2)(a) to (d) of the Order, or (iii) to whom it may otherwise lawfully be communicated (all such persons together being referred to as “**relevant persons**”). This Offering Circular must not be acted on or relied on (i) in the UK, by persons who are not relevant persons, or (ii) in any member state of the EEA other than the UK, by persons who are not Qualified Investors. Any investment or investment activity to which this Offering Circular relates is available only to (i) in the UK, relevant persons, and (ii) in any member state of the EEA other than the UK, Qualified Investors, and will be engaged in only with such persons.

THE OFFER SHARES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT, AS AMENDED (THE “**SECURITIES ACT**”) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES OF AMERICA AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OF AMERICA EXCEPT IN RELIANCE ON THE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT OR IN ANOTHER TRANSACTION EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN COMPLIANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES OF AMERICA. IN THE UNITED STATES OF AMERICA, THE OFFER SHARES ARE BEING OFFERED TO QUALIFIED INSTITUTIONAL BUYERS (“**QIBS**”) ONLY, AS PROVIDED UNDER RULE 144A OF THE SECURITIES ACT, AS A PRIVATE PLACEMENT IN RELIANCE ON THE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

OUTSIDE THE UNITED STATES OF AMERICA, THE OFFER SHARES ARE BEING OFFERED IN RELIANCE ON REGULATION S (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT, “**REGULATION S**”) UNDER THE SECURITIES ACT. THE OFFER SHARES ARE SUBJECT TO CERTAIN RESTRICTIONS ON SALES, OFFERS, SUBSCRIPTIONS AND DISPOSALS AS SET OUT IN THE OFFERING CIRCULAR.

THE OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS OFFERING CIRCULAR IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS NOTICE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

**NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO.**

**Confirmation of your representation:** By accepting electronic delivery of this document, you are deemed to have represented to the Managers and the Company and the Selling Shareholder that (i) you are acting on behalf of, or you are either (a) an institutional investor outside the United States (as defined in Regulation S under the Securities Act), or (b) in the United States and a QIB that is acquiring securities for your own account or for the account of another QIB; (ii) if you are in the UK, you are a relevant

person; (iii) if you are in any member state of the EEA other than the UK, you are a Qualified Investor; (iv) the securities acquired by you in the offer have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to, any person in circumstances which may give rise to an offer of any securities to the public other than their offer or resale in any member state of the EEA which has implemented the Prospectus Directive to Qualified Investors (as defined in the Prospectus Directive) and (v) if you are outside the US, UK and EEA (and the electronic mail addresses that you gave us and to which this document has been delivered are not located in such jurisdictions) you are a person into whose possession this document may lawfully be delivered in accordance with the laws of the jurisdiction in which you are located.

You are reminded that this Offering Circular has been made available to you solely on the basis that you are a person into whose possession this Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this Offering Circular, electronically or otherwise, to any other person. The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Managers or any affiliate of the Managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Manager or such affiliate on behalf of the Company in such jurisdiction.

This Offering Circular has been made available to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and, consequently, neither the Company, any Manager nor any person who controls them nor any director, officer, employee nor agent or an affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between this Offering Circular distributed to you in electronic format and the hard-copy version available to you on request from any Manager.

By accessing this linked document you consent to receiving it in electronic form.

**Restriction:** Nothing in this electronic transmission constitutes, and may not be used in connection with, an offer of securities for sale to persons other than the specified categories of institutional investors described above and to whom it is directed, and access has been limited so that it shall not constitute a general solicitation. If you have gained access to this transmission contrary to the foregoing restrictions, you will be unable to purchase any of the securities described herein.

None of the Managers, or any of their respective affiliates, or any of their respective directors, officers, employees or agents accepts any responsibility whatsoever for the contents of this Offering Circular or for any statement made or purported to be made by it, or on its behalf, in connection with the Company or the offering. The Managers and all of their respective affiliates accordingly disclaim all and any liability whether arising in tort, contract, or otherwise which they might otherwise have in respect of such document or any such statement. No representation or warranty, express or implied, is made by any of the Managers or any of their respective affiliates as to the accuracy, completeness, reasonableness, verification or sufficiency of the information set out in this Offering Circular.

The Managers are acting exclusively for the Selling Shareholder and the Company and no one else in connection with the offering. They will not regard any other person (whether or not a recipient of this Offering Circular) as their client in relation to the offering and will not be responsible to anyone other than the Company for providing the protections afforded to their clients nor for giving advice in relation to the offering or any transaction or arrangement referred to herein.

You are responsible for protecting against viruses and other destructive items. Your receipt of this document via electronic transmission is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.



## ENERGA S.A.

(A Polish joint stock company with its registered office in Gdańsk, at ul. Grunwaldzka 472  
entered in the Register of Business Entities of the National Court Register under No. 0000271591)

### Offering for the sale of 127,369,861 series AA ordinary shares with a nominal value of PLN 10.92 each with additional 14,152,206 series AA ordinary shares with a nominal value of PLN 10.92 each subject to an over allotment option

The State Treasury of the Republic of Poland, represented by the Minister of the State Treasury (the "Selling Shareholder"), the majority shareholder of Energa S.A. (the "Company") is offering 127,369,861 series AA ordinary bearer shares having the nominal value of PLN 10.92 each in the share capital of the Company, with additional 14,152,206 series AA ordinary shares with a nominal value of PLN 10.92 each subject to the Over Allotment Option (as defined below) (together the "Offer Shares"). The offering of the Offer Shares (the "Offering") consists of: (i) an initial public offering to retail investors (the "Retail Investors"), qualified retail investors (the "Qualified Retail Investors") and institutional investors (the "Polish Institutional Investors") in Poland (the "Polish Offering") in each case in accordance with Regulation S under the U.S. Securities Act of 1933, as amended (the "U.S. Securities Act"); (ii) a limited promotional activities constituting an offering in the United States of America to qualified institutional buyers (the "QIBs") as defined in, and in reliance on, Rule 144A under the U.S. Securities Act; and (iii) a limited promotional activities constituting a private placement to certain institutional investors outside of the United States of America and Poland (the "International Institutional Investors" and together with the Polish Institutional Investors, the "Institutional Investors") in accordance with Regulation S under the U.S. Securities Act (the "International Offering"). The Over Allotment Option (as defined below) also forms part of the Offering, however, the Over Allotment Option is not the part of the Polish Offering.

For the purposes of the Polish Offering and the application for the admission and introduction of 269,139,114 ordinary series AA bearer shares in the Company to trading on the regulated (main) market of the Warsaw Stock Exchange (the "WSE"), the Company has prepared and published in Poland a Polish language prospectus in the form of a single document (the "Prospectus"), as defined in: (i) Article 5(3) of Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC of 3 December 2003, as amended (the "Prospectus Directive") and (ii) Article 21 Section 1 Item 1 of the Polish Offering Act, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies dated 29 July 2005 (the "Offering Act"), which was approved on 15 November 2013 by the Polish Financial Supervision Authority (Komisja Nadzoru Finansowego) (the "PFSA"), the competent Polish supervisory authority for the financial market in Poland, and which has not and will not be approved by any supervisory authority other than the PFSA and has not and will not be submitted to the supervisory authority in any country other than Poland. This international offering circular (the "Offering Circular") has been prepared in connection with the International Offering and in compliance with applicable provisions of law in any jurisdiction in which the International Offering is made and has not and will not be approved by the PFSA or any other supervisory authority.

The Sale Price of the Offer Shares for the Retail Investors and the Qualified Retail Investors and the Sale Price of the Offer Shares for the Institutional Investors is PLN 17.00. The final number of the Offer Shares offered in the Offering is 141,522,067 including 14,152,206 Offer Shares subject to the Over Allotment Option. The final number of the Offer Shares offered to Retail Investors is 24,369,952, the final number of Offer Shares offered to Qualified Retail Investors is 7,076,103 and the final number of the Offer Shares offered to Institutional Investors is 110,076,012, including 14,152,206 Offer Shares subject to the Over Allotment Option.

As at the date of this Offering Circular the Shares have not been and are not admitted to trading on any regulated market or any equivalent market. It is the Company's intention that trading in the Series AA Shares on the WSE commences on or about 11 December 2013.

Investing in the securities described in this Offering Circular is connected with a high degree of risk inherent to investments in capital market equity instruments and risk connected with the Group's operations and its business environment. For a discussion or certain risk factors that should be considered in connection with an investment in the Offer Shares, see "Risk Factors" of this Offering Circular.

This Offering Circular does not constitute an offer to sell, or a solicitation of offer to buy, the Offer Shares from persons in any jurisdiction in which the making of such an offer or solicitation would be illegal. The Polish Offering is being conducted exclusively within the territory of Poland. This Offering Circular has not been registered, approved or submitted to any regulatory body in any jurisdiction. The Offer Shares have not been registered or approved, nor are they the subject of a notification submitted to any regulatory body in any jurisdiction other than Poland.

THE OFFER SHARES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OR BY ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR SUBJECT TO THE JURISDICTION OF THE UNITED STATES OF AMERICA, AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT, SUBJECT TO COMPLIANCE WITH THE APPLICABLE SECURITIES LAWS IN EFFECT IN ANY STATE OR JURISDICTION OF THE UNITED STATES OF AMERICA. ACCORDINGLY, THE OFFER SHARES ARE BEING OFFERED IN THE UNITED STATES OF AMERICA ONLY TO QIBS IN RELIANCE ON RULE 144A OF THE U.S. SECURITIES ACT IN THE FORM OF A PRIVATE PLACEMENT WHICH ENJOYS AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT. OUTSIDE THE UNITED STATES OF AMERICA, THE OFFER SHARES ARE BEING OFFERED IN RELIANCE ON REGULATION S UNDER THE U.S. SECURITIES ACT. THE SHARES ARE SUBJECT TO CERTAIN RESTRICTIONS CONCERNING THE SALE, POSSIBILITY TO OFFER, PLACE PURCHASE ORDERS AND DISPOSE OF THE SAME. FOR A DETAILED DESCRIPTION OF THESE TRANSFER RESTRICTIONS, SEE "RESTRICTIONS IN DISTRIBUTION OF THE OFFER SHARES—SELLING RESTRICTIONS" AND "—TRANSFER RESTRICTIONS". NEITHER THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OF AMERICA HAS APPROVED OR DISAPPROVED THE OFFERING OF THE OFFER SHARES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS OFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE.

The Stabilising Managers (as defined below), in connection with the Offering, will have the right to acquire, on the Warsaw Stock Exchange Series AA Shares in an amount not greater than 10% of the final number of the Offer Shares and, at the same time, not greater than the number of Series AA Shares sold under Over Allotment Option (as defined below) in order to stabilise the price of the Series AA Shares at a level higher than that which would otherwise prevail. The acquisition of the Series AA Shares for the purposes of stabilisation will be subject to the provisions of the Stabilisation Regulation. The purchase transactions related to the Series AA Shares may be effected only during the period commencing on the first listing day of the Series AA Shares on the WSE and terminating 30 days of that date ("Stabilisation Period"). The transactions to purchase the Series AA Shares may only be effected at a price not higher than the Sale Price for the Institutional Investors.

The Stabilising Managers will not, however, be required to take any stabilisation actions. If the Stabilising Managers take any such actions, they may be discontinued at any time, but not later than before the end of the Stabilisation Period.

The Selling Shareholder will lend the Series AA Shares to the Stabilising Managers for the purpose of an over-allotment option ("Over Allotment Option") based on which the shares will be allotted in the Offering in an amount of 14,152,206 of Series AA Shares.

*Joint Global Coordinators and Joint Bookrunners*

**J.P. Morgan**

**UBS Investment Bank**

*Joint Bookrunners*

**BofA Merrill Lynch**

**Citi**

**UniCredit**

**Banco Espírito Santo de Investimento, S.A.  
Spółka Akcyjna Oddział w Polsce**

*Joint Bookrunner and Offering Agent*

**Dom Maklerski PKO Banku Polskiego**

*Other Managers*

**Biuro Maklerskie Alior Bank**

**Dom Maklerski Banku Ochrony  
Środowiska S.A.**

**Dom Maklerski mBanku**

**IPOPEMA Securities**

Date of this Offering Circular is 3 December 2013

**IMPORTANT INFORMATION****Information for prospective investors**

In connection with the Offering taking place in the territory of Poland pursuant to the Prospectus, the Offer Shares may be offered outside Poland only among international institutional investors having their seat outside Poland, in accordance with relevant regulations of the country where such promotion of the Offering will take place, based on a marketing document, the Offering Circular, delivered separately to selected institutional investors. The Offering Circular will not be subject to approval by any public administration body. The promotion of the Offering outside Poland will be addressed exclusively to selected institutional investors outside Poland, including Qualified Institutional Buyers in the United States of America pursuant to Rule 144A passed under the U.S. Securities Act.

The promotion of the Offering or distribution of the Offering Circular and the offering of the Offer Shares by the Managers in certain jurisdictions may be restricted by law. Accordingly, neither the Offering Circular, nor any advertisement nor any other offering material may be distributed or published in any jurisdiction except under circumstances that will result in compliance with applicable laws and regulations. Persons who are in possession of the Offering Circular should analyse in detail all restrictions in this regard, including the restrictions of the possibilities of acquiring the Offer Shares (see “Selling Restrictions”) and abide by them. A failure to abide by these restrictions may constitute a breach of the regulations governing trading in securities that are in force in a given jurisdiction. No action has been or will be taken as at the date of this Offering Circular by the Company, the Selling Shareholder, the Managers or any other persons acting in their name to permit a public offering of the Offer Shares or to permit the possession or distribution of the Offering Circular (or any other offering or publicity materials or application forms relating to the Offer Shares) in any jurisdiction where action aimed at obtaining such a permit may be required.

The Offering Circular does not constitute an offer of, or an invitation to subscribe for or purchase, any Offer Shares in any jurisdiction in which such an offer or sale would be unlawful. Persons who obtain possession of the Offering Circular should become acquainted with and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities law of any such jurisdiction. For further information with regard to restrictions on offers and sale of Offer Shares and the distribution of the Offering Circular, see “Restrictions in Distribution of the Offer Shares”.

Neither the Company, nor the Managers nor the Underwriters nor the Selling Shareholder make any assurances to the prospective investors regarding the compliance of investment in the Offer Shares by a given investor with the law.

The Offer Shares have not been, and will not be, registered under the U.S. Securities Act, or with any securities regulatory authority of any State or any jurisdiction of the United States of America and may not be offered, sold, pledged or otherwise disposed of within the United States of America except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and in compliance with the relevant securities regulations in any State or any jurisdiction in the United States of America. The Company has not undertaken, and does not intend, to register the Shares under the U.S. Securities Act.

Prospective investors are hereby notified that the Company, the Selling Shareholders and entities offering the Offer Shares (in particular, the Managers and any of their respective affiliates or other entities authorised by the Managers, the Selling Shareholders and the Company) may rely on the exemptions from the provisions of Section 5 of the U.S. Securities Act provided by Rule 144A and Regulation S. The Offer Shares are subject to restrictions on transfer and resale under U.S. laws and regulations. Investors should be aware that they may be required to bear the financial risks of this investment for an indefinite period of time.

Prospective investors are hereby notified that an investment in the Offer Shares is subject to financial risk and prior to the purchase of the Offer Shares, prospective investors should analyse in detail the contents of the Offering Circular, in particular the section entitled “Risk Factors”.

Prospective investors should only rely on the information in this Offering Circular along with any Offering Circular updates and the Company is only responsible for the information contained therein. Subject to the binding provisions of law, no person has been authorised to give any information or make any



## IMPORTANT INFORMATION

---

representations in connection with the Offering other than those contained in this Offering Circular and, if given or made, such information or representations must not be relied upon as having been authorised by the Company, the Selling Shareholder, or the Managers. Prospective investors also acknowledge that they have not relied on the Managers and the Underwriters or any person affiliated with the Managers and the Underwriters in connection with any investigation of the accuracy of any information contained in this Offering Circular or their investment decision.

Each of the Managers and Underwriters acts in connection with the Offering solely for the benefit of the Company and the Selling Shareholder and shall not treat any other entity or be responsible toward any entity with regard to ensuring the protection afforded to its clients, or in connection with advice provided in connection with the Offering.

Prospective investors should read this Offering Circular in its entirety and determine for themselves the relevance of the information contained herein for their planned investment. In making a decision to invest in the Offer Shares, prospective investors should rely upon their own examination of the Group as well as the contents of this Offering Circular, including the risk factors. The contents of this Offering Circular are not to be construed as investment, legal, financial, tax, or any other advice. It is recommended that prospective investors consult their investment, legal, financial, tax or other advisers. It should be remembered that the price of securities and the income earned from them can go down as well as up.

No representation or warranty, express or implied, is made by the Managers and the Underwriters as to the accuracy, completeness or verification of the information set forth in this Offering Circular, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise or representation in this respect, whether as to the past or the future. The Managers and the Underwriters assume no responsibility for its accuracy, completeness or verification and accordingly disclaim, to the fullest extent permitted by applicable law, any and all liability whether arising in tort, contract or otherwise which they might otherwise be found to have in respect of this document or any such statement.

Neither the delivery of this Offering Circular nor any sale made hereunder shall under any circumstances imply that there has been no change in the Company's affairs or that the information set forth in this Offering Circular is correct as of any date subsequent to the date hereof.

In connection with the Offering, each of the Managers and the Underwriters and any of their respective affiliates, acting as an investor for its own account, may take up Offer Shares in the Offering and in that capacity may retain, purchase or sell for its own account such securities and any Offer Shares or related investments and may offer or sell such Offer Shares or other investments otherwise than in connection with the Offering. Accordingly, references in the Offering Circular to Offer Shares being offered or placed should be read as including any offering or placement of Offer Shares to any of the Managers or the Underwriters or any of their respective affiliates acting in such capacity. None of the Managers or the Underwriters intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so. In addition certain of the Managers and the Underwriters or their affiliates may enter into financing arrangements and swaps with investors in connection with which such Managers or Underwriters (or their affiliates) may from time to time acquire, hold or dispose of Offer Shares.

### **Available information about the Company as a WSE listed company**

Upon the admission of the Series AA Shares to trading on the regulated market of the WSE, the Company will be subject to reporting duties pursuant to the Offering Act, the Trading Act and other Polish law provisions and relevant regulations under which the Company will furnish certain information to the PFSA, the WSE and the general public. Information released by the Company will include in particular: (i) financial information released in the form of annual, semi-annual and mid-term reports; (ii) current information; (iii) confidential information; (iv) notifications received from significant shareholders in the Company regarding the blocks of Shares held by them; and (v) notifications received in particular from Management Board and Supervisory Board members concerning transactions involving the Shares or related financial instruments. See "Polish Securities Market Regulations and Obligations Relating to the Acquisition and Disposal of Shares—Key regulations" and "Polish Securities Market Regulations and Obligations Relating to the Acquisition and Disposal of Shares—Obligations under the Offering Act

relating to significant blocks of shares in public companies—Disclosure obligations regarding the acquisition and sale of significant blocks of shares in public companies”.

**Service of process and enforcement of liabilities**

The Company is organised under, and governed by, Polish law. The Company’s assets are located in Poland. Furthermore, all of the Supervisory Board members and all of the Management Board members are Polish citizens, and reside permanently in Poland. Therefore, investors outside Polish jurisdiction may face difficulties in effecting service of process, issued by courts outside the EU, on the Company, Management Board or Supervisory Board members in connection with proceedings instituted against such entities or individuals with reference to the Offering or the Offer Shares, including acts arising in connection with the federal laws of the United States of America.

In addition, foreign investors may face difficulties in the enforcement of a court judgment issued outside the EU against the Company or members of the Management Board or the Supervisory Board in Poland. Judgments issued by foreign courts (usually judgments concerning a payment or specific performance) are generally enforceable in Poland if their enforceability is stipulated in the respective bilateral treaty or pursuant to the provisions of the Civil Procedure Code.

In case of court rulings on civil and commercial matters passed in the Member States since Poland’s accession to the EU on 1 May 2004, Poland is bound by Council Regulation (EC) No. 44/2001 on Jurisdiction and the recognition and enforcement of judgments in civil and commercial matters (OJ EU L 12/1 of 16 January 2001, as amended). Poland is bound by the Regulation with respect to the other Member States (except Denmark) and this results in the acknowledgement and enforcement of court judgments passed in other Member States (except Denmark).

With regard to court judgments in civil and commercial matters passed in Switzerland, Norway and Iceland, the question of jurisdiction and the recognition and enforcement of judgments are governed by the New Lugano Convention among the EU, including Poland, and Switzerland, Norway and Iceland that came into force in Poland on 1 January 2010. As for legal transactions between Poland and Denmark, they are carried out on the basis of the agreement on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters between the European Community and Denmark (OJ EU L 299/62 of 16 November 2005).

With respect to a judgment issued by a court of a country that has not ratified the bilateral treaty on the reciprocal enforcement of judgments with Poland and is not a Member State, the provisions of the Civil Procedure Code provide, as a matter of principle, that judgments on civil matters issued by foreign courts, enforceable by way of the execution procedure, become enforcement titles once they are pronounced enforceable by a Polish court and are granted an enforceability clause. Enforceability is pronounced if such judgment is enforceable in the country in which it has been issued and none of the following obstacles exist: (i) the judgment is not final in the jurisdiction in which it has been issued; (ii) the judgment has been issued on the matter subject to the exclusive jurisdiction of Polish courts; (iii) the defendant, who had not been involved in the dispute as to the subject matter, was not served pleadings instituting the proceedings in a due and timely manner so as to allow him/her to respond to such pleadings; (iv) a party has been deprived of the capacity to act as a party to court proceedings; (v) the matter regarding the same claim between the same parties was filed earlier in the Republic of Poland than in a foreign court (or with any other Polish or foreign country’s authority other than a court); (vi) the judgment is contrary to an earlier judgment of a Polish court which has become final and not subject to appeal or an earlier judgment of a foreign court (or judgment issued by any other Polish or foreign country’s authority other than a court), which is final and not subject to appeal, fulfilling requirements for its recognition in Poland, issued on the same claim between the same parties; or (vii) its recognition would conflict with the basic principles of the Polish legal system (legal system clause).

**Forward-looking statements**

The Offering Circular contains forward-looking statements that reflect the current opinions and beliefs of the Company and members of its Management Board, and depending on the context, statements that refer to the strategy, plans or objectives of the Company for its future business (including development plans for products and services as well as the strategy of the Group).

## IMPORTANT INFORMATION

---

These statements also apply to the Group as well as to sectors and industries in which the Group operates. Any statements including expressions such as “expect”, “intend”, “plan”, “consider”, “forecast”, “anticipate”, “assume”, “suppose”, “may”, “continue”, “foresee” and similar expressions in the present, conditional or future tense, as well as any other statements of a similar nature used with reference to future events should be regarded as forward-looking statements.

Forward-looking statements included in this Offering Circular are based on many assumptions regarding the current and future plans of the Group’s business and the market in which it operates. These assumptions are subject to risks and uncertainties and to other important factors beyond the control of the Group. The actual results of the Group, its prospects and development may therefore be significantly different than its anticipated results.

All forward-looking statements contained in this Offering Circular refer to matters involving risks and uncertainties. It is possible that as at the date of this Offering Circular, important factors exist or may appear in the future and cause actual events, including the results of the Group or its related entities, to be materially different than events, including the results of the Group or its related entities, as described in such forward-looking statements. These factors include but are not limited to the following:

- Risks related to our business, including: the risk of the ERO President delaying or refusing to approve tariffs, the risk of the impact of factors beyond our control on the level of distribution tariffs, the risk of a significant change in the national support system for the generation of electricity from RES, the risk of an obligation to make impairment write-downs on the value of our property, plant and equipment, the risk that the ERO President demands broader documentation in the proceedings related to the issuance of green certificates, the risk related to the dependence of our results of operations on prices of electricity and heat, which are driven by external factors, the risk related to an insufficient level of our generating capacity, the risk of inability to effectively hedge against fluctuations in electricity prices, the risk of a delay in or lack of implementation of our investment projects, the risk involved in the time-consuming and cost-intensive nature of the integration of newly completed investment projects with our business, the risk of delay or failure in modernising our assets, the risk of failure to implement adequate capital expenditures on the construction of the distribution network, the risk that ENERGA-OBRÓT could be obliged to purchase electricity at prices higher than market prices, the risk of the absence or loss of ENERGA Hydro’s title to use some elements of the infrastructure of hydroelectric power stations, in particular EW Włocławek, the risk of material adverse effect of the activities of PSE, the risk of an unfavourable impact of adverse weather conditions on the demand, supply and distribution of energy, the risk of material adverse effect of the macroeconomic situation, the risk of fluctuations in demand for electricity, the risk of increased competition in the future, the risk of being accused that our activities constitute an abuse of a dominant position, the risk of failures, natural disasters, terrorist attacks and other similar occurrences, the risk of disruption or limitation of fuel supplies, the risk of failure to obtain external financing, the risk of a material adverse effect from the cost of servicing of our debt or a breach of our obligations arising from financing agreements, the risk of our rating being lowered or withdrawn, foreign exchange risk, the risk of inadequate provisions, the risk of a limitation of our ability to pay dividends, the risk of inability to retain the present or attract new qualified personnel, the risk that our insurance policies do not cover all the risks, the risk of collective disputes, the risk of damage to our IT systems, the risk of unfavourable outcome of administrative or court proceedings, the risk of absence of legal title to real property or of such title being challenged or lost, the risk related to the complexity and lack of clarity of Polish tax regulations, the risk of intragroup settlements being challenged, the risk of having to pay tax on unpaid benefits.
- Risks related to the Polish power industry, including: the risk related to the subordination of the energy sector to the decisions of regulatory bodies, the risk of the renewed imposition of regulated prices and deregulation of energy prices for tariff group G customers, the risk that we could be forced to incur additional costs or to further decrease our influence on ENERGA-OPERATOR, the risk of withdrawing, refusing to extend or to grant administrative permits, the risk related to imprecise regulations concerning the obligation of the public sale of electricity, the risk related to discretionary decisions of the State Treasury, the risk of failing to meet the obligations concerning the maintenance of fuel stocks, the risk of some of our transactions challenged, the risk related to problems with the interpretation and application of regulations concerning public procurement, the risk of challenging

some of our transactions or of such transactions being ruled ineffective in connection with the MST Veto Act or the Commercialisation and Privatisation Act, the risk of changes to or lifting of the national system of support for cogeneration, the risk related to new regulations concerning CO<sub>2</sub> emissions, the risk related to the necessity to comply with more stringent anti-pollution standards, the risk related to the introduction of charges for the use of water in the power industry, the risk of incurring substantial costs connected with compliance with environmental protection regulations, the risk of numerous restrictions, or a substantial increase in the costs of electricity generation, as well as the risk that we could be forced to decommission existing assets in connection with environmental protection regulations, the risk of frequent changes in Polish regulations concerning our industry, the risk of unfavourable changes in the political environment.

- Risks related to the Offering, capital markets and secondary trading in Shares, including: the risk of the Selling Shareholder taking actions contrary to the interests of other shareholders of the Company, the risk related to the issue of a final and non-appealable judgment repealing the Resolution on the Share Capital Decrease and the Resolution on Preferred Shares, the risk of the Offering being withdrawn or suspended by the Selling Shareholder, the risk of the Offering or of the introduction of the series AA Shares to trading on a regulated market being suspended, withheld or prohibited by the PFSA, the risk of the Company's failure to meet the requirements set forth in the WSE Rules or the Offering Act, the risk of suspension of trading in the Shares on the WSE, the risk of the exclusion of the Shares from trading on the WSE, the risk of volatility in the liquidity and the trading price of the Shares, the risk of administrative sanctions being imposed for a breach of obligations under the Offering Act or the Trading Act, the risk of impairment of the value of the Offer Shares to foreign investors due to exchange rate fluctuations, the risk related to securities analysts' failure to publish research reports on the Company or of a change of their recommendations to negative, the risk involved in the issue of new shares or the sale of a significant number of shares by the Company's shareholders, the risk of restrictions on the exercise of pre-emption rights in respect of new share issues in some jurisdictions, the risk related to the reform of the open pension funds system, the risk of the Underwriting Agreement being subject to customary terms and conditions, the risk of obstacles to claims related to civil liability of the Issuer or Management or Supervisory Boards' members, and to the enforcement of judgements.

The list of the abovementioned risk factors is not exhaustive. In relying on forward-looking statements, prospective investors should take into account the abovementioned factors and other future or uncertain events, in particular with respect to the economic, competition and regulatory environment of the Group.

Any forward-looking statements contained in the Offering Circular reflect the Company's current beliefs as regards future events and are subject to the foregoing and other risks, uncertainties and assumptions relating to the Group's business, results, strategy and liquidity.

Neither the Company nor the Managers make any representation, warranty or prediction that the factors anticipated by such forward-looking statements will be present, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

None of the forward-looking statements contained expressly in the text of this Offering Circular or any information that could be inferred from any information contained herein constitute a projection of results or estimated results within the meaning of the Prospectus Regulation.

#### **Financial information and operating data**

This Offering Circular includes the condensed interim consolidated financial statements of the Group for the nine-month period ended 30 September 2013 prepared in accordance with IFRS 34 "Interim Financial Reporting" (the "**Condensed Interim Consolidated Financial Statements**") together with the review report of an independent auditor and the consolidated financial statements for the years ended 31 December 2012, 2011 and 2010 prepared in accordance with IFRS (the "**Consolidated Financial Statements**" and together with the Condensed Interim Consolidated Financial Statements, the "**Financial Statements**") together with the audit opinion of an independent auditor, which were prepared for the purpose of this Offering Circular.



## IMPORTANT INFORMATION

---

Unless otherwise indicated in the Offering Circular, the Group's financial data for the nine-month period ended 30 September 2012 originate from the Condensed Interim Consolidated Financial Statements or were calculated on the basis thereof, and the financial data of the Group for the years ended 31 December 2012, 2011 and 2010 are taken from the Consolidated Financial Statements or were calculated on the basis of such statements. Some financial and operating data included in the Offering Circular were taken from, processed or calculated on the basis of sources other than the Financial Statements, in particular on the basis of documents and appendices thereto prepared for the purposes of management accounts within the Group for internal needs. These figures were not reviewed or examined by an independent auditor. When this is the case, the Company is indicated as the source of such information.

The designation "audited" used in relation to the Group's financial performance for the years ended 31 December 2012, 2011 and 2010 presented in the Offering Circular denotes exclusively the fact that such data were taken directly from the Consolidated Financial Statements, while the designation "unaudited" used in relation to the financial results presented in the Offering Circular means that such data were not taken directly from the Consolidated Financial Statements.

Preparing financial information in accordance with IFRS requires carrying out several estimates and making several assumptions, which may influence the values shown in the Financial Statements and notes thereto which constitute their part (see "Operating and Financial Review—Critical Accounting Policies and estimates" and information contained in Financial Statements). The actual sums may differ from the values disclosed in the Financial Statements and notes to the Financial Statements, which constitute their part.

The Financial Statements are prepared in Polish zloty ("PLN"), the legal tender of the Republic of Poland. Unless specified otherwise, all figures included in the Offering Circular are stated in PLN and are nominal values, without any adjustments for inflation. The Company does not prepare its financial statements in U.S. dollars or euros.

Certain information regarding exchange rates of the U.S. dollar, the euro and the pound sterling to the Polish zloty is presented in the section entitled "—Exchange Rates". Unless specified otherwise, or unless the context provides otherwise, all references to "dollar" or "USD" relate to the legal tender of the United States, all references to "euro" or "EUR" relate to the legal tender of the Member States participating in the third stage of the Economic and Monetary Union of the Treaty establishing the European Community (as amended), all references to "pound sterling" or "GBP" relate to legal tender of the United Kingdom of Great Britain and Northern Ireland and all references to "zloty", "zł" or "PLN" relate to the legal tender of the Republic of Poland.

When deciding whether to invest in the Offer Shares, investors should rely upon their own analyses of the Group and the Financial Statements and information presented elsewhere in this Offering Circular, as well as consulting their professional advisors in order to understand, for example: (i) the differences between U.S. GAAP and IFRS as well as their potential influence on financial information included in this document and (ii) the impact of any future supplements to, or changes in, IFRS on the operating results or financial standing of the Group and the comparability to previous periods.

Some arithmetic figures contained in this document, including financial and operating data, have been rounded off, in particular, some financial data has been rounded off and given in thousands, millions or billions of zloty, rather than in zloty, as in the Financial Statement. Therefore, the sums of amounts given in some columns or rows in the tables and other lists presented in this document may be slightly different than the totals specified for such columns or rows. Some percentage value in the tables included in this Offering Circular have also been rounded off and such percentage in those tables may not add up to 100%. Percentage changes between comparable periods were calculated on the basis of the rounded off rather than the original figures.

### *Changes in the presentation*

In the Condensed Interim Consolidated Financial Statements, the Company changed the presentation of income and expenses related to the sale of electricity distribution services to end-customers in the sales segment. In the Consolidated Financial Statements the Company disclosed these income and costs in the sales segment separately while in the Condensed Interim Consolidated Financial Statements they are netted. In relation to that change, in order to ensure the comparability of financial information for the

segments between the Condensed Interim Consolidated Financial Statements and the Consolidated Financial Statements, revenues of the distribution segment from the sale of electricity distribution services to the sales segment for the years ended 31 December 2012, 2011 and 2010 presented in this Offering Circular are reported as sales to external customers and the value of eliminations on inter-segment sales is adjusted accordingly.

In the Condensed Interim Consolidated Financial Statements, the Company changed the segmental allocation of Zakład Energetyczny Płock—Centrum Handlowe sp. z o.o. and Zakład Energetyczny Toruń—ENERGOHANDEL sp. z o.o. In the Consolidated Financial Statements these companies were allocated to the services segment while in the Condensed Interim Consolidated Financial Statements they are allocated to the distribution segment. In relation to this change, the financial data presented in this Offering Circular for the years ended 31 December 2012, 2011 and 2010 reflects the new allocation of these companies in accordance with the Condensed Interim Consolidated Financial Statements.

The Company disclosed separately the segments of renewable energy sources, system power plants and CHPs in the Consolidated Financial Statements while in the Condensed Interim Consolidated Financial Statements they are presented as one-generation-segment. Therefore, the financial data of the generation segment for the years 2012 through 2010 presented in the Offering Circular represents the summarized financial data of former segments of renewable energy sources, system power plants and CHPs, without eliminations of inter-segment transactions.

In the Condensed Interim Consolidated Financial Statements, the Company changed the presentation of trade receivables and liabilities. In the Consolidated Financial Statements, these amounts were presented under “Trade receivables and other financial receivables” and “Trade and other financial liabilities” while in the Condensed Interim Consolidated Financial Statements they are disclosed separately. In addition, the presentation of shares in current assets was changed. The Company reported them separately as “Other shares” in the Consolidated Financial Statements while in the Condensed Interim Consolidated Financial Statements they are disclosed under “Other financial assets”.

The tables included in sections: “Selected Historical Financial Information” and “Operating and Financial Review—Reporting by Segments” contain financial information for the years ended 31 December 2012, 2011 and 2010 presented in accordance with the presentation manner adopted for the Condensed Interim Consolidated Financial Statements as discussed above. The restated data is consistently used in this Offering Circular.

***Financial information not based on GAAP (Generally Accepted Accounting Principles)***

In this Offering Circular, we present selected financial information that is not required by, or calculated in accordance with, IFRS, such as “EBITDA”, “Adjusted EBITDA”, “net indebtedness”, and “financial leverage”. We define and calculate EBITDA as operating profit/(loss) (calculated as net profit/(loss) from continued operations for the period/year adjusted for (i) income tax, (ii) a share of profits (loss) of associates, (iii) finance income and (iv) finance costs) adjusted for depreciation and amortisation (as disclosed in the income statement). We define and calculate Adjusted EBITDA as EBITDA adjusted for the impact of significant one-offs, i.e. impairment losses of property, plant and equipment and intangible assets, proceeds and costs related to the litigation between ENERGA-OPERATOR and PSE and PKN ORLEN S.A, the cost of restructuring severance payments for employees (including voluntary redundancy programmes and terms), as well as bargain purchase gains resulting from acquisitions. We define net indebtedness as the sum of interest-bearing loans and borrowings, bonds and debt securities and liabilities under financial lease agreements, decreased by cash and cash equivalents, while the financial leverage is calculated as net indebtedness divided by the sum of equity and our net indebtedness.

EBITDA, Adjusted EBITDA, net indebtedness and financial leverage are supplementary measures providing additional information for the purposes of measuring our operating performance or liquidity. However, these indicators are not defined in IFRS and should not be treated as an alternative to the IFRS categories such as profit/loss as an indicator of operating performance, cash flow from operating activity as a measure of liquidity, or other measures or categories consistent with IFRS. Furthermore, EBITDA, Adjusted EBITDA, net indebtedness and financial leverage do not have any uniform definition. The method in which they are calculated by other companies may differ significantly from that adopted by us. Consequently, the EBITDA, Adjusted EBITDA, net indebtedness and financial leverage presented in the

## IMPORTANT INFORMATION

Offering Circular do not, as such, constitute grounds for comparisons with EBITDA, Adjusted EBITDA, net indebtedness and financial leverage ratio posted by other companies. Therefore these indicators should not be used for analysing the results of our performance in comparison to other companies in isolation from, or instead of, indicators compliant with IFRS and information contained in the Financial Statements. EBITDA, Adjusted EBITDA, net indebtedness and financial leverage should neither be used as an indicator of our historical results or financial situation or as an indicator of our historical or future profitability or liquidity.

### Reconciliation of net profit/(loss) on continued operation for the period/year and EBITDA

	Nine-month period ended		Year ended 31 December		
	30 September		2012	2011	2010
	2013	2012	2012	2011	2010
	(PLN million)				
<b>Net profit/(loss) from continued operations for the period/year</b>	<b>603.4</b>	<b>515.0</b>	<b>459.8</b>	<b>702.6</b>	<b>624.6</b>
Income tax (tax expense)	212.0	162.5	166.5	196.6	171.0
Share of profit (loss) of an associate	0.5	0.2	(0.2)	(1.1)	(0.7)
Finance costs	246.8	186.0	359.1	172.7	103.7
Finance income	(129.6)	(65.0)	(79.2)	(207.9)	(82.5)
<b>Net profit/(loss) from operations*</b>	<b>933.1</b>	<b>798.6</b>	<b>906.0</b>	<b>862.9</b>	<b>816.2</b>
Amortisation and depreciation	568.2	533.8	723.2	656.8	591.4
<b>EBITDA*</b>	<b>1,501.4</b>	<b>1,332.4</b>	<b>1,629.2</b>	<b>1,519.7</b>	<b>1,407.6</b>
Impairment losses of property, plant and equipment and intangible assets	123.8	122.5	124.0	0.9	56.7
Proceeds and costs related to litigation between ENERGA-OPERATOR and PSE and PKN ORLEN S.A.*	—	—	62.5	(39.4)	18.4
Restructuring severance payments (including under voluntary redundancy programmes and terms)*	73.8	16.2	60.4	129.5	120.0
Profits from bargain purchase gains arising from acquisitions	(17.9)	—	—	—	—
<b>Adjusted EBITDA*</b>	<b>1,681.0</b>	<b>1,471.0</b>	<b>1,876.1</b>	<b>1,610.7</b>	<b>1,602.6</b>

Source: Financial Statements; \* Company (unaudited data).

Electricity distribution	Nine-month period ended 30 September		Year ended 31 December		
	2013	2012	2012	2011	2010
	(PLN million)				
<b>EBITDA</b>	1,136.1	1,036.9	1,218.0 <sup>(1)*</sup>	916.1 <sup>(1)*</sup>	653.6 <sup>(1)*</sup>
Impairment losses of property, plant and equipment and intangible assets*	0.2	—	0.3	0.2	0.7
Proceeds and costs related to litigation between ENERGA-OPERATOR and PSE and PKN ORLEN S.A.*	—	—	62.5	(39.4)	18.4
Restructuring severance payments (including under voluntary redundancy programmes and terms)*	72.6	4.6	40.5	77.1	78.2
Profits from bargain purchase gains arising from acquisitions*	—	—	—	—	—
<b>Adjusted EBITDA*</b>	<b>1,208.8</b>	<b>1,041.5</b>	<b>1,321.3</b>	<b>954.1</b>	<b>750.9</b>

(1) The Company changed the presentation of the segments in the Condensed Interim Consolidated Financial Statements (see: “Operating and Financial Review—Reporting by segments” and “—Financial information and operating data—Changes in the presentation” above). With reference to these changes, in order to ensure the comparability of financial information for the segments between the Condensed Interim Consolidated Financial Statements and the Consolidated Financial Statements, the relevant items are presented in accordance with the manner adopted for the Condensed Interim Consolidated Financial Statements.

Source: Financial Statements; \* Company (unaudited data).

IMPORTANT INFORMATION

<u>Sales</u>	Nine-month period ended 30 September		Year ended 31 December		
	2013	2012	2012	2011	2010
			(PLN million)		
<b>EBITDA</b> .....	188.0	201.2	264.5 <sup>(1)*</sup>	167.5 <sup>(1)*</sup>	242.7 <sup>(1)*</sup>
Impairment losses of property, plant and equipment and intangible assets* .....	—	(0.1)	(0.0)	(0.2)	(0.4)
Proceeds and costs related to litigation between ENERGA-OPERATOR and PSE and PKN ORLEN S.A.* .....	—	—	—	—	—
Restructuring severance payments (including under voluntary redundancy programmes and terms)* .....	0.4	10.9	3.2	40.0	2.8
Profits from bargain purchase gains arising from acquisitions* .....	—	—	—	—	—
<b>Adjusted EBITDA*</b> .....	<b>188.4</b>	<b>212.0</b>	<b>267.6</b>	<b>207.4</b>	<b>245.1</b>

- (1) The Company changed the presentation of the segments in the Condensed Interim Consolidated Financial Statements (see: “Operating and Financial Review—Reporting by segments” and “—Financial information and operating data—Changes in the presentation” above). With reference to these changes, in order to ensure the comparability of financial information for the segments between the Condensed Interim Consolidated Financial Statements and the Consolidated Financial Statements, the relevant items are presented in accordance with the manner adopted for the Condensed Interim Consolidated Financial Statements.

Source: Financial Statements; \* Company (unaudited data).



IMPORTANT INFORMATION

Generation <sup>(1)</sup>	Nine-month period ended 30 September		Year ended 31 December		
	2013	2012	2012	2011	2010
	(PLN million)				
<b>EBITDA</b> . . . . .	198.6	114.8	158.2*	498.5*	591.0*
Impairment losses of property, plant and equipment and intangible assets* . . . . .	123.7	122.6	123.8*	0.7*	56.4*
Proceeds and costs related to litigation between ENERGA-OPERATOR and PSE and PKN ORLEN S.A.* . . . . .	—	—	—	—	—
Restructuring severance payments (including under voluntary redundancy programmes and terms)* . . . . .	0.1	0.7	11.4	10.3	38.9
Profits from bargain purchase gains arising from acquisitions* . . . . .	—	—	—	—	—
<b>Adjusted EBITDA*</b> . . . . .	<u>322.4</u>	<u>238.1</u>	<u>293.3*</u>	<u>509.6*</u>	<u>686.3*</u>
<i>RES</i> <sup>(1)</sup>					
<b>EBITDA</b> . . . . .	313.3*	218.3*	261.4	372.1	483.6
Impairment losses of property, plant and equipment and intangible assets* . . . . .	—*	—*	—	0.0	7.7
Proceeds and costs related to litigation between ENERGA-OPERATOR and PSE and PKN ORLEN S.A.* . . . . .	—	—	—	—	—
Restructuring severance payments (including under voluntary redundancy programmes and terms)* . . . . .	0.1	0.6	1.4	2.9	—
Profits from bargain purchase gains arising from acquisitions* . . . . .	—	—	—	—	—
<b>Adjusted EBITDA*</b> . . . . .	<u>313.4*</u>	<u>218.9*</u>	<u>262.8*</u>	<u>375.1*</u>	<u>491.3*</u>
<i>System power plants</i> <sup>(1)</sup>					
<b>EBITDA</b> . . . . .	(126.2)*	(106.9)*	(107.4)	116.0	97.2
Impairment losses of property, plant and equipment and intangible assets* . . . . .	123.4*	122.2*	122.6	—	48.3
Proceeds and costs related to litigation between ENERGA-OPERATOR and PSE and PKN ORLEN S.A.* . . . . .	—	—	—	—	—
Restructuring severance payments (including under voluntary redundancy programmes and terms)* . . . . .	—	—	6.0	4.4	30.0
Profits from bargain purchase gains arising from acquisitions* . . . . .	—	—	—	—	—
<b>Adjusted EBITDA*</b> . . . . .	<u>(2.8)*</u>	<u>15.4*</u>	<u>21.2*</u>	<u>120.4*</u>	<u>175.5*</u>
<i>CHP</i> <sup>(1)</sup>					
<b>EBITDA</b> . . . . .	12.6*	3.3*	4.2	10.4	10.2
Impairment losses of property, plant and equipment and intangible assets* . . . . .	0.3*	0.3*	1.2	0.7	0.4
Proceeds and costs related to litigation between ENERGA-OPERATOR and PSE and PKN ORLEN S.A.* . . . . .	—	—	—	—	—
Restructuring severance payments (including under voluntary redundancy programmes and terms)* . . . . .	0.0	0.1	4.0	3.0	8.9
Profits from bargain purchase gains arising from acquisitions* . . . . .	—	—	—	—	—
<b>Adjusted EBITDA*</b> . . . . .	<u>12.9*</u>	<u>3.8*</u>	<u>9.3*</u>	<u>14.1*</u>	<u>19.5*</u>

(1) The Company disclosed separately the segments of RES, system power plants and CHPs in the Consolidated Financial Statements while in the Condensed Interim Consolidated Financial Statements they are presented as one—generation—segment. Therefore, the financial data of the generation segment for the years 2012 through 2010 does not account for eliminations of inter-segment transactions between the former segments of RES, system power plants and CHPs.

Source: Financial Statements; \* Company (unaudited data).

IMPORTANT INFORMATION

<u>Services</u>	<b>Nine-month period ended 30 September</b>		<b>Year ended 31 December</b>		
	<b>2013</b>	<b>2012</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
	(PLN million)				
<b>EBITDA</b> .....	26.4	11.5	21.7 <sup>(1)*</sup>	(0.5) <sup>(1)*</sup>	2.5 <sup>(1)*</sup>
Impairment losses of property, plant and equipment and intangible assets* .....	—	—	(0.2)	(0.0)	0.0
Proceeds and costs related to litigation between ENERGA-OPERATOR and PSE and PKN ORLEN S.A.* .....	—	—	—	—	—
Restructuring severance payments (including under voluntary redundancy programmes and terms)* .....	0.6	—	5.3	—	—
Profits from bargain purchase gains arising from acquisitions* .....	—	—	—	—	—
<b>Adjusted EBITDA*</b> .....	<b>27.0</b>	<b>11.5</b>	<b>26.8</b>	<b>(0.4)</b>	<b>2.5</b>

(1) The Company changed the presentation of the segments in the Condensed Interim Consolidated Financial Statements (see: “Operating and Financial Review—Reporting by segments” and “—Financial information and operating data—Changes in the presentation” above). With reference to these changes, in order to ensure the comparability of financial information for the segments between the Condensed Interim Consolidated Financial Statements and the Consolidated Financial Statements, the relevant items are presented in accordance with the manner adopted for the Condensed Interim Consolidated Financial Statements.

Source: Financial Statements; \* Company (unaudited data).

<u>Other</u>	<b>Nine-month period ended 30 September</b>		<b>Year ended 31 December</b>		
	<b>2013</b>	<b>2012</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
	(PLN million)				
<b>EBITDA</b> .....	(54.1)	(47.4)	(74.8)	(41.3)	(0.8)
Impairment losses of property, plant and equipment and intangible assets* .....	0.0	—	0.2	—	(0.0)
Proceeds and costs related to litigation between ENERGA-OPERATOR and PSE and PKN ORLEN S.A.* .....	—	—	—	—	—
Restructuring severance payments (including under voluntary redundancy programmes and terms)* .....	—	—	—	2.2	—
Profits from bargain purchase gains arising from acquisitions* .....	—	—	—	—	—
<b>Adjusted EBITDA*</b> .....	<b>(54.1)</b>	<b>(47.4)</b>	<b>(74.6)</b>	<b>(39.2)</b>	<b>(0.8)</b>

Source: Financial Statements; \* Company (unaudited data).

## IMPORTANT INFORMATION

<u>Eliminations and adjustment</u>	<u>Nine-month period ended 30 September</u>		<u>Year ended 31 December</u>		
	<u>2013</u>	<u>2012</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
			(PLN million)		
<b>EBITDA</b> . . . . .	6.3	15.5	41.7 <sup>(1)*</sup>	(20.6) <sup>(1)*</sup>	(81.3) <sup>(1)*</sup>
Impairment losses of property, plant and equipment and intangible assets* . . . . .	(0.0)	—	(0.0)	—	(0.0)
Proceeds and costs related to litigation between ENERGA-OPERATOR and PSE and PKN ORLEN S.A. * . . . . .	—	—	—	—	—
Restructuring severance payments (including under voluntary redundancy programmes and terms)* . . . . .	—	—	—	—	—
Profits from bargain purchase gains arising from acquisitions* . . . . .	(17.9)	—	—	—	—
<b>Adjusted EBITDA*</b> . . . . .	<b>(11.6)</b>	<b>15.5</b>	<b>41.7</b>	<b>(20.6)</b>	<b>(81.4)</b>

(1) The Company changed the presentation of the segments in the Condensed Interim Consolidated Financial Statements (see: “Operating and Financial Review—Reporting by segments” and “—Financial information and operating data—Changes in the presentation” above). With reference to these changes, in order to ensure the comparability of financial information for the segments between the Condensed Interim Consolidated Financial Statements and the Consolidated Financial Statements, the relevant items are presented in accordance with the manner adopted for the Condensed Interim Consolidated Financial Statements.

Source: Financial Statements; \* Company (unaudited data).

### Exchange rates

The tables below set forth the median, highest and lowest exchange rates published by the NBP for the periods indicated as well as exchange rates for the close of the given term for foreign exchange transactions between the given currencies and PLN. The currency exchange rates used when compiling the Financial Statements, as well as when processing other data included in the Offering Circular, could differ from the rates given in the tables below. The Company cannot guarantee that as a result of the transactions entered into a foreign currency was converted into PLN at the rates presented below or that it could be exchanged as a result of a currency exchange transaction.

#### EUR/PLN exchange rate

	<u>EUR/PLN exchange rate</u>			
	<u>Average weighted rate</u>	<u>Highest rate</u>	<u>Lowest Rate</u>	<u>End of term</u>
2010 . . . . .	3.9946	4.1770	3.8356	3.9603
2011 . . . . .	4.1198	4.5642	3.8403	4.4168
2012 . . . . .	4.1850	4.5135	4.0465	4.0882
1 January—30 September 2012 . . . . .	4.2093	4.5135	4.0465	4.1138
1 January—30 September 2013 . . . . .	4.2017	4.3432	4.0671	4.2163

Source: NBP.

On 31 October 2013 the EUR to PLN median exchange rate announced by the NBP was 4.1766.

**USD/PLN exchange rate**

	USD/PLN exchange rate			
	Average weighted rate	Highest rate	Lowest Rate	End of term
2010 .....	3.0157	3.4916	2.7449	2.9641
2011 .....	2.9634	3.5066	2.6458	3.4174
2012 .....	3.2570	3.5777	3.0690	3.0996
1 January—30 September 2012 .....	3.2860	3.5777	3.0730	3.1780
1 January—30 September 2013 .....	3.1905	3.3724	3.0563	3.1227

Source: NBP.

On 31 October the USD to PLN median exchange rate announced by the NBP was 3.0507.

**GBP/PLN exchange rate**

	GBP/PLN exchange rate			
	Average weighted rate	Highest rate	Lowest Rate	End of term
2010 .....	4.6575	5.1352	4.2503	4.5938
2011 .....	4.7460	5.4284	4.3605	5.2691
2012 .....	5.1597	5.4858	4.8973	5.0119
1 January—30 September 2012 .....	5.1821	5.4858	4.8973	5.1571
1 January—30 September 2013 .....	4.9326	5.1081	4.7364	5.0452

Source: NBP.

On 31 October 2013, the GBP to PLN median exchange rate of exchange announced by the NBP was 4.8872.

**Market, economic and industry information**

Financial results provided by external sources may be published on the basis of data pursuant to a convention other than IFRS.

The information contained in this Offering Circular has been provided by the Company or taken from other sources identified in this Offering Circular. The market, economic and industry information contained in this Offering Circular has been derived from many industry sources and other sources independent from the Company. Its accuracy or completeness cannot be guaranteed. The data in the section entitled “Market Overview” have been derived from publicly available sources, including press releases, information published in accordance with binding laws and regulations, industry research, as well as research from advisory companies, in particular: (i) reports of Agencja Rynku Energii S.A. (“ARE”) (including in particular the reports “Sytuacja w Elektroenergetyce, IV kwartał 2012 and II kwartał 2013” (*Situation in the Power Industry, 2012Q4 and 2013Q2*), “Statystyka Elektroenergetyki Polskiej, 2010, 2011, 2012” (*Polish Power Industry Statistics, 2010, 2011, 2012*), “Handel Hurtowy Energią Elektryczną—Kierunki zakupu/sprzedaży, IV kwartały 2010, 2011, 2012 and II kwartał 2013” (*Wholesale Trade in electricity—trends in purchases/sales, 4 quarters of 2010, 2011, 2012 and 2013Q2*), “Sytuacja ekonomiczno-finansowa sektora elektroenergetycznego I kwartał 2013” (*Economic and financial situation of the power sector in 2013Q1*), “Funkcjonowanie przedsiębiorstw na polskim i europejskim rynku energii elektrycznej” (*The operation of enterprises on the Polish and European electricity markets*), “Obraz polskiego rynku energii elektrycznej w latach 2007-2011” (*A picture of the Polish electricity market in the years 2007-2011*), “Ocena statystyczna stanu elektroenergetycznych sieci dystrybucyjnych lata 2009-2011” (*Statistical assessment of the condition of power distribution networks in the years 2009-2011*), “Ceny energii elektrycznej dla odbiorców przemysłowych i indywidualnych” (*Prices of electricity for industrial and household users*); (ii) PSE reports; (iii) publications of the Ministry of the Economy (including “Polityka Energetyczna Polski do 2030 roku” (*Poland’s Energy Policy until 2030*), September 2010, adopted by the Council of Ministers by way of resolution No. 157/2010 on 29 September 2010 together with appendices thereto, in particular appendix 2 “Prognoza zapotrzebowania na paliwa i energię do 2030 roku” (*Prospects of fuel and energy demand until*



## IMPORTANT INFORMATION

---

2030), as well as a document commissioned by the Ministry of Economy in September 2011 entitled “Aktualizacja prognozy zapotrzebowania na paliwa i energię do roku 2030” (*Updated prospects of fuel and energy demand until 2030*) (together “**Poland’s Energy Policy until 2030**”), “Informacja Rządu o aktualnej sytuacji i perspektywach polskiej energetyki” (*Government report on the current situation and prospects of Poland’s power industry*), December 2010, “Polska 2011—Raport o stanie gospodarki” (“*Poland 2011—Report on the condition of economy*”) Warsaw 2011; (iv) publications of the President of the Energy Regulatory Office (“**ERO**”) (including “Sprawozdania z działalności Prezesa URE w 2010 r.” (*2010 Report on the ERO President’s operations*)), “Sprawozdania z działalności Prezesa URE w 2011 r.” (*2011 Report on the ERO President’s operations*)), “Sprawozdania z działalności Prezesa URE w 2012 r.” (*2012 Report on the ERO President’s operations*)), “Energetyka Ciepła w Liczbach 2010” (*Heat Engineering in Figures 2010*), “Energetyka Ciepła w Liczbach 2011” (*Heat Engineering in Figures 2011*), “Energetyka Ciepła w Liczbach 2012” (*Heat Engineering in Figures 2012*), “Bezpieczeństwo energetyczne Unii Europejskiej do 2030 roku” (*EU energy security until 2030*), and the tariff decisions issued by that body; (v) publications of the Chief Statistical Office (“**CSO**”) (including in particular “Mały Rocznik Statystyczny 2011”, “Mały Rocznik Statystyczny 2012”, “Mały Rocznik Statystyczny 2013”, “Rocznik Statystyczny 2010”, “Rocznik Statystyczny 2009”, “Rocznik Statystyczny 2007”, “Informacja GUS w sprawie pierwszego szacunku wartości produktu krajowego brutto w 2012” (*CSO information on the first estimate of GDP in 2012*)); (vi) Eurostat publications and statistical data (including, in particular “Eurostat Pocketbooks—Energy, transport and environment indicators—2011 edition”); “Eurostat Pocketbooks—Energy, transport and environment indicators—2010 edition”); (vii) publications of the German Agency for Natural Resources (Deutsche Rohstoffagentur); (viii) the website and publications of Państwowy Instytut Geologiczny (*National Geological Institute*); and (ix) other publicly available documents, such as, e.g. press publications, annual reports and websites (including those of: Polskie Górnictwo Naftowe i Gazownictwo S.A., PSE, ENTSO-E and the Polish Power Exchange), annual reports and presentations for investors of power industry enterprises.

Any information contained in this Offering Circular for which the source is not clearly specified has been provided by the Company. Any data provided by third parties included herein are accompanied by information regarding their origin.

The macroeconomic and statistical data included in this Offering Circular have been selected and include estimates obtained from sources available to the general public, regarded as trustworthy by the Company. The above data, as well as the source data on which they are based can be collected and processed using various methods and statistics, in particular in individual countries. It cannot be assured that pursuant to the type of statistics applied in other countries or in the case of applying different methods of data collection, analysis and processing, that the same data as those presented in this Offering Circular would be obtained.

The Company confirms that third party-sourced data included in this Offering Circular has been accurately reproduced and as far as the Company is able to ascertain, it does not omit any facts that might make it inaccurate or misleading.

Nonetheless, in preparing, searching for and processing microeconomic, sector, market or other data obtained from external sources, such as state publications, third party, industry or general publications, neither the Company nor the Managers undertook any independent verification. They have not carried out analyses of methodology used by third parties to prepare such data or to make estimates or forecasts.

The market, economic and industry information sources specified above constitute, *inter alia*, the basis for all assumptions underlying the Company’s representations regarding its competitive position presented in the Offering Circular.

Neither the Company nor the Managers can give assurances that market, industry or other data obtained from external sources are accurate or, in the case of forecast data, that such data have been prepared on the basis of correct data and assumptions, or that forecasts will turn out to be correct. Unless relevant obligations arise under applicable law, the Company does not intend to update data regarding the sector or market presented in the Offering Circular.

**References to the defined terms**

For definitions of certain terms used in the Offering Circular, including capitalised terms (that may also be defined in the body of the Offering Circular) and some technical and other terms see “Abbreviations and Definitions”.

Unless indicated otherwise, statements expressing the beliefs, plans, convictions, expectations, estimates and opinions of the Company relate to the convictions, expectations, estimates and opinions of the Management Board.

**Stabilisation**

The Stabilising Managers, in connection with the Offering, will have the right to acquire, on the Warsaw Stock Exchange, the shares in the number not greater than 10% of the final number of the Offer Shares and, at the same time, not greater than the number of the Series AA Shares sold under Over Allotment Option in order to stabilise the price of the Shares at a level higher than that which would otherwise prevail. The acquisition of the Series AA Shares for the purposes of stabilisation will be subject to the provisions of the Stabilisation Regulation. The purchase transactions related to the Series AA Shares may be effected only during the period commencing on the first listing day of the Series AA Shares on the WSE and terminating 30 days of that date. The transactions to purchase the Series AA Shares may only be effected at a price not higher than the Sale Price for the Institutional Investors.

The Stabilising Managers will not, however, be required to take any stabilisation actions. If the Stabilising Managers take any such actions, they may be discontinued at any time, but not later than before the end of the Stabilisation Period.

No assurance may be given that such stabilisation actions, if taken, will bring the expected results.

**Use of proceeds from the Offering**

The Company will not receive any part of the proceeds for the sale of Offer Shares under the Offering. The proceeds from the sale of Offer Shares will be transferred to the Selling Shareholder.

## TABLE OF CONTENTS

<b>IMPORTANT INFORMATION</b> .....	i
Information for prospective investors .....	i
Available information about the Company as a WSE listed company .....	ii
Service of process and enforcement of liabilities .....	iii
Forward-looking statements .....	iii
Financial information and operating data .....	v
Exchange rates .....	xii
Market, economic and industry information .....	xiii
References to the defined terms .....	xv
Stabilisation .....	xv
Use of proceeds from the Offering .....	xv
<b>SUMMARY</b> .....	5
<b>RISK FACTORS</b> .....	31
Risks related to our business .....	31
Risks related to regulation of the Polish power industry .....	47
Risks related to the Offering, capital markets and secondary trading in Shares .....	55
<b>DIVIDENDS AND DIVIDEND POLICY</b> .....	65
Dividend payment policy .....	65
<b>CAPITALISATION AND INDEBTEDNESS</b> .....	67
Contingent and indirect liabilities .....	67
Working capital statement .....	68
<b>SELECTED HISTORICAL FINANCIAL INFORMATION</b> .....	69
<b>OPERATING AND FINANCIAL REVIEW</b> .....	74
Overview .....	74
Key factors and significant market trends affecting our results of operations .....	75
Trend information and material developments post-balance sheet date .....	87
Description of key consolidated income statement items and gross profit margin .....	88
Results of operations .....	91
Reporting by segments .....	108
Liquidity and capital resources .....	119
Indebtedness .....	128
Capital expenditures .....	130
Contingent liabilities .....	133
Qualitative and quantitative information about market risks .....	134
Critical accounting policies and estimates .....	137
New accounting standards, interpretations and revisions to accounting standards .....	141
<b>MARKET OVERVIEW</b> .....	142
Macroeconomic overview .....	142
Electricity market .....	144
Competition .....	160
Fuels .....	162
<b>OUR BUSINESS</b> .....	168
Introduction .....	168
Our competitive strengths .....	170
Strategy .....	172
Investment programme .....	172
History and Development of the Group .....	176
Organisational structure .....	177
Other activities .....	202
Key suppliers .....	203
Acquisitions .....	204
Material agreements .....	205
Licences .....	214
Environmental matters .....	215

## TABLE OF CONTENTS

---

Research and development . . . . .	219
Intellectual property . . . . .	220
Internet domains . . . . .	220
Information technology . . . . .	220
Insurance . . . . .	221
Employment . . . . .	222
Legal and administrative proceedings . . . . .	226
Property, plant and equipment . . . . .	230
<b>REGULATORY MATTERS</b> . . . . .	234
General Information . . . . .	234
Energy sector regulation . . . . .	234
Environmental protection . . . . .	263
Other regulations . . . . .	274
<b>MANAGEMENT BOARD AND SUPERVISORY BOARD</b> . . . . .	281
Management Board . . . . .	281
Supervisory Board . . . . .	286
Senior management . . . . .	293
Other information regarding the Management Board and the Supervisory Board . . . . .	294
Statements of members of the Management Board and the Supervisory Board . . . . .	296
Application of corporate governance rules . . . . .	297
<b>SELLING SHAREHOLDER</b> . . . . .	299
Selling Shareholder . . . . .	299
Control over the Company and arrangements which in the future may result in change of control over the Company . . . . .	299
Contemplated Ownership structure after the Offering . . . . .	301
<b>GENERAL INFORMATION ON THE GROUP</b> . . . . .	302
Information on the Issuer . . . . .	302
Our business . . . . .	302
Structure of the ENERGA Group . . . . .	302
Material Subsidiaries . . . . .	304
<b>RELATED-PARTY TRANSACTIONS</b> . . . . .	306
Introduction . . . . .	306
Transactions of the Company with Group entities . . . . .	306
Transaction with associates . . . . .	312
Transactions with the State Treasury or its subsidiaries . . . . .	312
Transactions with members of the Management Board, Supervisory Board and key management personnel . . . . .	314
<b>SHARE CAPITAL AND SHARES</b> . . . . .	315
General . . . . .	315
Shareholders' rights relating to the General Meeting . . . . .	317
Right to review or demand the delivery of a list of shareholders . . . . .	322
Right to request copies of motions on matters included on the agenda of the General Meeting . . . . .	322
Right to request copies of the annual financial statements . . . . .	322
Right to request checking of the attendance list of shareholders at the General Meeting . . . . .	322
Right to request that the Supervisory Board be appointed by voting in separate groups . . . . .	322
Right to request information about the Company from the Management Board . . . . .	323
Shareholder's right to bring an action to repeal or invalidate a General Meeting resolution . . . . .	323
Right to dividend . . . . .	324
Rights associated with our liquidation . . . . .	325
Pre-emptive right . . . . .	325
Share redemption . . . . .	326
Share conversion . . . . .	326
Squeeze-out and sell-out . . . . .	326
Special auditor . . . . .	326



<b>POLISH SECURITIES MARKET REGULATIONS AND OBLIGATIONS RELATING TO THE ACQUISITION AND DISPOSAL OF SHARES</b> . . . . .	328
Introduction . . . . .	328
Key regulations . . . . .	328
Trading in securities and transaction settlement . . . . .	329
Dematerialisation . . . . .	331
Manipulation . . . . .	333
Confidential information . . . . .	333
Obligations under the Offering Act relating to significant blocks of shares in public companies . . . . .	335
Squeeze-out . . . . .	342
Sell-out . . . . .	343
Mandatory notifications of a new domination relationship under the CCC . . . . .	343
Notification requirements ensuing from anti-monopoly regulations . . . . .	344
<b>TERMS AND CONDITIONS OF THE OFFERING</b> . . . . .	347
Offering . . . . .	347
Proposed timetable of the Offering . . . . .	347
Revocation, withdrawal from or suspension of the Offering . . . . .	348
Sale Price . . . . .	350
Final number of Offer Shares . . . . .	350
Placing of the Purchase Orders . . . . .	350
Terms of payment for the Offer Shares . . . . .	351
Allotment of the Offer Shares . . . . .	351
Settlement . . . . .	352
Listing of the Shares . . . . .	352
<b>UNDERWRITING, STABILISATION AND LOCK-UP</b> . . . . .	353
Underwriting Agreement . . . . .	353
Stabilisation transactions . . . . .	354
Lock-up agreements . . . . .	354
Conflict of interests . . . . .	355
<b>SELLING RESTRICTIONS</b> . . . . .	356
United States . . . . .	356
European Economic Area . . . . .	357
United Kingdom . . . . .	357
Canada . . . . .	358
Japan . . . . .	358
DIFC . . . . .	358
Switzerland . . . . .	358
Australia . . . . .	359
<b>TRANSFER RESTRICTIONS</b> . . . . .	360
<b>TAXATION</b> . . . . .	362
Taxation of income from transfer of securities for consideration . . . . .	362
Taxation of dividends and other revenues from a share of the profits of legal persons . . . . .	364
Transfer tax (tax on civil law transactions) payable on the sale of securities . . . . .	368
Inheritance and donation tax on the acquisition of securities by natural persons . . . . .	368
Regulations concerning liability of the tax remitter . . . . .	369
Certain U.S. federal income tax considerations . . . . .	369
<b>ADDITIONAL INFORMATION</b> . . . . .	374
Auditors . . . . .	374
Experts . . . . .	374
Entities engaged in the Offering . . . . .	374
Legal Advisors . . . . .	375
Documents on Display . . . . .	376
The legal basis to apply for the admission and introduction of the Shares of the Company to trading on the main market of the WSE and for their registration in the NDS . . . . .	376
Costs of the Offering . . . . .	377

## TABLE OF CONTENTS

---

Place of registration of the Shares and ISIN Code .....	377
Agreement with the Issuer's market maker .....	377
Agreement on liability for information contained in the Prospectus and the Offering Circular .....	378
<b>ABBREVIATIONS AND DEFINITIONS</b> .....	379
<b>FINANCIAL INFORMATION</b> .....	F-1
<b>APPENDICES</b> .....	A-1

## SUMMARY

*This summary has been prepared based on information subject to disclosure pursuant to the provisions of law in force, hereinafter referred to as the “**Information**”. The Information is provided in numbered sections A – E (A.1 – E.7). This summary contains all the required Information, the inclusion of which is mandatory for the Issuer and for the type of securities described herein. As certain pieces of information do not have to be included in the case of the Issuer and securities described herein, there may be gaps in the numbering of certain sections discussed below. It may also be the case that despite disclosure of certain Information being mandatory regarding the Issuer or the type of securities described in this Offering Circular, no relevant data are available. In such an event, a brief description of the Information is given in the summary with the annotation “not applicable”.*

<b>Section A – Introduction and Notice</b>	
<b>A.1</b> <b>Introduction</b>	<p>This summary should be read as an introduction to the Offering Circular. Any decision to invest in the securities contemplated in this Offering Circular should be based on consideration by the investor of this Offering Circular as a whole. Where a claim relating to the information contained in this Offering Circular is brought before a court, the plaintiff investor may, under the national legislation of the Member States, have to bear the costs of translating the Offering Circular before the legal proceedings are initiated. The civil liability attaches only to those persons who have tabled the summary including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the Offering Circular or if it does not provide, when read together with the other parts of the Offering Circular, key information in order to aid investors when considering whether to invest in such securities.</p>
<b>A.2</b> <b>Issuer’s permission</b>	<p><b>A permission of the Issuer or the person responsible for the preparation of this Offering Circular to use the Offering Circular for the purposes of resale of the securities or their ultimate placement by financial intermediaries.</b></p> <p><b>The validity period of the Offer in which the financial intermediaries may resell or ultimately place the securities, for which the permission to use this Offering Circular is granted.</b></p> <p><b>Any other clear and objective conditions for granting the permission which apply to the use of this Offering Circular.</b></p> <p><b>A bold-faced notice to the investors that the financial intermediary is obligated to provide information regarding the Offer at the time of making the Offer.</b></p> <p>Not applicable. No such permission has been given.</p>

<b>Section B – Issuer</b>	
<b>B.1</b> <b>Name of the Issuer</b>	<p><b>The legal and commercial name of the issuer.</b></p> <p>The Company’s legal name is: ENERGA Spółka Akcyjna</p> <p>The Company can used a shortened name: ENERGA S.A.</p>
<b>B.2</b> <b>Basic Information on the Issuer</b>	<p><b>The domicile and legal form of the issuer, the legislation under which the issuer operates and its country of incorporation.</b></p> <p>Joint-stock company incorporated under Polish law with its domicile at al. Grunwaldzka 472, 80-309 Gdańsk, Poland</p>

<p><b>B.3</b> <b>Business Activity of the Group</b></p>	<p><b>A description of, and key factors relating to, the nature of the issuer's current operations and its principal activities, stating the main categories of products sold and/or services performed and identification of the principal markets in which the issuer competes.</b></p> <p>Our principal businesses are the distribution, generation and sale of electricity. We are the third largest distribution system operator in Poland in terms of the volume of electricity distributed to end-customers, with a leading position in Poland in terms of the share of electricity distribution in EBITDA. We also have a leading position among major power sector groups in terms of electricity production in hydro power plants and the share of electricity generated from renewable energy sources. We are the third largest seller of electricity in Poland in terms of the volume of electricity sold to end-customers.</p> <p>Our core business segments are:</p> <ul style="list-style-type: none"> <li>• the distribution segment, which comprises distribution of electricity and activities directly or indirectly related to distribution;</li> <li>• the generation segment, which mainly comprises the generation of electricity from renewable energy sources, system power plants and CHPs as well as heat distribution; and</li> <li>• the sales segment, which comprises sales of electricity, customer service as well as lighting services.</li> </ul> <p>We operate as a natural monopoly in the northern and central part of Poland where our distribution assets are situated. As at 30 June 2013, our distribution network covered an area of approximately 77 thousand square kilometres, which represents approximately 25% of the country's total area. In the nine-month periods ended 30 September 2013 and 2012 we delivered, respectively, 15.2 TWh and 14.9 TWh of electricity to end-customers, and 20.1 TWh, 19.6 TWh and 19.3 TWh of electricity in the years ended 31 December 2012, 2011 and 2010, respectively.</p> <p>As at the date of the Offering Circular, the total installed capacity of our power plants is approximately 1.3 GW. The installed capacity of our power plants is based on diversified energy sources, such as hard coal, water, biomass and, more recently, wind. In the nine-month periods ended 30 September 2013 and 2012 we generated 3.8 TWh and 3.3 TWh of gross electricity, respectively, and 4.1 TWh, 4.7 TWh and 4.6 TWh of gross electricity in the years ended 31 December, 2012, 2011 and 2010, respectively.</p> <p>We sell electricity to 2.9 million customers, both households and businesses. We also trade in electricity on the domestic and the international wholesale electricity markets. The volume of electricity we sold to end-customers was 13.6 TWh and 15.1 TWh, respectively, in the nine-month periods ended 30 September 2013 and 2012, and 20.5 TWh, 19.3 TWh and 18.6 TWh, respectively, in the years ended 31 December 2012, 2011 and 2010. The volume of electricity sold to external customers by the sales segment on the wholesale market was 7.8 TWh and 4.0 TWh, respectively, in the nine-month periods ended 30 September 2013 and 2012, and 5.4 TWh, 4.7 TWh and 2.2 TWh in the years ended 31 December 2012, 2011 and 2010, respectively.</p>
---	---



	<p>We believe that our competitive strengths set out below will enable us to achieve our strategic goals and further enhance our position in the markets in which we operate:</p> <ul style="list-style-type: none"> <li>• a safe and predictable business mix weighted towards the attractive regulated electricity distribution segment;</li> <li>• a significant share of the RES in the generation segment;</li> <li>• proven track record of growth strengthened by investments in the distribution sector and RES generation;</li> <li>• a stable financial position which supports the implementation of our investment programme and dividend policy;</li> <li>• upside from continuous efficiency improvements and economies of scale;</li> <li>• a competent and stable management team.</li> </ul>
<p><b>B.4a Trends</b></p>	<p><b>A description of the most recent trends affecting the issuer and the industries in which it operates.</b></p> <p>The most significant trends affecting us and the industry in which we operate are the following:</p> <ul style="list-style-type: none"> <li>• The amount of demand for electricity and heat from end-customers;</li> <li>• Electricity prices on the wholesale and retail market;</li> <li>• Prices of fuel used for the generation of electricity and heat;</li> <li>• Changes in regulations, including the planned changes in the support system for energy from RES and electricity generated from highly efficient co-generation;</li> <li>• The macroeconomic environment, specifically Poland's GDP and its changes, the industrial output level, inflation rate, exchange rates and interest rates;</li> <li>• Prices of economic rights and the ERO President's policy with regard to allocation of economic rights for the co-combustion of biomass;</li> <li>• Weather and hydrometeorological conditions.</li> </ul>
<p><b>B.5</b> <b>Description of the Group</b></p>	<p><b>If the issuer is part of a group, a description of the group and the issuer's position within the group.</b></p> <p>As at the date of this Offering Circular, the Group is composed of the Company and 57 companies being direct or indirect subsidiaries of the Company, operating mainly in three key operational segments of the Group, i.e. the distribution segment, the generation segment and the sale segment. The Company is the dominant entity within the Group.</p>
<p><b>B.6</b> <b>Major Shareholders of the Issuer</b></p>	<p><b>In so far as is known to the issuer, the name of any person who, directly or indirectly, has interest in the issuer's capital or voting rights which requires notification under the issuer's national law, together with the amount of each such person's interest.</b></p> <p><b>Different voting rights of the issuer's major shareholders, if any.</b></p> <p><b>To the extent known to the issuer, state whether the issuer is directly or indirectly owned or controlled and by whom and describe the nature of such control.</b></p>

SUMMARY

	<p>The State Treasury, which is currently the majority shareholder, exercises control over the Company. The State Treasury exercises its ownership rights towards the Company through the Minister of Treasury, on the basis of CCC, the Articles of Association and other provisions.</p> <p>As at the date of this Offering Circular, the State Treasury holds 348,562,067 Shares constituting 84.18% of the Company's share capital, authorising to exercise 493,490,067 votes at the General Meeting, which constitutes 88.28% of the total number of votes at the General Meeting, including 144,928,000 of the registered series BB shares, which are preferred in respect of voting rights at the General Meeting so that one series BB share entitles to cast two votes at the General Meeting.</p> <p>As at the date of this Offering Circular the Company is directly controlled by the State Treasury. The State Treasury, holding 88.28% of the total number of votes at the General Meeting, decides by majority in all corporate affairs, which are within the competences of the General Meeting.</p>
<p><b>B.7</b> <b>Selected financial information</b></p>	<p><b>Selected historical key financial information regarding the issuer, presented for each financial year of the period covered by the historical financial information, and any subsequent interim financial period accompanied by comparative data from the same period in the previous financial year. The requirement for comparative balance sheet information is satisfied by presenting the year-end balance sheet information.</b></p> <p><b>This should be accompanied by a narrative description of significant change to the issuer's financial condition and operating results during or subsequent to the period covered by the historical key financial information.</b></p> <p><i>The following selected historical financial information are extracted from the condensed interim consolidated financial statements as at and for the nine-month period ended 30 September 2013 prepared in accordance with IFRS 34 "Interim Financial Reporting" (the "Condensed Interim Consolidated Financial Statements") and from the consolidated financial statements of the Group for the years ended 31 December 2012, 2011 and 2010 prepared in accordance with IFRS approved by the European Union (the "Consolidated Financial Statements" and together with the Condensed Interim Consolidated Financial Statements, the "Financial Statements").</i></p> <p><i>The Consolidated Financial Statements and the Condensed Interim Consolidated Financial Statements were prepared for the Prospectus and subject to, respectively, an audit and a review conducted by KPMG Audyt spółka z ograniczoną odpowiedzialnością sp.k. with its seat in Warsaw.</i></p>

Selected information from the consolidated profit and loss account and the consolidated statement of cash flows for the nine-month periods ended 30 September 2013 and 2012 and for the years ended 31 December 2012, 2011 and 2010.					
Selected information from the consolidated profit and loss account	Nine-month period ended 30 September		Year ended 31 December		
	2013	2012	2012	2011	2010
(PLN million)					
Revenue including excise tax . . . . .	8,753.7	8,486.9	11,506.4	10,685.7	9,782.2
Excise tax . . . . .	(216.2)	(245.7)	(329.6)	(317.7)	(314.5)
<b>Revenue</b> . . . . .	<b>8,537.5</b>	<b>8,241.2</b>	<b>11,176.8</b>	<b>10,368.0</b>	<b>9,467.8</b>
Cost of sales . . . . .	7,062.1	6,936.9	9,532.1	8,759.1	8,055.3
<b>Gross profit</b> . . . . .	<b>1,475.4</b>	<b>1,304.3</b>	<b>1,644.7</b>	<b>1,609.0</b>	<b>1,412.5</b>
Other operating income .	97.7	81.9	134.9	154.5	69.2
Selling and distribution expenses . . . . .	213.5	206.6	247.5	187.9	109.2
General and administrative expenses . .	280.0	277.5	375.3	414.3	329.8
Other operating expenses	146.5	103.5	250.8	298.3	226.5
Financial income . . . . .	129.6	65.0	79.2	207.9	82.5
Financial costs . . . . .	246.8	186.0	359.1	172.7	103.7
Share of profits (losses) of associates accounted for under the equity method . . . . .	(0.5)	(0.2)	0.2	1.1	0.7
<b>Profit before tax</b> . . . . .	<b>815.5</b>	<b>677.5</b>	<b>626.3</b>	<b>899.2</b>	<b>795.6</b>
Income tax . . . . .	212.0	162.5	166.5	196.6	171.0
<b>Net profit on continuing operations</b> . . . . .	<b>603.4</b>	<b>515.0</b>	<b>459.8</b>	<b>702.6</b>	<b>624.6</b>
Net loss from discontinued operations . .	(5.8)	—	(18.3)	—	(0.4)
Net profit on disposal of non-current assets classified as held for sale .	—	15.2	14.9	—	—
<b>Net profit for the period</b> .	<b>597.6</b>	<b>530.2</b>	<b>456.4</b>	<b>702.6</b>	<b>624.2</b>
Attributable to:					
Equity holders of the Parent Company . . . . .	610.8	529.6	457.0	663.9	604.3
Non-controlling interests .	(13.2)	0.6	(0.6)	38.7	19.9
<b>Selected information from the consolidated statement of cash flows</b>					
Net cash from operating activities . . . . .	1,489.6	852.3	1,334.7	1,481.9	1,179.2
Net cash used in investing activities . . . . .	(2,297.7)	(1,248.0)	(1,803.1)	(2,003.7)	(1,003.3)
Net cash from financing activities . . . . .	1,120.5	(64.6)	742.3	616.5	620.6

Source: Financial Statements.

SUMMARY

Selected information from the statement of comprehensive income for the nine-month periods ended 30 September 2013 and 2012 and for the years ended 31 December 2012, 2011 and 2010.			
	<b>Nine-month period ended 30 September</b>		
	<b>2013</b>	<b>2012</b>	
	<b>(PLN million)</b>		
<b>Net profit/(loss) for the period</b> . . . . .	<b>597.6</b>	<b>530.2</b>	
<i>Items that will never be reclassified to profit or loss</i> . . . . .	31.3	(44.2)	
Actuarial gains and losses on defined benefit plans . . . . .	38.6	(54.6)	
Income tax on items that will never be reclassified to profit or loss . . . . .	(7.3)	10.4	
<i>Items that are or may be reclassified to profit or loss in the future</i> . . . . .	27.6	(0.2)	
Foreign exchange gains/losses on translation of foreign operations . . . . .	(0.7)	(0.2)	
Cash flow hedges . . . . .	34.9	—	
Income tax on items that may be reclassified to profit or loss in the future . . . . .	(6.6)	—	
<b>Net other comprehensive income</b> . . . . .	<b>58.8</b>	<b>(44.5)</b>	
<b>Total comprehensive income</b> . . . . .	<b>656.5</b>	<b>485.7</b>	
Attributable to:			
Equity holders of the Parent Company . . . . .	669.5	485.7	
Non-controlling interests . . . . .	(13.1)	0.0	
<i>Source: Condensed Interim Consolidated Financial Statements.</i>			
	<b>Year ended 31 December</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
	<b>(PLN million)</b>		
<b>Net profit/(loss) for the period</b> . . . . .	<b>456.4</b>	<b>702.6</b>	<b>624.2</b>
CIT reimbursement under Distribution Plan . . . . .	—	92.3	—
Actuarial gains and losses on defined benefit plans . . . . .	37.5	(48.1)	4.1
Foreign exchange gains/losses on translation of foreign operations . . . . .	(0.2)	0.3	0.0
Income tax on defined benefit plans . . . . .	(7.1)	9.1	(0.8)
<b>Net other comprehensive income</b> . . . . .	<b>30.1</b>	<b>53.5</b>	<b>3.3</b>
<b>Total comprehensive income</b> . . . . .	<b>486.5</b>	<b>756.1</b>	<b>627.6</b>
Attributable to:			
Equity holders of the Parent Company . . . . .	487.2	717.5	607.6
Non-controlling interests . . . . .	(0.6)	38.7	20.0
<i>Source: Consolidated Financial Statements.</i>			

Information from the consolidated statement of financial position as at 30 September 2013 and as at 31 December 2012, 2011 and 2010.				
	As at	As at 31 December		
	30 September	2012	2011	2010
	2013	(PLN million)		
<b>ASSETS</b>				
Property, plant and equipment	11,356.1	10,000.9	9,150.7	8,451.1
Investment property . . . . .	15.3	17.1	24.6	19.0
Intangible assets . . . . .	376.4	378.6	312.5	269.4
Goodwill . . . . .	145.0	28.6	17.6	17.2
Investments in associates accounted for under the equity method . . . . .	2.0	2.6	2.8	41.6
Other investments . . . . .	1.3	1.0	1.6	32.5
Deferred tax assets . . . . .	225.5	209.9	171.4	116.0
Derivative instruments . . . . .	50.4	—	—	—
Other non-current assets . . . . .	55.7	58.8	32.4	18.3
<b>Non-current assets</b> . . . . .	12,227.8	10,697.4	9,713.4	8,965.1
Inventories . . . . .	291.6	376.9	395.9	313.0
Current tax receivables . . . . .	40.4	37.5	15.5	62.9
Trade receivables . . . . .	1,274.7	1,520.7*	1,515.7*	1,440.8*
Deposits . . . . .	20.4	26.8	—	0.1
Other financial assets . . . . .	20.3	18.7**	52.2**	16.9**
Cash and cash equivalents . . . . .	2,306.8	2,069.1	1,777.3	1,683.6
Other current assets . . . . .	235.8	155.5	210.7	157.6
<b>Current assets</b> . . . . .	4,189.9	4,205.2	3,967.3	3,674.8
Assets classified as held for sale . . . . .	142.8	10.2	4.5	0.2
<b>TOTAL ASSETS</b> . . . . .	16,560.5	14,912.8	13,685.3	12,640.1
* The amount presented under “Trade and other financial receivables” in the Consolidated Financial Statements.				
** The amount includes the value of shares disclosed separately under “Other shares” in the Consolidated Financial Statements and the value of other receivables presented together with trade receivables under “Trade receivables and other financial receivables” in the Consolidated Financial Statements.				
<i>Source: Financial Statements.</i>				

SUMMARY

	As at 30 September	As at 31 December		
	2013	2012	2011	2010
	(PLN million)			
<b>EQUITY AND LIABILITIES</b>				
<b>Equity attributable to equity holders of the parent company</b>				
Share capital . . . . .	4,521.6	4,968.8	4,968.8	4,968.8
Foreign exchange gains/losses on translation of foreign operations . . . . .	(0.7)	0.0	0.3	0.0
Reserve capital . . . . .	447.2	—	—	—
Supplementary capital . . . . .	521.5	471.2	362.5	163.6
Cash flow hedge reserve . . . . .	28.3	—	—	—
Retained earnings . . . . .	2,321.1	2,231.1	2,494.2	1,893.7
<b>Non-controlling interests . . . . .</b>	<b>26.6</b>	<b>47.3</b>	<b>59.7</b>	<b>887.5</b>
<b>Total equity . . . . .</b>	<b>7,865.6</b>	<b>7,718.5</b>	<b>7,885.5</b>	<b>7,913.6</b>
Loans and borrowings . . . . .	1,812.3	2,026.1	1,904.2	1,033.6
Bonds issued . . . . .	3,155.1	1,079.2	—	—
Non-current provisions . . . . .	652.8	710.8	667.3	599.6
Deferred tax liabilities . . . . .	516.8	519.7	525.6	553.5
Deferred income and non-current government grants	462.7	456.0	465.9	442.9
Finance lease liabilities . . . . .	2.7	7.3	3.6	1.6
Other non-current financial liabilities . . . . .	2.6	1.7*	1.6*	0.3*
Other non-current liabilities . . . . .	10.1	0.6	3.5	0.1
<b>Non-current liabilities . . . . .</b>	<b>6,615.1</b>	<b>4,801.5</b>	<b>3,571.7</b>	<b>2,631.7</b>
Trade liabilities . . . . .	718.0	709.8**	704.1**	736.8**
Other financial liabilities . . . . .	67.3	170.5**	189.4**	233.6**
Current loans and borrowings . . . . .	283.4	389.6	45.0	42.8
Bonds issued . . . . .	50.9	—	—	—
Current income tax liability . . . . .	19.4	34.7	116.7	74.3
Deferred income and government grants . . . . .	30.2	28.9	28.1	21.0
Accruals . . . . .	87.4	117.8	122.8	85.8
Provisions . . . . .	376.1	555.3	511.3	354.0
Other current liabilities . . . . .	379.8	386.2	510.7	546.5
<b>Current liabilities . . . . .</b>	<b>2,012.5</b>	<b>2,392.8</b>	<b>2,228.1</b>	<b>2,094.8</b>
Liabilities related to assets classified as held for sale . . . . .	67.4	—	—	0.0
<b>Total liabilities . . . . .</b>	<b>8,695.0</b>	<b>7,194.3</b>	<b>5,799.8</b>	<b>4,726.5</b>
<b>TOTAL EQUITY AND LIABILITIES . . . . .</b>	<b>16,560.5</b>	<b>14,912.8</b>	<b>13,685.3</b>	<b>12,640.1</b>
<p>* This amount was presented as the item “Trade liabilities and other non-current liabilities” in the Consolidated Financial Statements.</p> <p>** These amounts were presented as elements of the item “Trade liabilities and other financial liabilities” in the Consolidated Financial Statements.</p> <p>Source: Financial Statements.</p>				
<b>B.8</b>	<b>Selected key <i>pro forma</i> financial information, identified as such.</b>			
<b>Selected <i>pro forma</i> financial information</b>	<p><b>The selected key <i>pro forma</i> financial information must clearly state the fact that because of its nature, <i>pro forma</i> financial information addresses a hypothetical situation and, therefore, does not represent the company’s actual financial position or results.</b></p> <p>Not applicable. The conditions of the Prospectus Regulations which could oblige the Company to prepare <i>pro forma</i> financial information have not been fulfilled.</p>			



<b>B.9</b> Forecasts of estimates	<b>Where a profit forecast or estimate is made, state the figure.</b> Not applicable. The Company does not publish profit forecasts or estimates.
<b>B.10</b> Qualifications in the audit report	<b>A description of the nature of any qualifications in the audit report on the historical financial information.</b> Not applicable. The audit reports on the historical financial information did not contain any qualifications.
<b>B.11</b> Working capital	<b>If the issuer's working capital is not sufficient for the issuer's present requirements, an explanation should be included.</b> Not applicable. The Company's working capital is sufficient for its present requirements.

<b>Section C – Securities</b>	
<b>C.1</b> Offer Shares	<b>A description of the type and the class of the securities being offered and/or admitted to trading, including any securities identification code.</b>  Under the Offering the Selling Shareholder offers 141,522,067 series AA common bearer shares with a nominal value of PLN 10.92 each. On the basis of the Prospectus the Company will apply for admission and introduction of 269,139,114 series AA common bearer shares with a nominal value of PLN 10.92 each to trading on the regulated market (main market) operated by the WSE.  The International Securities Identification Number will be assigned to the series AA Shares by the NDS as a result of entering with the Issuer into an agreement on registering the Shares in the securities deposit maintained by the NDS.
<b>C.2</b> Currency of the Shares issue	<b>Currency of the securities issue.</b> The Shares are issued in zloty (PLN).
<b>C.3</b> Share capital of the Issuer	<b>The number of shares issued and fully paid and issued but not fully paid.</b> 414,067,114 Shares with a nominal value of PLN 10.92 each, including: (i) 269,139,114 series AA shares and (ii) 144,928,000 series BB shares. All Shares, which are part of the Company's share capital, have been issued and fully paid.
<b>C.4</b> Rights attached to Shares	<b>A description of the rights attached to the securities.</b> Upon dematerialisation of the series AA Shares, pursuant to the CCC and the Offering Act, attached to the securities will be, in particular, the following rights: <ul style="list-style-type: none"> <li>• the right to demand the convening of an Extraordinary General Meeting and include specific items on the agenda, which is vested in shareholders representing at least one-twentieth of the share capital;</li> <li>• the right to submit to the Company in writing or using electronic communication techniques, draft resolutions concerning matters placed on the agenda of the General Meeting, which is vested in shareholders representing at least one-twentieth of the share capital;</li> </ul>

	<ul style="list-style-type: none"> <li>• the right to submit draft resolutions relating to matters placed on the agenda during a General Meeting;</li> <li>• the right to attend the General Meeting and exercise voting rights, whether personally or via proxy;</li> <li>• the right to review or demand the delivery of a list of shareholders;</li> <li>• the right to demand copies of applications regarding matters placed on the agenda of the General Meeting;</li> <li>• the right to demand copies of the annual financial statements;</li> <li>• the right to inspect the attendance list of shareholders attending the General Meeting;</li> <li>• the right to demand the election of the Supervisory Board by separate groups, vested in shareholders representing at least one-fifth of the share capital;</li> <li>• the right to obtain information on matters concerning the Company at the General Meeting;</li> <li>• the shareholder's right to litigate for the repeal or ascertain invalidity of a General Meeting resolution;</li> <li>• the right to dividend;</li> <li>• the right to participate in the division of the Company's assets left after satisfying or securing its creditors in the event of its winding up;</li> <li>• priority of acquiring new shares (subscription right);</li> <li>• the right to demand that all the remaining shareholders sell all the shares held by them by a shareholder holding a majority of over 90% of the votes (involuntary buyout);</li> <li>• the right to demand the buy-out by another shareholder of all the shares held by a minority shareholder.</li> </ul>
<p><b>C.5</b></p> <p><b>Restrictions on the free transferability of the Shares</b></p>	<p><b>A description of any restrictions on the free transferability of the securities.</b></p> <p>The CCC and, upon dematerialisation of the Shares, also the Offering Act and the Trading Act, envision, inter alia, the following restrictions on the free transferability of the Shares:</p> <ul style="list-style-type: none"> <li>• The obligation to notify the PFSA and the Company is imposed on anyone who: (i) has reached or exceeded 5%, 10%, 15%, 20%, 25%, 33%, 33 1/3%, 50%, 75% or 90% of the total number of votes in a public company; (ii) held at least 5%, 10%, 15%, 20%, 25%, 33%, 33 1/3%, 50%, 75% or 90% of the total number of votes in such company, and as a result of reducing that share, has reached respectively 5%, 10%, 15%, 20%, 25%, 33%, 33 1/3%, 50%, 75% or 90% or fewer of the general number of votes; (iii) altered previously held shareholding of over 10% of the overall number of votes by at least 2% of the overall number of votes in a publicly listed company the shares of which are admitted to trading on an official stock exchange trading market (as of the date of this Offering Circular, such market is the main market of the WSE); (iv) changed in the previously held shareholding of over 33% of the overall number of votes in a public company by at least 1% of the overall number of votes;</li> </ul>

	<ul style="list-style-type: none"> <li>• The obligation to announce a tender offer for sale or exchange of Shares in the event of: (i) purchase of Shares authorising their holder to over 10% or 5% of the total number of votes at the General Meeting; (ii) exceeding the threshold of 33% of the total number of votes at the General Meeting (iii) exceeding the threshold of 66% of the total number of votes at the General Meeting;</li> <li>• The prohibition against purchasing or selling, on one's own account or on account of a third party, financial instruments based on confidential information;</li> <li>• The prohibition against purchasing or selling financial instruments during the restricted period by persons determined in the Trading Act;</li> <li>• A controlling company within the meaning of Article 4 Section 1 Item 4 of the CCC is required to notify its subsidiary of its controlling position within two weeks of attaining such position. Otherwise the exercise of the voting rights from the shares representing more than 33% of the subsidiary's share capital will be suspended.</li> </ul> <p>The Articles of Association do not provide for any restrictions with respect to the free transferability of the Shares.</p>
<p><b>C.6</b> <b>Admission to trading on regulated market</b></p>	<p><b>An indication as to whether the securities offered are or will be the object of an application for admission to trading on a regulated market and the identity of all the regulated markets where the securities are or are to be traded.</b></p> <p>The Company will apply for admission of 269,139,114 series AA shares to trading on the regulated market (main market) of the WSE. As at the date of this Offering Circular none of the Shares are traded on any regulated market.</p>
<p><b>C.7</b> <b>Dividend policy</b></p>	<p><b>A description of dividend policy.</b></p> <p>The Management Board intends to recommend to the General Meeting the payment of dividends taking into account predominantly the level of generated cash flows and net profit as disclosed in the stand-alone financial statements of the Company prepared in accordance with IFRS, the investment requirements of the Group, the Company's ability to obtain debt financing and its cost, as well as the amounts available for distribution as dividend.</p> <p>Subject to the binding provisions of law, in particular subject to the condition that the Company generates sufficient net profit as disclosed in its stand-alone financial statements prepared in accordance with IFRS, and subject to the existing and expected financial standing of the Company and the market conditions, the Management Board intends to recommend to the General Meeting the payment of dividends. Until such time as the supplementary capital reaches one-third of the share capital, if the Company generates a net profit allowing the payment of dividends, the Management Board intends to recommend to the General Meeting the payment of dividends amounting to 92% of the Company's net profit disclosed in its stand-alone financial statements prepared in accordance with IFRS, provided that the maximum amount of dividend that the Management Board intends to recommend for the years ended 31 December 2013 and 2014 will not exceed PLN 400 million for the year ended 31 December 2013 and PLN 500 million for the year ended 31 December 2014. In subsequent years, if the conditions specified above</p>

	<p>are met, the Management Board intends to recommend the payment of dividends in an amount equal to the dividends paid for the year ended 31 December 2014, indexed by a ratio equal to or exceeding the inflation rate in Poland.</p> <p>As at 30 September 2013, the Company's share capital amounted to PLN 4,521.6 million and its supplementary capital amounted to PLN 521.5 million. Pursuant to the CCC, the Company is required to allocate at least 8% of its profit to its supplementary capital, as long as its supplementary capital amounts to less than one-third of its share capital.</p> <p>The Company is a holding company, hence its revenue, its net profit and as a consequence its ability to pay dividends in a given year, are determined by the amount of dividends it receives from its subsidiaries. On the other hand, the subsidiaries' ability to pay dividends to the Company in a given financial year depends on whether they generate sufficient net profit in the previous financial year or have sufficient supplementary capital and reserve capital that can be earmarked for the payment of dividends. It also depends on whether the subsidiaries have sufficient cash and on the provisions of certain agreements, in particular the financing agreements entered into with financial institutions, which may restrict the dividend payment to the Company. In consequence, any factors negatively affecting the financial results of the Company's subsidiaries will indirectly have an adverse effect on the Company's ability to pay dividends. Such factors include not only the factors affecting their revenues but also all income statement items, including, for example, items such as impairment losses.</p>
--	---

Section D – Risks	
<p><b>D.1</b></p> <p><b>Risk factors related to activity of the Group and the industry in which the Group operates</b></p>	<p><b>Key information on the key risks that are specific to the issuer or its industry.</b></p> <p>Risks related to our business:</p> <ul style="list-style-type: none"> <li>• The ERO President may delay or refuse to approve electricity distribution and sales tariffs or heat distribution tariffs and the approved tariffs may not be sufficient to cover the costs of the operation of Group companies or to cover their expected return on capital</li> <li>• In accordance with the current methodology for calculating distribution tariffs, their level is affected by factors outside of our control, such as the yield on Polish treasury bonds; in addition, the methodology for calculating distribution tariffs may change</li> <li>• The national support system for the generation of electricity from RES may change significantly</li> <li>• If the value of our property, plant and equipment decreases, we will be obliged to make appropriate impairment write-downs</li> <li>• The ERO President may expand the scope of documents required in proceedings concerning green certificates from biomass co-combustion thus extending their issuance period</li> <li>• Our results of operations depend on the prices of electricity and heat, which are driven by external factors</li> <li>• Our generating capacity is insufficient to satisfy our obligations arising from electricity sales agreements</li> </ul>

	<ul style="list-style-type: none"> <li>• We may be unable to effectively hedge against fluctuations in electricity prices</li> <li>• Our investment projects may be delayed or not be carried out at all or may not result in the expected return or otherwise fail to meet expectations</li> <li>• The process of integrating newly completed investment projects into our business may prove to be time-consuming and costly or fail altogether and may have an adverse effect on our business</li> <li>• Delays or failure to complete modernisation of our assets may have a material adverse effect on our Group</li> <li>• Without adequate investments in the construction of a distribution network, the Group may suffer adverse effects, in particular the obligation to pay damages</li> <li>• Pursuant to the Energy Law, as the supplier of last resort, ENERGA-OBRÓT may be required to purchase electricity at prices higher than market prices</li> <li>• ENERGA Hydro may not hold a legal title or lose the legal title to use certain elements of the infrastructure of hydroelectric power plants, in particular EW Włocławek in the course of its operations</li> <li>• The activities of the Polish power transmission system operator—PSE—may have a material adverse effect on our Group</li> <li>• Unfavourable weather conditions may have a material adverse impact on the demand, supply and distribution of electricity and heat</li> <li>• The macroeconomic situation may have a material adverse effect on our Group</li> <li>• Demand for electricity may fluctuate</li> <li>• We may face a risk of increased competition in the future</li> <li>• Our business may be deemed to be abusing its dominant position on the local market for the sale and distribution of electricity or heat</li> <li>• Our operations may be exposed to the risk of failure, including black-outs, natural disasters, terrorist attacks and other similar occurrences which may cause interruptions or disruptions to the operation of generating units and disrupt the electricity supply to our customers or result in damage to third parties</li> <li>• Fuel shipments to our generating units may be disrupted or limited, or their costs may significantly increase, which may lead to a disruption or significant reduction in electricity generation in our facilities or have an adverse effect on the profitability of our generating units</li> <li>• Failure to obtain sufficient external financing or at all or on favourable terms may adversely affect our business operations, and in particular result in delay or cancellation of our planned investment programme</li> <li>• The cost of debt servicing and breach of our obligations arising from certain financing agreements may have a material adverse effect on our Group</li> <li>• Our rating may be lowered or withdrawn</li> </ul>
--	---

	<ul style="list-style-type: none"> <li>• We face exchange rate risk, which may have a material adverse effect on our Group, and in particular may lead to an increase in our financial liabilities</li> <li>• Provisions created by us may turn out to be insufficient to cover our liabilities</li> <li>• Our ability to pay dividends may be limited, thus there is no certainty that the Company will pay dividends in line with the adopted dividend policies or that it will pay any dividend in a given year at all</li> <li>• If we fail to retain our present or attract new qualified personnel, the Group's growth would be hindered</li> <li>• Our insurance policies may not cover all risks that may materialise in future</li> <li>• Collective disputes with labour organisations, strikes and other forms of industrial action, and collective bargaining agreements providing for terms of employment that differ from market terms may have a material adverse effect on our Group</li> <li>• Our information technology systems may suffer damage</li> <li>• The outcome of administrative or court proceedings in which we are involved may be unfavourable to us</li> <li>• Group companies use the majority of real properties without legal title, may not hold the proper legal title to certain properties, and the legal title to certain other properties may be challenged</li> <li>• Polish tax regulations are relatively complex and unclear and may be subject to change which, in turn, may lead to disputes with the tax authorities</li> <li>• Tax authorities may challenge the intragroup settlements of the Group on the grounds of transfer tax regulations</li> <li>• Disputes with tax authorities concerning the free-of-charge use of certain real properties may result in an obligation to pay tax on unpaid benefits</li> </ul> <p>Risks related to regulation of the Polish power industry:</p> <ul style="list-style-type: none"> <li>• The power sector in Poland is subject to the decisions of regulatory authorities</li> <li>• Renewed regulation by the ERO President of areas of our activity which are not subject to price controls at present or the deregulation of electricity prices for customers from tariff group G may have a material adverse effect on our Group</li> <li>• In the event of the introduction of more restrictive regulations concerning the autonomy of the operators of distribution systems, we could be obligated to incur additional costs or further decrease our influence on ENERGA-OPERATOR or even to withdraw completely from activity in the field of the distribution of electricity</li> <li>• Withdrawal or refusal to extend the validity of licences and other administrative permits, or the refusal to grant new licences or other administrative permits could lead to the necessity to limit the scope of our operations</li> </ul>
--	--



	<ul style="list-style-type: none"> <li>• The imprecise regulations concerning the public sale of electricity by generators could lead to disputes with the ERO President and to challenges to electricity sale agreements concluded by us</li> <li>• The State Treasury may make discretionary decisions in relation to us under the MST Veto Act that may conflict with the intentions or interests of other shareholders of the Company</li> <li>• Failures to meet our obligations regarding the keeping of buffer fuel stocks could result in the ERO President imposing fines on us</li> <li>• Certain transactions in which we participate may be held to constitute illegal public aid and may result in an obligation to repay the aid granted, including any interest thereon</li> <li>• We are subject to public procurement regulations that are often difficult to interpret and apply</li> <li>• Some of our transactions may be challenged and held ineffective as a result of non-compliance with the MST Veto Act and the Commercialisation and Privatisation Act</li> <li>• The national system of support for cogeneration may change or be lifted</li> <li>• New regulations concerning CO<sub>2</sub> emissions may force us to make additional material investments or incur additional costs or scale down our operations in the field of electricity generation</li> <li>• The necessity of upholding more stringent standards with respect to pollutants such as SO<sub>2</sub>, NO<sub>x</sub>, dust and other substances may have a material adverse effect on our Group</li> <li>• Imposing fees for the use of water by the energy industry may have a material adverse effect on our Group</li> <li>• We are subject to various regulations in the area of environmental protection which mean we may have to bear substantial compliance costs and/or apply for new environmental permits resulting from environmental regulations becoming more stringent and from the implementation of best industrial practices</li> <li>• Regulations regarding environmental protection may impose numerous restrictions, lead to a substantial increase in the costs of electricity generation as well as force us to decommission existing assets</li> <li>• Frequent changes to the Polish regulations applicable to our industry may have a material adverse effect on the Group</li> <li>• Unfavourable changes in the political environment may have an adverse effect on our Group</li> </ul>
<p><b>D.3</b></p> <p><b>Risk factors related to the Shares</b></p>	<p><b>Key information on the key risks that are specific to the securities.</b></p> <p>Risks related to the Offering, capital markets and secondary trading in Shares:</p> <ul style="list-style-type: none"> <li>• The Selling Shareholder, once the Offering has been completed, will hold the largest voting block at the General Meeting and will be able to undertake actions that may be contrary to the interests of other shareholders of the Company</li> </ul>

	<ul style="list-style-type: none"> <li>• If a final and non-appealable judgment is issued repealing the Resolution on the Share Capital Decrease and the Resolution on Preferred Shares, the amount of the share capital of the Company, the nominal value of the Shares and the number of votes carried by each series BB share may change</li> <li>• The Selling Shareholder may withdraw from the Offering or suspend it</li> <li>• In the event of a breach or a suspected breach of law in relation to the public offering or the application for the admission and introduction of the series AA Shares to trading on a regulated market, the PFSA may, inter alia, prohibit or suspend the Offering and issue an order to withhold or to prohibit the application for the admission or introduction of the series AA Shares to the regulated market</li> <li>• The Company's failure to meet the requirements set forth in the WSE Rules or the Offering Act may prevent the series AA Shares from being admitted to trading on a regulated market</li> <li>• Trading in the Shares on the WSE may be suspended</li> <li>• The Shares may be excluded from trading on the WSE</li> <li>• The liquidity and the trading price of the Shares may be volatile</li> <li>• Administrative sanctions may be imposed on the Company for breach of its obligations under the Offering Act and the Trading Act</li> <li>• The value of the Offer Shares to foreign investors may decrease due to exchange rate fluctuations</li> <li>• If securities analysts do not publish research reports about the Company, or if they change their recommendations to negative, then the Company's Share price and trading volume could decline</li> <li>• Any issuance of new shares by the Company in the future or any future transactions involving the sale of a substantial number of shares by its shareholders, or the perception that such issuance or sale could occur may adversely affect the market price of the Shares or the Company's ability to obtain capital in the future</li> <li>• Holders of Shares in certain jurisdictions may be subject to restrictions regarding exercising pre-emption rights in new issuances</li> <li>• The reform of the open pension funds ("OFE"), which comprise the second pillar of the pension system in Poland, may have an adverse effect on Poland's capital market and result in a decrease in investments in shares of Polish listed companies</li> <li>• The Underwriting Agreement is subject to customary conditions precedent concerning the underwriting obligation and contains customary conditions authorising the parties to terminate such agreement</li> <li>• Enforcement of civil liabilities and judgments against the Issuer or any of its Management or Supervisory Board members, including those relating to the Offering or the Offer Shares, may be difficult</li> </ul>
--	---

Section E – Offer	
<p><b>E.1</b> Use of proceeds</p>	<p><b>The total net proceeds and an estimate of the total expenses of the issue/offer including estimated expenses charged to the investor by the issuer or the offeror.</b></p> <p><i>Proceeds</i></p> <p>The Company will not receive any part of the proceeds for the sale of Offer Shares under the Offering. The proceeds from the sale of Offer Shares will be transferred to the Selling Shareholder.</p> <p><i>Costs borne by the Company</i></p> <p>As at the date of this Offering Circular, the Company estimates that the costs incurred by it in connection with the Offering will amount to approximately PLN 21 million. The costs referred to above embrace in particular the costs related to legal and financial counselling for the benefit of the Company, administrative expenses and other costs of the Company related to the Offering and arising from the provisions of law. The costs related to the Offering shall be charged to the Company's operating costs.</p> <p><i>Costs borne by the Selling Shareholder</i></p> <p><i>Fees of the Managers</i></p> <p>In consideration for the services to be performed in connection with the Offering, the Selling Shareholder agrees to pay to the Managers an aggregate consideration being a sum of 1.04% (one and four hundredths per cent.) of the number of the Offer Shares finally allocated in the Offering multiplied by the final sale price per Offer Share. If the Offer Shares allocated to the given tranche have different sale prices, the above-mentioned consideration will be the total of the products of the number of the Offer Shares allocated in the given tranche and the final sale price per Offer Share allocated in the given tranche.</p> <p>The above-mentioned consideration for the Managers does not cover potential costs related to stabilization activities, which are not known as at the date of this Offering Circular. This is due to the fact that the amount of such consideration will depend on whether stabilization activities will be undertaken, number of stabilization activities and their volume.</p> <p>The abovementioned consideration covers remuneration for the underwriting of the Offer and transaction fees connected with the Offer.</p> <p><i>Other costs</i></p> <p>In addition, the Selling Shareholder will commit to pay the Managers a lump sum in connection with the costs and expenses incurred by the Managers, for the services provided in connection with the Offer.</p> <p>As at the date of this Offering Circular, the Selling Shareholder estimates that the costs borne in connection with the Offer (excluding the consideration for the Managers indicated above) will amount around PLN 0.6 million.</p>



	<p><b>19 November 2013</b></p> <p><b>19 November 2013</b></p> <p><b>2 December 2013 (by 23:59)</b></p> <p><b>3 December 2013</b></p> <p><b>4-6 December 2013</b></p> <p><b>6 December 2013</b></p> <p><b>On or about 9 December 2013</b></p> <p><b>On or about 10 December 2013</b></p> <p><b>On or about 11 December 2013</b></p>	<p>commencement of the subscription period for Retail Investors</p> <p>commencement of the subscription period for Qualified Retail Investors (based on the rules described in the Prospectus)</p> <p>completion of the subscription period for Qualified Retail Investors</p> <p>completion of the subscription period for Retail Investors</p> <p>completion of the book building process among the Institutional Investors</p> <p>determination of the final number of the Offer Shares to be offered in the Offering, the final number of the Offer Shares to be offered to the various investor categories, as well as the Retail Investors' Sale Price and the Institutional Investors' Sale Price</p> <p>execution of the pricing supplement to the Underwriting Agreement determining the Retail Investors' Sale Price and the Institutional Investors' Sale Price and the final number of the Offer Shares to be offered in the Offering and the final number of the Offer Shares to be offered to the various investor categories</p> <p>publication of the Retail Investors' Sale Price and the Institutional Investors' Sale Price, the final number of the Offer Shares to be offered in the Offering and the number of the Offer Shares to be offered to the various investor categories</p> <p>acceptance of purchase orders from the Institutional Investors</p> <p>submission of purchase orders for the sale of the Offer Shares to the Retail Investors and the Qualified Retail Investors through the WSE system and registration of the Offer Shares in the securities accounts of the Retail Investors and the Qualified Retail Investors</p> <p>submission of purchase orders, if any, by the Underwriters in performance of their obligations under the Underwriting Agreement</p> <p>allotment of the Offer Shares</p> <p>registration of the Offer Shares in the securities accounts of the Institutional Investors (provided that all the data, presented by investors for the registration of the Offer Shares in their securities accounts, is complete and correct)</p> <p>first day of listing the Series AA Shares on the WSE</p>
--	--	---

	<p>Investors who placed purchase orders for the Offer Shares prior to the publication of the Retail Investors' Sale Price and the Institutional Investors' Sale Price, the information on the final number of the Offer Shares offered in the Offering and on the final number of the Offer Shares offered to the various investor categories may avoid the legal consequences of their purchase orders, by submitting a written representation to that effect, within two business days from the date of the publication of the supplement to the Prospectus in accordance with Article 54 section 1 item 3 of the Offering Act.</p> <p>The timetable above may be subject to change. Certain events provided therein are beyond the control of the Company or the Selling Shareholder. The Selling Shareholder, in agreement with the Joint Global Coordinators and the Joint Bookrunners, reserves the right to change the above timetable for the Offering, including the opening and closing dates of the subscription periods for the Offer Shares. Information about any changes to the proposed timetable of the Offering will be published in accordance with Article 52 of the Offering Act, i.e. in the form of an updating communication published in the same manner as the Prospectus.</p> <p>Any change of the dates of opening and closing of the period (subject to change of the date of the completion of the subscription period for Qualified Retail Investors in line with the Prospectus) for accepting purchase orders and the announcement of such changed dates, if any, will occur not later than on the dates immediately preceding the original dates of opening and closing of the period for accepting purchase orders for the Offer Shares.</p> <p>Changes of dates for other events referred to in the Offering timetable will be publicly announced not later than on the relevant date.</p> <p><b><i>Sale Price</i></b></p> <p>The Sale Price of the Offer Shares for the Retail Investors and the Qualified Retail Investors (“<b>Retail Investors’ Sale Price</b>”) and the Sale Price of the Offer Shares for the Institutional Investors (“<b>Institutional Investors’ Sale Price</b>”) is PLN 17.00.</p> <p>The Investors will not bear any additional costs or taxes in connection with submission of purchase orders for the Offer Shares, except for the costs (if any) associated with opening and maintaining a securities account (unless such Investor already has an account) and any broker’s commissions payable under any relevant agreements or pursuant to the regulations of the entity accepting such purchase order.</p> <p><b><i>Final number of Offer Shares</i></b></p> <p>The final number of the Offer Shares offered in the Offering is 141,522,067 including 14,152,206 Offer Shares subject to the Over Allotment Option. The final number of the Offer Shares offered to Retail Investors is 24,369,952, the final number of Offer Shares offered to Qualified Retail Investors is 7,076,103 and the final number of the Offer Shares offered to Institutional Investors is 110,076,012, including 14,152,206 Offer Shares subject to the Over Allotment Option.</p>
--	---



**Managers**

The Joint Global Coordinators are J.P. Morgan Securities plc with its registered office in London at 25 Bank Street, London EC14 5JP, the United Kingdom and UBS Limited with its registered office in London at 1 Finsbury Avenue, London EC2M 2PP, the United Kingdom. The Joint Global Coordinators of the Offering are responsible for the coordination of the work necessary to prepare and conduct the Offering.

Apart from Joint Global Coordinators, the role of Joint Bookrunners is performed by Merrill Lynch International with its registered office in London at 2 King Edward Street, London EC1A 1HQ, the United Kingdom, Citigroup Global Markets Limited with its registered office in London at Citigroup Centre, 33 Canada Square, Canary Wharf London E14 5LB, the United Kingdom, Dom Maklerski Banku Handlowego S.A. with its registered office in Warsaw at ul. Senatorska 16, 00-923 Warsaw, Poland, Powszechna Kasa Oszczędności Bank Polski S.A. Oddział—Dom Maklerski PKO Banku Polskiego w Warszawie with its registered office in Warsaw at ul. Puławska 15, 02-515 Warsaw, Poland, UniCredit CAIB Poland S.A. with its registered office in Warsaw at ul. Emilii Plater 53, 00-113 Warsaw, Poland, UniCredit Bank AG, London Branch with its registered office in London at Moor House, 120 London Wall, London EC2Y 5ET, the United Kingdom and Banco Espirito Santo de Investimento, S.A. Spółka Akcyjna Oddział w Polsce with its registered office in Warsaw at ul. Złota 59, 00-120 Warsaw, Poland.

The Offering Agent is Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Oddział—Dom Maklerski PKO Banku Polskiego w Warszawie, with its registered office in Warsaw at ul. Puławska 15, 02-515 Warsaw, Poland.

In addition, UniCredit Bank Austria AG with its registered office in Vienna at Schottengasse 6-8, 1010 Vienna, Austria, will act solely as the Underwriter and is not and will not be involved in procuring investors.

The remaining Managers are IPOPEMA Securities S.A. with its registered office in Warsaw at ul. Próżna 9, 00-107 Warsaw, Poland, Dom Maklerski mBanku S.A. with its registered office in Warsaw at ul. Wspólna 47/49, 00-684 Warsaw, Poland, Dom Maklerski Banku Ochrony Środowiska S.A. with its registered office in Warsaw at ul. Marszałkowska 78/80, 00-517 Warsaw, Poland, and Biuro Maklerskie Alior Bank S.A. with its registered office in Warsaw at ul. Łopuszańska 38D, 02-232 Warsaw, Poland.

The Managers' fee is closely related to the proceeds of the sale of the Offer Shares (see "Costs of the Offering"). In connection with the Offering, the Managers provide services to the Selling Shareholder and the Company, including coordinating the public relations efforts with respect to the Offering, coordinating contacts and arranging meetings with investors, organising the book-building process in Poland and abroad, as well as with other tasks that are typically performed by investment companies under public share offerings. The Managers, including the Offering Agent, do not hold any material interests in the Company and in particular, as at the date of this Offering Circular they do not hold any Shares in the Company.

	<p><b><i>Underwriting Agreement</i></b></p> <p>On 18 November 2013 the Selling Shareholder and the Company entered into a conditional standby underwriting agreement concerning the purchase orders of the Institutional Investors (the “<b>Underwriting Agreement</b>”) with J.P. Morgan Securities plc, UBS Limited, Merrill Lynch International; Citigroup Global Markets Limited, UniCredit Bank Austria AG, Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Oddział—Dom Maklerski PKO Banku Polskiego w Warszawie, Banco Espirito Santo de Investimento S.A. Spółka Akcyjna, Oddział w Polsce, (“<b>Underwriters</b>”), Dom Maklerski Banku Handlowego S.A., UniCredit Bank AG, London Branch, UniCredit CAIB Poland S.A., Dom Maklerski mBanku S.A. and Ipopema Securities S.A. Dom Maklerski Bank Ochrony Środowiska SA and Biuro Maklerskie Alior Bank Spółka Akcyjna.</p> <p>Pursuant to the Underwriting Agreement and conditions described in the Underwriting Agreement, certain of the Managers and Underwriters agreed, subject to the satisfaction of certain conditions described below, to procure purchasers for the Offer Shares and failing which to purchase and pay at the Offer Price for the Offer Shares not otherwise purchased and paid for by the Institutional Investors to whom these Offer Shares have been initially allocated.</p> <p>The Underwriting Agreement contains, inter alia, the following conditions precedent concerning the performance of the commitment to underwrite the Offering: (i) no changes or events occur which, in the Global Coordinators’ opinion, result in any adverse change of the Group’s condition (financial or other), results of operations, business, properties or prospects, as compared to the status described in the Prospectus; (ii) no force majeure events; (iii) representations and warranties of the Company and the Selling Shareholder contained in the Underwriting Agreement being true and correct on the date of performance of the underwriting commitment, (iv) the Company or its advisers deliver legal opinions, disclosure letters and comfort letters in the form and substance agreed with the Underwriters, (v) the Selling Shareholder or its legal adviser delivers legal opinion in the form and substance agreed with the Underwriters (vi) the Company and the Selling Shareholder perform the obligations set out in the Underwriting Agreement; and (vii) a pricing supplement (“<b>Pricing Supplement</b>”) to the Underwriting Agreement is agreed, determining the Retail Investors’ Sale Price, the Institutional Investors’ Sale Price and the final number of the Offer Shares to be offered to the Retail Investors and the Institutional Investors.</p> <p>The Pricing Supplement was executed on 3 December 2013.</p> <p>If any of the conditions set out in the Underwriting Agreement is not satisfied or waived the Underwriters’ obligation to purchase of the Offer Shares pursuant to the Underwriting Agreement will expire. The Underwriting Agreement may be terminated in the situations described therein, in particular if any of the representations or warranties of the Company or the Selling Shareholder is untrue or incorrect or in case of material change on financial markets.</p>
--	--

The Underwriting Agreement is governed by the laws of England and Wales and contains provisions that are customary in international offerings similar to the Offering, including representations and warranties provided by the Company and the Selling Shareholder.

In the Underwriting Agreement, the Selling Shareholder and the Company agreed to indemnify and hold harmless the Managers and the Underwriters and other specified persons against certain claims, obligations or costs which may be sought or incurred by the Managers, Underwriters or other specified persons in connection with the Underwriting Agreement (so called indemnification clause).

The Underwriting Agreement contains standard covenants by the Managers with respect to the territorial range of undertaken promotional activities and commitment to undertake promotional activities only towards particular categories of Institutional Investors and in each case in compliance with the laws of the jurisdiction where such activities are to be conducted.

The Underwriting Agreement provides that the Company and the Selling Shareholder are subject to lock-up restrictions with respect to the distribution of Shares and issuing of shares. The commitments related to these lock-up arrangements, are described in section “Lock-up Agreements”.

Information regarding the commission due to the Managers, including the fee for underwriting subscriptions of the Institutional Investors in the Offering is provided in “Additional information-Costs of the Offering-Costs of the Offering incurred by the Selling Shareholder-Managers’ commission”.

***Stabilisation transactions***

On 3 December 2013 the Selling Shareholder and Powszechna Kasa Oszczędności Bank Polski S.A. Oddział-Dom Maklerski PKO Banku Polskiego w Warszawie and UniCredit CAIB Poland S.A. (**‘Stabilising Managers’**) entered into a stabilisation agreement (**‘Stabilisation Agreement’**).

The purpose of the Stabilisation Agreement is, in particular, to allow the Stabilising Managers to effect and settle stabilising transactions as well as finance the stabilising transactions.

The Stabilising Managers, in connection with the Offering, will have the right to acquire, on the Warsaw Stock Exchange, the Series AA Shares in the number not greater than 10% of the final number of the Offer Shares and, at the same time, not greater than the number of Series AA Shares sold under Over Allotment Option (as defined below) in order to stabilise the price of the Series AA Shares at a level higher than that which would otherwise prevail. The acquisition of the Series AA Shares for the purposes of stabilisation will be subject to the provisions of the Stabilisation Regulation. The purchase transactions related to the Series AA Shares may be effected only during the period commencing on the first listing day of the Series AA Shares on the WSE and terminating 30 days of that date (**‘Stabilisation Period’**). The transactions to purchase the Series AA Shares may only be effected at a price not higher than the Sale Price for the Institutional Investors.

	<p>The Stabilising Managers will not, however, be required to take any stabilisation actions. If the Stabilising Managers take any such actions, they may be discontinued at any time, but not later than before the end of the Stabilisation Period.</p> <p>No assurance may be given that such stabilisation actions, if taken, will bring the expected results.</p> <p>The Selling Shareholder will lend the Series AA Shares to the Stabilising Managers for the purpose of an over-allotment option (“<b>Over Allotment Option</b>”) based on which the Series AA Shares will be allotted in the Offering in an amount 14,152,206. The Offer Shares will be sold only in respect of those subscriptions placed by the Institutional Investors for whom the Managers will be acting which have not been satisfied by allotting Series AA Shares as part of the Polish Offering. The Over Allotment Option is not a part of the Polish Offering.</p> <p>The Selling Shareholder granted the Stabilising Managers, under that agreement, an option to buy the Series AA Shares in a number equal to the Series AA Shares, allotted under the Over Allotment Option less the number of the shares purchased by the Stabilizing Managers in the stabilization transactions (“<b>Greenshoe Option</b>”). The Greenshoe Option is granted in connection with ‘auxiliary stabilisation’ as defined in the Stabilisation Regulation in order to cover the Stabilising Managers’ short positions. The Greenshoe Option may be exercised at once until the expiry of the Stabilisation Period. The Greenshoe Option will be exercised at the Sale Price for the Institutional Investors. The costs of granting the Greenshoe Option will be determined with reference to the stabilising actions performed. The Stabilising Managers will be entitled to a commission and cost reimbursement from the Selling Shareholder as specified in the Stabilisation Agreement.</p> <p>The number of the Series AA Shares to be subject to the Greenshoe Option will be equal to the number of the Series AA Shares subject to the Over-Allotment Option less the number of the shares acquired by the Stabilising Managers as a result of stabilising actions.</p> <p>Information on the stabilisation will be published as set out in the Stabilisation Regulation.</p>
--	--

<p><b>E.4</b></p> <p><b>Entities involved in the Offering</b></p>	<p><b>A description of any interest that is material to the issue/offer including conflicting interest.</b></p> <p>The Managers' fee is closely related to the proceeds of the sale of the Offer Shares.</p> <p>Each of the Managers and their affiliates (most of them as parts of global or international financial services firms) is or may be engaged in the investment banking, securities, investment management and individual wealth management businesses. Their securities businesses are or may be engaged in securities underwriting, trading (customer and proprietary) and brokerage activities and foreign exchange, commodities and derivatives trading (customer and proprietary), as well as providing brokerage, investment banking, research, financing and financial advisory services. To the extent allowed by the applicable law and conflict of interest rules regarding providing brokerage and investment banking services: (a) in the ordinary course of the trading, brokerage and financing activities each of the Managers and their affiliates may at any time hold long- or short-term investments, finance investments, and may trade or otherwise structure and execute transactions, for their own account or the accounts of customers, in debt or equity securities or senior loans of any entity involved in the Offering, or in any currency or commodity involved in the Offering, or in any related derivative instrument; (b) each of the Managers and their affiliates, their directors, members of management or supervisory boards, executives and employees may also at any time invest for their own account or manage funds that invest for their own account in debt or equity securities issued by any entity involved in the Offering, or in any currency or commodity involved in the Offering, or in any related derivative instrument; (c) each of the Managers and their affiliates may at any time carry out ordinary course of brokerage activities for any entity involved in the Offering.</p>
<p><b>E.5</b></p> <p><b>The Selling Shareholder; Lock up</b></p>	<p><b>Name of the person or entity offering to sell the security. Lock-up agreements: the parties involved; and indication of the period of the lock up.</b></p> <p><b>The Selling Shareholder</b></p> <p>The State Treasury of the Republic of Poland</p> <p><b>Lock-up agreements</b></p> <p><i>Selling Shareholder</i></p> <p>In the Underwriting Agreement the Selling Shareholder agreed that until the lapse of 180 days following the first listing date of the shares of the Company on the WSE, the Company will not, without the prior written consent of the Joint Global Coordinators (such consent to be notified to the Joint Bookrunners by the Joint Global Coordinators as soon as reasonably practicable after being granted), subject to agreed exceptions, issue, offer, sell, transfer or otherwise dispose or encumber of (or publicly announce the issuance, pledging, offering, sale, transfer or other disposal or encumbrance of) any Shares (or any other securities convertible into, exercisable for or exchangeable for Shares, including participations granting, directly or indirectly, the right to acquire or subscribe for Shares), and enter into any swap or other transaction (such as the grant of purchase options, rights or warrants on shares) that transfers, in whole or in part, the economic consequences of ownership of Shares or options.</p>

	<p><b>Company</b></p> <p>In the Underwriting Agreement the Company agreed that until the lapse of 180 days following the first listing date of the shares of the Company on the WSE, the Company will not, without the prior written consent of the Joint Global Coordinators (such consent not to be unreasonably withheld or delayed and to be notified to the Joint Bookrunners by the Joint Global Coordinators as soon as reasonably practicable after being granted), subject to agreed exceptions, issue, offer, sell, transfer or otherwise dispose or encumber of (or publicly announce the issuance, pledging, offering, sale, transfer or other disposal or encumbrance of) any Shares (or any other securities convertible into, exercisable for or exchangeable for Shares, including participations granting, directly or indirectly, the right to acquire or subscribe for Shares), and enter into any swap or other transaction (such as the grant of purchase options, rights or warrants on shares) that transfers, in whole or in part, the economic consequences of ownership of Shares or options.</p>																																																		
<p><b>E.6</b></p> <p><b>Dilution</b></p>	<p><b>The amount and percentage of immediate dilution resulting from the offer.</b></p> <p>The Offering will not have any dilutive effect on our shareholders. If all the Offer Shares are sold, the State Treasury's stake in the Issuer's share capital and its share of the total number of votes will decrease accordingly. The table below summarises information regarding the ownership structure of the Company upon completion of the Offering, based on an assumption that the State Treasury sells all of the Offer Shares in the Offering, and that maximum number of the Series AA Shares is sold under the Over Allotment Option (i.e. sale of 141,522,067 of the ordinary series AA Shares) and assuming that Greenshoe Option is exercised in full.</p> <table border="1" data-bbox="555 1090 1410 1272"> <thead> <tr> <th colspan="5" style="text-align: center;"><b>Upon completion of the Offering (full exercise of the Greenshoe Option)</b></th> </tr> <tr> <th style="text-align: left;"><b>Shareholder</b></th> <th style="text-align: right;"><b>Shares</b></th> <th style="text-align: right;"><b>(%)</b></th> <th style="text-align: right;"><b>Votes</b></th> <th style="text-align: right;"><b>(%)</b></th> </tr> </thead> <tbody> <tr> <td>State Treasury . . . . .</td> <td style="text-align: right;">207,040,000</td> <td style="text-align: right;">50</td> <td style="text-align: right;">351,968,000</td> <td style="text-align: right;">62.96</td> </tr> <tr> <td>Other . . . . .</td> <td style="text-align: right;">207,027,114</td> <td style="text-align: right;">50</td> <td style="text-align: right;">207,027,114</td> <td style="text-align: right;">37.04</td> </tr> <tr> <td><b>Total . . . . .</b></td> <td style="text-align: right;"><b>414,067,114</b></td> <td style="text-align: right;"><b>100.00</b></td> <td style="text-align: right;"><b>558,995,114</b></td> <td style="text-align: right;"><b>100.00</b></td> </tr> </tbody> </table> <p>The following table sets forth information regarding ownership structure of the Company upon the completion of the offering, based on an assumption that the State Treasury sells all the offer shares in the Offering and that maximum number of the Series AA Shares in sold under the Over Allotment Option (i.e. sale of 141,522,067 of the ordinary series AA Shares and assuming that the Greenshoe Option is not exercised).</p> <table border="1" data-bbox="555 1453 1410 1635"> <thead> <tr> <th colspan="5" style="text-align: center;"><b>Upon completion of the Offering (Greenshoe Option is not exercised)</b></th> </tr> <tr> <th style="text-align: left;"><b>Shareholder</b></th> <th style="text-align: right;"><b>Shares</b></th> <th style="text-align: right;"><b>(%)</b></th> <th style="text-align: right;"><b>Votes</b></th> <th style="text-align: right;"><b>(%)</b></th> </tr> </thead> <tbody> <tr> <td>State Treasury . . . . .</td> <td style="text-align: right;">221,192,206</td> <td style="text-align: right;">53</td> <td style="text-align: right;">366,120,206</td> <td style="text-align: right;">65.50</td> </tr> <tr> <td>Other . . . . .</td> <td style="text-align: right;">192,874,908</td> <td style="text-align: right;">47</td> <td style="text-align: right;">192,874,908</td> <td style="text-align: right;">34.50</td> </tr> <tr> <td><b>Total . . . . .</b></td> <td style="text-align: right;"><b>414,067,114</b></td> <td style="text-align: right;"><b>100.00</b></td> <td style="text-align: right;"><b>558,995,114</b></td> <td style="text-align: right;"><b>100.00</b></td> </tr> </tbody> </table>	<b>Upon completion of the Offering (full exercise of the Greenshoe Option)</b>					<b>Shareholder</b>	<b>Shares</b>	<b>(%)</b>	<b>Votes</b>	<b>(%)</b>	State Treasury . . . . .	207,040,000	50	351,968,000	62.96	Other . . . . .	207,027,114	50	207,027,114	37.04	<b>Total . . . . .</b>	<b>414,067,114</b>	<b>100.00</b>	<b>558,995,114</b>	<b>100.00</b>	<b>Upon completion of the Offering (Greenshoe Option is not exercised)</b>					<b>Shareholder</b>	<b>Shares</b>	<b>(%)</b>	<b>Votes</b>	<b>(%)</b>	State Treasury . . . . .	221,192,206	53	366,120,206	65.50	Other . . . . .	192,874,908	47	192,874,908	34.50	<b>Total . . . . .</b>	<b>414,067,114</b>	<b>100.00</b>	<b>558,995,114</b>	<b>100.00</b>
<b>Upon completion of the Offering (full exercise of the Greenshoe Option)</b>																																																			
<b>Shareholder</b>	<b>Shares</b>	<b>(%)</b>	<b>Votes</b>	<b>(%)</b>																																															
State Treasury . . . . .	207,040,000	50	351,968,000	62.96																																															
Other . . . . .	207,027,114	50	207,027,114	37.04																																															
<b>Total . . . . .</b>	<b>414,067,114</b>	<b>100.00</b>	<b>558,995,114</b>	<b>100.00</b>																																															
<b>Upon completion of the Offering (Greenshoe Option is not exercised)</b>																																																			
<b>Shareholder</b>	<b>Shares</b>	<b>(%)</b>	<b>Votes</b>	<b>(%)</b>																																															
State Treasury . . . . .	221,192,206	53	366,120,206	65.50																																															
Other . . . . .	192,874,908	47	192,874,908	34.50																																															
<b>Total . . . . .</b>	<b>414,067,114</b>	<b>100.00</b>	<b>558,995,114</b>	<b>100.00</b>																																															
<p><b>E.7</b></p> <p><b>Estimated expenses charged to the investor</b></p>	<p><b>Estimated expenses charged to the investor by the issuer or the offeror.</b></p> <p>Submitting a purchase order for the Offer Shares is not connected with additional expenses. The investor should, however, take into account other expenses indirectly related to submitting purchase orders for the Offer Shares, in particular any brokerage fees for submitting a purchase order, starting or maintaining an investment account and other possible banking costs related to paying for the Offer Shares, possible costs of exchanging foreign currencies for Polish zloty etc. Investors should take notice that payments for the Offer Shares do not yield interest and in case the payments are returned in part or in entirety, the investor is not entitled to interest or damages.</p>																																																		



---

## RISK FACTORS

*Prior to making an investment decision, each prospective purchaser of Offer Shares should carefully consider all of the risk factors discussed below, as well as other information provided in this Offering Circular. The materialisation of any of these risk factors may have a material adverse effect on the business, results of operations, financial condition or development prospects. If any of the following risk factors materialise, the value and trading price of the Offer Shares could decline and investors could lose all or part of their investment. These risk factors are not necessarily the only ones that the Group faces and there may be other considerations that investors should take into account when making an investment decision. In particular, additional risk factors such as risks not disclosed as at the date of this Offering Circular, or risk facts that are considered insignificant may have an adverse effect on the Group and an adverse effect on the investment in the Offer Shares. Investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in particular in light of those risks, their investment is appropriate, and consult appropriate legal, tax, financial and, other advisors with respect thereto.*

### **Risks related to our business**

***The ERO President may delay or refuse to approve electricity distribution and sales tariffs or heat distribution tariffs and the approved tariffs may not be sufficient to cover the costs of the operation of Group companies or to cover their expected return on capital***

Our financial results depend significantly on the level of prices paid by our customers for distribution services and the sale of electricity and heat. The price levels meanwhile depend on the tariffs we employ, some of which have to be approved by the ERO President. As at the date of this Offering Circular, the areas of our operations that in practice require the ERO President's approval for our tariffs include the distribution of electricity and the sale of electricity to tariff group G customers, i.e. mainly retail customers (mostly households), as well as tariffs in respect of the distribution and sale of electricity.

The tariffs devised in accordance with the Energy Law should make it possible to cover the justified costs of engaging in business activity by energy companies together with the justified return on equity, while at the same time taking into account the protection of customers from unjustified levels of prices and charges. The powers of the ERO President with respect to tariffs include, among others, the following: (i) the approval and verification of the level of costs adopted by energy companies for the purpose of calculating tariffs submitted for approval; and (ii) determining the justified return on equity. The ERO President's decisions in this regard are to a large extent discretionary. In the process of approving tariffs, the ERO President may challenge the level of costs used by energy companies to calculate tariffs, refuse to recognise some costs as justified and also challenge the value of assets adopted for determining a justified return on equity. There is a risk that our tariffs will not be approved, or will be approved with delay, or approved in a different form than originally proposed by us. In particular, the investment plan implemented by us in the distribution segment may cause an increase in the regulatory asset base (RAB) not directly related to the increase in the electricity volume distributed to customers connected to our grid (for example, related to renewable energy sources (RES)), which could lead to an increase in the amortisation value and return on equity (which are included in the calculation of distribution tariffs) higher than in the case of other distribution system operators (DSOs). In order to avoid any disproportion in charging our customers for distribution services, as compared to the customers of other DSOs, the ERO President could undertake certain actions to limit an increase in our distribution tariffs and hence our distribution tariffs could be approved at a lower level than we originally applied for.

The above factors may lead to the inability to set our tariffs at a sufficient level to cover our costs or to attain the return on equity we expected. The lengthy period of tariff approval by the ERO President may also lead to delays in their introduction.

In practice, tariffs are approved for a one-year period. The ERO President occasionally extends the term of our tariffs for a period longer than one year or approves the tariffs for a period shorter than one year. If, during the time that a tariff is in force, we incur higher than projected or additional, unanticipated costs, including costs of electricity purchased outside the Group for resale, or if the volume of electricity distributed by us turns out to be lower than anticipated, for the purpose of tariff calculation we will have only limited opportunities to change the tariff that is in force in order to reflect such higher additional costs or lower volumes of electricity distributed by us. In practice, the ERO President only agrees to revise

a decision approving an existing tariff in the event of a significant growth in costs for reasons that are outside the control of the energy enterprise. The ERO President may also establish, on his own initiative, by way of a decision, the correction factors that we will be obliged to apply and that may lead to a decrease in the prices and charges approved in the previous tariff. The lack of approval or delayed approval of tariffs by the ERO President or the approval of tariffs that do not cover our operating costs could have a material adverse effect on our business, results of operations, financial condition or development prospects.

***In accordance with the current methodology for calculating distribution tariffs, their level is affected by factors outside of our control, such as the yield on Polish treasury bonds; in addition, the methodology for calculating distribution tariffs may change***

The revenues of our distribution segment, which generated 75.7% of our consolidated EBITDA in the nine-month period ended 30 September 2013, are significantly impacted by the level of distribution tariffs arising from the tariff approved by the ERO President, which is calculated in accordance with the methodology prescribed and approved by the ERO President. The current methodology used to approve tariffs is set forth in two publicly available documents titled “DSO Tariffs for 2012” and “DSO Tariffs for 2013”. An important element of the formula used to determine distribution tariffs, is how the return on capital invested in the distribution business is determined. Such return is calculated based on the weighted average cost of capital (WACC) and the RAB. An important factor that affects the justified WACC is the value of the risk-free rate established based on the yield on fixed-rate ten-year treasury bonds with the longest maturity (see “Regulatory Matters—Energy sector regulation—Tariffs—Fees for distribution services”). If the yield on treasury bonds decreases, the level of the distribution tariff may be materially adversely affected, which in turn would have a material adverse effect on our business, results of operations, financial condition or development prospects. (See “Regulatory Matters—Energy sector regulation—Tariffs” for more information regarding the method of calculating distribution tariffs). There is a risk that in future the ERO President may change the parameters crucial in calculating the average annual cost of capital and in particular the principles of determining the risk-free interest rate and debt-ratio formula. According to public announcements, the intention of the ERO President is to change the calculation formula for distribution tariffs as of the beginning of 2016. Pursuant to information from the ERO President of 30 August 2013, new regulations concerning DSOs should take into account not only the new approach to the calculation of WACC, the assessment of the effectiveness of operating costs and the volume of network losses (*różnica bilansowa*), but also certain aspects of quality control.

The new methodology may result in a decrease in the level of distribution tariffs, which would have a material adverse effect on our business, results of operations, financial condition or development prospects.

***The national support system for the generation of electricity from RES may change significantly***

Similarly to other enterprises generating electricity from RES, we have been taking advantage of the support mechanisms for RES, which have been a significant source of revenue for our generation segment. We hold the leading position in terms of the volume of electricity generated from hydroelectric power plants and in terms of the proportion of electricity generated from RES in the total volume of electricity generation. Electricity generated from RES accounted for 31.6% of our total electricity generation in 2012. At present legislative efforts are underway aimed at reforming the current support system for RES electricity generators (see “Regulatory Matters—Energy sector regulation—Planned amendments to legal regulations—New energy laws”).

Pursuant to draft Act on renewable energy sources (“**Draft RES Act**”), presented on 13 November 2013 by the Ministry of Economy, support mechanisms for electricity generation from RES are to be changed, both in systems operating on the day of new provisions coming into force as well as in systems which will start electricity generation after the new provisions come into force. The Draft RES Act provides, *inter alia*, for excluding existing hydroelectric power plants of the total installed electrical capacity over 1 MW from support mechanisms, which would also relate to some of the hydroelectric power plants from the Group, including the hydroelectric plant in Włocławek. The Draft RES Act also envisages significant trimming down of support for multi-fuel combustion systems, including our biomass co-combustion system in the Ostrołęka Power Plant, in particular through the application of the system of support to the level of

electricity generation determined on the basis of historical data, a reduction of the number of green certificates granted per unit of generated electricity and the admission of just a part of biomass co-combustion systems (the “dedicated plants”) to participation in the auction system. The Draft RES Act assumes that the total support period for the RES systems, for those operating on the day of the new laws coming into force and for new systems, will be for a maximum of 15 years.

The Draft RES Act envisages an obligation for entities designated by the ERO from among the electricity sellers with the largest sales volume (the “designated supplier” („*sprzedawca zobowiązany*”)) to purchase electricity through auctions. The Draft RES Act also envisages a system for compensating to the designated suppliers of the difference between the price set by the auction at which they buy and at which they sell electricity out of funds coming from the RES fee paid by end customers and settled with the designated suppliers by an SPV controlled by the State Treasury, called Operator Rozliczeń Energii Odnawialnej S.A. (*Renewable Energy Settlements Operator*). It cannot be ruled out that the planned system of compensating the differences based on RES fee settlements will not be sufficient to cover to the designated suppliers the difference between the price at which they purchase electricity at auctions if such prices are higher than electricity sale prices. Additionally, the proposal assumes that an obligation of selling part of the green certificates on a commodity exchange or a market organized by an entity operating a regulated market is to be introduced.

It is assumed that the changes envisaged in the Draft RES Act will come into force upon their adoption through relevant legislation procedures and potentially obtaining the approval of the European Commission. In particular, once the Draft RES Act is approved by the Council of Ministers, it will be sent to parliament, but at this stage it is impossible to foresee the date of the adoption of the Draft RES Act by the Council of Ministers, the timeline of parliamentary processing of the Draft RES Act or the final shape of the act. Taking into account the scope and nature of proposed changes with respect to the current support system, detailed decisions concerning the mechanisms of support for electricity generation from RES are subject to analysis and consultations at present, adding to the uncertainty and making it even more difficult to predict what shape the ultimate RES support mechanism will take.

Implementing a new support system based on the Draft RES Act or any other unfavourable modification to the existing mechanism of support for RES may have a material adverse effect on the viability of electricity generation from RES, the supply and prices of certificates of origin, as well as the profitability of engaging in trading in electricity, and consequently could have a material adverse effect on our business, results of operations, financial condition, investment plans or development prospects.

***If the value of our property, plant and equipment decreases, we will be obliged make appropriate impairment write-downs***

At the end of each reporting period we assess whether there is any impairment in the value of property, plant and equipment. The analysis considers external factors, including technological, market, economic, or legal changes in the business environment in which we operate or the markets in which our assets are used, as well as internal factors such as the current condition of property, plant and equipment and changes in the manner they are used. If such situations occur, we carry out tests concerning the loss of the value of property, plant and equipment. We have carried out a tests concerning such loss of value in the past, including in the nine-month period ended 30 September 2013; we also made an impairment write-down in relation to the readjustment of the property, plant and equipment of Elektrownia Ostrołęka B of PLN 123.4 million; in the year ended 31 December 2012 we made an impairment write-down related to the withdrawal of the Elektrownia Ostrołęka C investment project of PLN 122.6 million, while in the year ended 31 December 2010 we made an impairment write-down of property, plant and equipment of the Elektrownia Ostrołęka A investment of PLN 47.2 million due to the loss of a material heat offtaker. As at September 2013, the total book value of the property, plant and equipment of Elektrownia Ostrołęka A, B and C amounted to PLN 517.1 million. Due to unfavourable changes in the macroeconomic environment, the electricity market (including the changes related to the drop in electricity prices and the worsening of the long-term forecasts material to the market variables influencing our profitability), regulatory changes, including the changes to the tariff calculation formula and planned changes to the support system for the generation of electricity from RES (see “—The national support system for the generation of electricity from RES may change significantly” above), as well as changes in the internal operational situation of the Group companies (including an increase in costs, loss of licences or any

administrative permits), changes in business areas qualification, cancelling of operations or carrying out specific investments, there could be a need to establish a new, lower value of our property, plant and equipment. Furthermore, with respect to property, plant and equipment and investment projects acquired through the wind asset acquisitions carried out by ENERGA Hydro (see “Our Business—Acquisitions”), given the uncertainty around the ability to actually verify the physical condition of these assets and to change the manner and intensity of their usage for our needs, and in view of the ongoing changes on the electricity market, we cannot exclude the possibility that the value of such property, plant and equipment and of the wind farm projects will be impaired, which may result in the need to make relevant impairment write-downs. The obligation to make these impairment write-downs in the future may have a material adverse effect on our business, results of operations, financial condition or development prospects.

***The ERO President may expand the scope of documents required in proceedings concerning green certificates from biomass co-combustion thus extending their issuance period***

In connection with the gradual expansion of the scope of documents required by the ERO President, it has been noted that the proceedings concerning the issuance of certificates of origin with respect to electricity generated in the co-combustion of biomass are now more time-consuming. We cannot rule out that the scope of documentation required will be further expanded, which would translate into even more time-consuming proceedings related to the issuance of green certificates from the co-combustion of biomass. We also cannot rule out that we will not be able to satisfy the regulatory requirements for obtaining such certificates. The lengthening of such proceedings, our failure to obtain the certificates from the co-combustion of biomass and a drop in the prices of green certificates may have a material adverse effect on our business, results of operations, financial condition or development prospects.

***Our results of operations depend on the prices of electricity and heat, which are driven by external factors***

We derive the majority of our revenues from the distribution and sales of electricity, and a portion of revenues from heat sales and generation. Consequently, our revenues depend, among other factors, on the prices of electricity and heat. The prices of electricity and heat, as well as their generation and distribution, depend on many factors, some of which are beyond our control or are within our control only to a limited extent. In particular, we have no leverage, or limited leverage on the availability and prices of fuels used for the generation of electricity and heat, the costs of transport, tax rates, social insurance premiums and health insurance premiums, other labour costs, the strictness of environmental regulations, including the availability and cost of CO<sub>2</sub> allowances, interest rates, exchange rates, etc. Some of these factors depend on the policies of foreign countries or international and supra-national organisations (such as the European Union). Additionally, in the conditions presently existing on the Polish market, the effectiveness of pricing policy management with respect to electricity trading agreements is hampered because of the absence of long-term price indices and the lack of a developed and liquid market in financial instruments related to the sale of electricity. This results in problems with establishing prices in agreements concerning electricity trading. These circumstances may have a material adverse effect on our business, results of operations, financial condition or development prospects.

***Our generating capacity is insufficient to satisfy our obligations arising from electricity sales agreements***

In the nine-month period ended 30 September 2013, electricity generated by our own units represented approximately 6.7% of the electricity sold by us to external customers. The balance of electricity is purchased from external suppliers. This creates a risk that if the demand exceeds the supply of electricity in Poland, we will not be able to purchase enough electricity or we will not be able to purchase electricity at prices that allow a positive margin on sales in order to fulfil our obligations arising from sales agreements. Such a situation may occur in particular if an increase in electricity consumption is not matched with increased generation capacity in Poland. We are not planning to significantly change the profile of our operations in the forthcoming years. In light of the above and given the limited share of electricity generated by our own units in our total sales of electricity, we may not be able to offer as attractive terms as our competitors from other utilities equipped with larger generating capacity. This may further lead to the attrition of customers and shrinkage of our market share, thus having a material adverse effect on our business, results of operations, financial condition or development prospects.



***We may be unable to effectively hedge against fluctuations in electricity prices***

The revenues generated by our sales segment have a significant impact on our consolidated revenues. In the nine-month period ended 30 September 2013, the sales segment generated 57.6% of our revenue from sales to external customers. In consequence, the factors that influence the revenues as well as the costs of the sales segment, in particular changes in electricity prices, have a material effect on our consolidated revenues and our gross profit. Due to the fact that the volume of electricity sold by us significantly exceeds the volume of electricity that we generate, we purchase electricity from third parties to satisfy the demand of our customers. To this end, we buy electricity mainly on the wholesale market at prevailing market prices and from generators of electricity from RES connected to our distribution network, largely at prices regulated by the ERO President's decisions. As a result, we are exposed to fluctuations in electricity prices. In order to hedge against market price volatility, we vary the length of our contracts for the purchase of electricity and enter into both fixed-price and variable price contracts. We may, however, fail to effectively hedge against the risk of energy price volatility, which could have an adverse impact on our margins in the sales segment or even require us to purchase electricity at prices higher than those that at which we are contractually obliged to sell. In particular, we supply large volumes of electricity to tariff group G customers, i.e. retail customers (mostly households). The ERO President periodically approves the tariff for such customers. Consequently, if the prices of electricity purchased by us from third parties in a given period increase, our margin would be materially affected or, if such purchase prices were to increase above the group G tariff prescribed for the given period, we could be required to sell electricity at a loss. Additionally, a proportion of our costs are fixed costs, or costs that are otherwise beyond our control, and therefore cannot be reduced even in periods of lower electricity prices. All of the foregoing could have a material adverse effect on our business, results of operations, financial condition or development prospects.

***Our investment projects may be delayed or not be carried out at all or may not result in the expected return or otherwise fail to meet expectations***

Our investment programme for the years 2013-2021 comprises core and non-core investment projects, with the value of PLN 15,903 million and PLN 3,791 million respectively, some of which may take the form of acquisitions of other entities (see "Our Business—Investment programme"). The decision on whether to implement a specific investment project will be taken on a case-by-case basis, taking into account, *inter alia*, the expected profitability of the undertaking in light of, *inter alia*, the market and economic conditions, technical considerations and the regulatory framework. Consequently, taking into account the nature of investment projects in the energy sector, including the time necessary for their preparation and implementation, as well as the impact that new energy sector regulations, including the support system for electricity generated from RES may have on their viability, it is possible that not all or only some of the investment projects will be implemented or that our investment projects or some of them will be carried out with delay or will be modified. In the past there have already been cases of suspending or delaying realisation of our investments; in particular, in 2012 we decided to suspend realisation of the Ostrołęka C project (assuming construction of power plant with the power approximately of 1,000 MW) which resulted in, *inter alia*, the need to make an impairment write-down of PLN 122.6 million. In the case of the project regarding the construction of the Drzewiany wind farm the realisation of the investment was postponed due to extension of the period for obtaining administrative decisions necessary to start construction of that power plant and, as a consequence, cash flows generated by the new unit were postponed and there was additional exposure to changing market and regulatory conditions, including the risk of changing the support system for RES by which the new wind farm would be covered.

The implementation of our investment programme may encounter a number of obstacles. In particular, it could be hampered by obstacles of a regulatory, administrative or social nature, such as delays or difficulties in obtaining the requisite decisions or permits, difficulties in obtaining access to relevant real properties, labour disputes impacting our contractors or their subcontractors and protests by environmental organisations or disputes with local communities. In addition, we may encounter problems of a financial or operational nature, such as delays in investment processes concerning the construction of new or the modernisation of existing elements of our assets (which may arise, among other things, from procedures provided for in the public procurement laws), the exceeding of the adopted budgets, our inability to obtain sufficient financing or limitations of the availability of materials or the equipment needed to implement our investment projects. In particular, the implementation of the smart metering

## RISK FACTORS

---

system AMI (Advanced Metering Infrastructure) may face the risk of potential social objections, high implementation costs and the risk of failing to recover the expenditures incurred by us, in tariffs approved by the regulator.

Additionally, it could be necessary to adjust the timeline and scope of the capital expenditures planned by us to changes in the regulatory environment. In particular, the Draft RES Act published by the Ministry of Economy on 13 November 2013 envisages the enactment of amendments to the Energy Law, which would, *inter alia*, require the DSOs to install by the year 2020 remote-reading meters to at least 80% of the end customers connected to low-voltage networks of the given operator, based on a timeline set in implementing regulations to the Energy Law. If the changes envisaged in the Draft RES Act are indeed introduced to the Energy Law, this requirement would also apply to ENERGA-OPERATOR, which could have a material impact on our investment programme, including the level and timeline of capital expenditures in the distribution segment.

If we experience these or other unforeseen problems in implementing our investment programme we cannot rule out that the planned investment projects will not be implemented or will be implemented on a different scale or according to a different timeline, or that we will not reach the anticipated rates of return, synergies or benefits expected from the implementation of such investment projects (or that we would reach them with delay). Moreover, the implementation of our investment programme may require us to allocate larger than planned human and financial resources. Such allocation could adversely affect the principal areas of our operations or lead to a decrease in the expected benefits from implementation of the investment programme. All of the foregoing could have a material adverse effect on our business, results of operations, financial condition or development prospects.

***The process of integrating newly completed investment projects into our business may prove to be time-consuming and costly or fail altogether and may have an adverse effect on our business***

Following the completion of new investment projects, in particular projects in the form of acquisition of other entities, in order to achieve the anticipated synergies, we will be have to undertake steps to integrate them into the relevant business segment. The integration processes may prove to be time-consuming and costly and it is uncertain whether they will be carried out as planned or indeed at all, or whether they will bring about anticipated synergies. Integration processes in individual Group companies may also lead to the occurrence of permanent differences in the procedures applied within the Group or the loss of existing customers or business partners. Failure to integrate newly completed investment projects in an efficient manner or at all could have a material adverse effect on our business, results of operations, financial condition or development prospects.

***Delays or failure to complete modernisation of our assets may have a material adverse effect on our Group***

Our operations require the regular modernisation of assets, resulting, *inter alia*, from stricter environmental requirements coming into force as well as normal wear and tear of our assets. Such modernisations are capital intensive and in the generation segment may additionally result in periodic outages of the equipment and systems. We cannot rule out the risk of delays, or of our inability to carry out and complete certain maintenance or repairs of equipment and systems resulting from, among other things, the uncertainty of securing sufficient funds for the modernisations, higher costs of investments, delays on the part of contractors in processing our modernisation orders, difficulties in obtaining the necessary permits and administrative approvals for conducting the required modernisations, protests raised by environmental organisations and staff strikes or other unforeseeable difficulties. Additionally, the system of support provided for increasing energy efficiency does not guarantee that financing will be available throughout the whole period of operation of the investment. Furthermore, the development or introduction of new technologies by our competitors, enabling them to generate energy in a more efficient and economic manner, may force us to incur additional investment expenditures or harm our competitiveness if we are unable to modernise our assets. All of the foregoing may have a material adverse effect on our business, results of operations, financial condition or development prospects.



***Without adequate investments in the construction of a distribution network, the Group may suffer adverse effects, in particular the obligation to pay damages***

In accordance with the Energy Law, ENERGA-OPERATOR is obliged to sign an agreement on connection to the power grid, pursuant to the principles of equal treatment, with entities seeking connection to the power grid, including offtakers and generators of electricity from RES, if it is technically and economically feasible to connect to the grid and to supply electricity, provided that the party requesting entry into such agreement satisfies the conditions for the connection to the grid. This results in the need for investments in the power grid at all voltage levels (except for the highest voltages for which PSE is responsible). The performance by ENERGA-OPERATOR of all the above requirements could limit our investments in replacement projects, which may result in a deterioration in quality and reliability indices. If the necessary network development plan is not fully completed, ENERGA-OPERATOR could be, in particular, obliged to pay damages for failure to provide connections or for any delays. Additionally, if the level of regulated revenue determined by the ERO President in subsequent regulatory periods is lower than anticipated by us, we could be obliged to increase materially investment expenditures in order to connect new customers at a lower than expected rate of return. The above circumstances may have a material adverse effect on our business, results of operations, financial condition or development prospects.

***Pursuant to the Energy Law, as the supplier of last resort, ENERGA-OBRÓT may be required to purchase electricity at prices higher than market prices***

Pursuant to the Energy Law, a generator of energy from RES may offer to sell electricity to ENERGA-OPERATOR. In such circumstances, ENERGA-OBRÓT is obliged to purchase electricity generated from RES, from electricity generators connected to the grid in the geographic area in which it operates as the supplier of last resort, at prices equal to the average electricity sale market price for the preceding calendar year (the “**ERO President’s Price**”). Consequently, if at the time of purchase the then market price of electricity is lower than the ERO President’s Price, our competitive position may be weakened or we may have to on-sell such electricity at a loss. In particular, an unfavourable relation between the ERO President’s Price and the market electricity price occurred during the nine-month period ended 30 September 2013 due to the decrease in electricity prices on the wholesale market below the ERO President’s Price. In consequence, all RES systems with which we settled at the ERO President’s Price in this period received a much higher payment than electricity prices on the wholesale market. As we are an entity purchasing a significant volume of electricity from the RES sources in Poland, we are particularly exposed to an unfavourable relation between the ERO President’s Price and the market electricity price. Perseverance of this condition or its further continuation in the future may have an adverse effect on our competitive position as well as margins earned on the sale of electricity to end-consumers, which may have a material adverse effect on our business, results of operations, financial condition or development prospects.

***ENERGA Hydro may not hold a legal title or lose the legal title to use certain elements of the infrastructure of hydroelectric power plants, in particular EW Włocławek in the course of its operations***

In the past, entities from our Group and their legal predecessors were subject to numerous transformations, both organisational and legal. In connection with certain doubts about the legal nature of some of individual elements of hydroelectric power plant infrastructure as well as the manner in which the legal title to such elements should be transferred, we cannot exclude the risk that, as a result of transformations of the companies from our Group and of their legal predecessors, we did not acquire the title of ownership or any other title to some elements of hydroelectric plant infrastructure, in particular EW Włocławek, including hydro- and energy equipment. As a result, we may not hold the title to the assets and when such assets, including EW Włocławek, constituted contribution to cover the share capital of entities from our Group, it is possible that the share capital of those entities was not properly covered.

Furthermore, ENERGA Hydro is in possession of certain properties which are used for the needs of hydroelectric plants under usufruct agreements (*umowa użytkowania*) for their use, and in the case of EW Włocławek also lease agreements (*umowa dzierżawy*). Generally, the land, owned by the State Treasury, which is covered with water and used to carry out operations related to the generation of hydroelectricity can only be the object of a right of usage. Therefore, certain doubts can arise as to whether the land on

## RISK FACTORS

---

which the EW Włocławek infrastructure is located may, in light of the interpretation of the provisions of the Water Law presented by the Regional Water Management Authority in Warsaw, be the object of a lease agreement. We cannot rule out that the above opinion will be considered erroneous and therefore the lease agreement concerning some of the properties used for the purposes of EW Włocławek will be deemed at variance with the applicable legal provisions. This may lead to the loss of legal title to use that part of the properties, and the need to enter into a new agreement concerning the use of the property and equipment of EW Włocławek by ENERGA Hydro in its operations. We cannot guarantee that the State Treasury would enter into such agreement with ENERGA Hydro or that such agreement would be entered into on favourable terms. Failure to execute the agreement would make it impossible for the Group to operate EW Włocławek.

Additionally, although the lease agreements and usufruct agreements were entered for a specified term, ENERGA Hydro may forfeit the right to use the real properties thereunder, specifically in the event of the expiry, revocation or limitation of the relevant water management permit or early termination of such agreements. Also, if the water management permit expires or is withdrawn, the State Treasury may, in certain cases, take over the infrastructure of the power plant or its part without compensation. In the case of EW Włocławek the lease agreement and the usufruct agreement provide that should the owner need the real property, i.e. the State Treasury—the Regional Water Management Board in Warsaw for purposes related to its statutory activities, termination does not allow the lessee to seek compensation for capital expenditures incurred in developing such property.

The above circumstances may have a material adverse effect on the business, results of operations, financial condition or development prospects of the Group.

### *The activities of the Polish power transmission system operator—PSE—may have a material adverse effect on our Group*

The functioning of the Polish electricity power system depends to a significant degree on the activity of the power transmission system operator (the “TSO”), namely PSE (a company controlled by the State Treasury). Actions undertaken by the TSO affect, *inter alia* the activity of companies from our Group. Elektrownia Ostrołęka B operates as a centrally dispatched generation unit meaning, among other things, that the TSO may direct its work, and may order the suspension or restriction of generation or order electricity generation of a capacity greater than originally planned. The TSO may also influence both the modernisation and condition of the transmission network on which the demand for the operation of TSO centrally dispatched units depends, in order to balance the electric power system. If the TSO’s demand for Elektrownia Ostrołęka B’s must-run generation is lower than expected, it may have an adverse effect on revenues generated by ENERGA Elektrownia Ostrołęka to which Elektrownia Ostrołęka B belongs.

Working conditions of distribution systems from our Group depend to a significant degree on the condition of the transmission system. The condition of the transmission system, in particular the TSO’s failure to carry out its modernisation or extension may have an adverse effect on the operations of our distribution systems, in particular, failures or outages in the distribution systems and our generating units. Furthermore, our ability to carry out certain investments we plan in new electrical power generating units will be dependent on carrying out modernisation or extension of the transmission system.

The TSO, in its capacity as a technical market administrator, defines the principles of its operations by publishing the Transmission Network Operations and Maintenance Manual (the “**Manual**”), which is submitted to the ERO President for approval. The Manual constitutes an appendix to agreements for the provision of electricity transmission services (a “**Transmission Agreement**”). The TSO may unilaterally introduce changes, including unfavourable changes, to the Manual during the term of the validity of the Transmission Agreements executed between the TSO and electricity generators, which may either unconditionally accept or terminate such agreements (should they disagree with the changes introduced by the Manual).

The above circumstances may have a material adverse effect on our business, results of operations, financial condition or development prospects.

***Unfavourable weather conditions may have a material adverse impact on the demand, supply and distribution of electricity and heat***

Changing weather conditions may disrupt electricity supplies to large numbers of customers and cause us to suffer the consequences set forth in the statutes and in energy supply agreements, including damages and rebates. Also, due to damages to the power grid caused by strong winds or hoar frost, the damaged components of the grid need to be repaired, which raises the operating costs of the distribution segment. Weather conditions such as wind and rain may have a significant effect on the generation of electricity by the renewable energy sources connected to the distribution network. Unstable supplies of energy from renewable sources have adverse effects on the balancing of energy in the distribution network, which we are required to secure pursuant to the binding provisions of law. Additionally, due to the fact that in order to fulfil our obligations, a certain amount of electricity sold by us is purchased from external RES generators, the lack of stability of external RES generators with respect to generation of electricity could lead to erroneous forecasts concerning energy sources earmarked for resale and the cost of its purchase, and force us to purchase electricity from other sources, which could lead to an increase in electricity costs. In particular, the volatility of wind power generation may translate into higher costs of electricity both on the open and balancing market.

Additionally, weather conditions, including, too many in particular air temperature, may affect our business activity, in particular with respect to the distribution and sale of electricity and heat. The lower the air temperatures, the higher the demand for electricity and heat supplies. Additionally, in summer the demand for electricity may increase, especially in urban areas when temperatures remain high for a prolonged period, as air conditioning becomes more and more widespread. Rapidly changing atmospheric conditions and abnormal weather conditions may even have an adverse effect on our energy distribution equipment, interfering with its operation and causing a drop in the volume of energy distributed as well as sales. It may also affect the level of transmission losses incurred by distribution companies.

Atmospheric conditions may also adversely affect the reliability of our generating assets and the generation level. For example, rainfall is an essential factor in river volumes. Consequently, rainfall influences our volumes of electricity generated from river-based hydro power plants. Variable weather conditions, wind speed and direction as well as turbulence significantly affect the generation of electricity by wind farms. With respect to our wind farm production, this may affect the efficiency and profitability of this segment of our business.

All these circumstances render our revenues in the energy distribution, generation and sales segments partly dependent on weather conditions. Unfavourable weather may translate into rapid changes in demand for electricity, a decrease in electricity generation by our power plants, and disturbances in the functioning of electricity distribution assets. These factors are typically unforeseeable and may have a material adverse effect on our business, results of operations, financial condition or development prospects.

***The macroeconomic situation may have a material adverse effect on our Group***

Our results are dependent in a large measure upon the macroeconomic situation in Poland, as well as the macroeconomic situation of the region, the EU and the world. In particular our business is affected by such factors as Polish GDP and its fluctuations, industrial output, the inflation rate, currency exchange rates (primarily EUR/PLN exchange rates, which have an impact on our EUR-denominated indebtedness), interest rates, yield on treasury bonds, fuel prices (including crude oil prices and biomass prices), the unemployment rate, changes in the financial well-being of customers and the state fiscal and monetary policy. Unfavourable changes in the general macroeconomic situation in Poland, the EU or in the world may, in particular, translate into a decline in the domestic demand for electricity. Lower than assumed electricity demand may give rise to a lower return on investments in the distribution segment and new capacity and result in a decrease in electricity prices, which in turn may result in a decrease in our revenues and worsen our financial situation. Furthermore, instability or disruptions in the financial markets, stemming particularly from any continuation or renewal of the recent fiscal crisis in many EU countries, may limit our access to external financing. A limitation in access to external financing or an increase in its costs may in turn affect our ability to successfully carry out our investment projects and strategies. The macroeconomic situation may also increase the insolvency risk of our customers. Such insolvencies would affect our accounts receivable and may lead to the loss of our core customers. Such unfavourable

## RISK FACTORS

---

circumstances may have a material adverse effect on our business, results of operations, financial condition or development prospects.

### *Demand for electricity may fluctuate*

The demand for electricity is a major factor affecting our results of operations. We believe that demand for electricity will continue to grow in the long-term, however there is no assurance that this growth will actually continue or that its dynamics will reflect our assumed levels. A slower pace of economic growth, an increase in energy prices or the implementation of new energy-saving technologies may result in a decrease in the demand for electricity.

Lower demand for electricity could translate into lower revenues from our key areas of activity: distribution, generation and sales of energy. In particular, the revenues generated by the distribution segment depend on volumes of electricity distributed. A drop in demand for electricity may cause a decrease in supply volumes and in consequence a decrease in revenues generated by the distribution segment. Additionally, a proportion of our costs is fixed, independent of supply volume, and therefore cannot be reduced even in periods of lower demand for electricity.

Additionally, an economic slowdown may bring about delays in payments from our customers for the distributed electricity and the distribution services provided. According to the Energy Law, distribution companies are permitted to withhold electricity supplies if a customer is in arrears with payments for electricity offtake or other services by no less than a month from the due date, despite being notified and granted an additional two-week grace period for payment of the overdue and current liabilities. This rule delays the date of cutting off electricity to customers who are in arrears with payments.

All of these circumstances may have a material adverse effect on our business, results of operations, financial condition or development prospects.

### *We may face a risk of increased competition in the future*

With the deregulation of the electricity market and the intensifying competition in the energy sector, we are exposed to a risk of increasing competition from new and existing market participants, and attrition of the customers who purchase electricity from us directly.

It is possible that competitive electricity sales companies, in particular those belonging to other utilities with a larger capacity, will offer more beneficial terms for the purchase of electricity to our existing or potential customers, which could have an adverse effect on our revenues and financial performance. This concerns both individual customers (households) and other groups of customers (including in particular the major strategic offtakers). Additionally, if the obligation to submit tariff G to the ERO President for approval is lifted, the electricity price for the customers from this tariff group will be determined by market mechanisms, and we cannot rule out that our competitors will be able to offer electricity purchase on more beneficial terms. The growing competition may force us to decrease electricity prices or result in a decrease in the volume of electricity sold, which could have a material adverse effect on our business, results of operations, financial condition or development prospects.

### *Our business may be deemed to be abusing its dominant position on the local market for the sale and distribution of electricity or heat*

As building competitive electricity distribution networks or heat distribution networks over the same geographical area is economically unjustifiable, the Group companies engaging in the distribution of electricity and heat operate as natural monopolies on their respective markets; as such, they enjoy a dominant position in these markets. Additionally, ENERGA-OPERATOR, due to its former monopoly status in the scope of electricity sales to customers in the area that it served, still retains a dominant position on the market for the sale of electricity to end-customers. On some local markets we also have dominant positions in heat generation. In relation to these circumstances, we are subject to scrutiny from antitrust authorities that is the AMO President and the European Commission. In the past some of our actions were subject to procedures conducted by the AMO President and we cannot rule out that in the future the antitrust authorities may consider our activities to be anti-competitive. Additionally, the antitrust authorities (and some other agencies authorised by the State) may file lawsuits to judicially assert the invalidity of some provisions included in our forms of agreements. Such events or circumstances may

result in sanctions, which could have a material adverse effect on our business, results of operations, financial condition or development prospects.

***Our operations may be exposed to the risk of failure, including black-outs, natural disasters, terrorist attacks and other similar occurrences which may cause interruptions or disruptions to the operation of generating units and disrupt the electricity supply to our customers or result in damage to third parties***

There may be a risk of failure of our equipment and systems caused by, inter alia, wear and tear, human error in their use, acts of theft or vandalism, unfavourable weather conditions, natural disasters, terrorist attacks or other phenomena of nature or force majeure or similar. The most serious risk is connected primarily with our activity related to electricity and heat distribution and generation. In particular, due to the location and the activity carried out by ENERGA-OPERATOR and ENERGA Elektrownie Ostrołęka, any potential limits on efficiency and continuity of technological processes may threaten the safety of the Polish Power System (Krajowy System Elektroenergetyczny or KSE) and result in a drop in our revenues as well as necessitate incurring additional costs to restore and maintain the proper functioning of the electricity power system or to restore the continuity of its operations. These circumstances may also apply to external entities whose operations have a significant influence on our operations (including, specifically, the transmission system operator, PSE).

Furthermore, due to the ageing of the transmission and distribution networks, limited electricity import possibilities and the need for frequent repairs of the generating units and system infrastructure, Poland is highly exposed to the risk of system failures (black out), particularly after 2015 according to a 2011 ERO Report, leading to serious disruptions in the operation of equipment and the power grid and to stoppages in the electricity supply to a large number of customers (black-outs), which could, in turn, cause interruptions or disruptions in supply to our customers. Failures of our equipment and systems may also cause personal injuries or damage to property.

The above risks may result in significant damages being awarded against us, significant expenditures and costs of repairs, which could impact on our reputation and cause a loss of customers, all of which may have a material adverse effect on our business, results of operations, financial condition or development prospects.

***Fuel shipments to our generating units may be disrupted or limited, or their costs may significantly increase, which may lead to a disruption or significant reduction in electricity generation in our facilities or have an adverse effect on the profitability of our generating units***

The generation of electricity by our power plants and CHPs depends on supplies of fuels, in particular coal and agricultural and forest biomass and, provided that the non-core investment plan with respect to gas-fired units is carried out (see “Our Business—Investment programme”), it will also depend on gas supplies. As at the date of this Offering Circular we generate the significant majority of our electricity from coal. As we do not have our own coal resources, external suppliers cover our entire demand for that fuel. It is not certain that valid agreements for coal supply, which we have concluded with our main suppliers, will be carried out without any interference, will not be terminated or will be extended after the end of their term. In addition, pursuant to those agreements, the price as well as the amount of coal supplied will be determined annually by way of negotiation. It is not certain that the results of such negotiations will always be advantageous for us. There is always a risk that supplies of coal or other fuels to our generating units may be interrupted or limited, or that their price or cost may increase, particularly due to technical reasons, natural causes, social reasons, economic and political reasons and others. A disruption or limitation in fuel shipments could lead to significant reduction in electricity generation in our coal-fired facilities. In the past, there have been cases of restricting coal to our generation units, caused mainly by producers’ or shippers’ failure to perform under the concluded agreements or insufficient supply of coal in case of its significant unplanned consumption, due to increased generation upon the PSE’s request. This resulted in a decrease in the level of coal stocks below the level required under the law and the imposition of fines by the ERO President to this effect. Moreover, unfavourable conditions on the gas supply market could make gas-fired generating units unprofitable. The materialisation of such risks may have a material adverse effect on our business, results of operations, financial condition or development prospects.



## RISK FACTORS

---

***Failure to obtain sufficient external financing or at all or on favourable terms may adversely affect our business operations, and in particular result in delay or cancellation of our planned investment programme***

We intend to finance our operations, including the planned investments, with our own funds well as external financing. We cannot rule out that in the future we may not be able to obtain new financing at the desirable level or on acceptable terms or at all. This may be due to an unstable situation on the financial and equity markets in Poland or abroad, unfavourable shifts in business cycles in Poland or abroad or for other reasons which we are not able to foresee. The slower pace of economic growth in Poland may persist, which may lead, among other things, to a significantly restricted availability of financing provided by commercial banks or to the posing of demands for additional collateral by such banks or imposing onerous covenants and undertakings on us. This may adversely affect the terms of financing we obtain; in particular, it may lead to the increased costs of such financing (including costs due to increased interest or higher commission). Such events may also cause the policy of the financing parties regarding new agreements or the interpretation and performance of existing agreements to become more conservative. In the event of serious upsets on the international or domestic financial markets, the risk of the periodic non-availability of external financing should be taken into account. Failure to obtain adequate levels of external financing on favourable terms may have an adverse impact on our operations, and in particular may force us to curtail, delay or cancel our investment programme, which may have a material adverse effect on our business, results of operations, financial condition or development prospects.

***The cost of debt servicing and breach of our obligations arising from certain financing agreements may have a material adverse effect on our Group***

Part of our investments and, to some extent, our current business operations are financed by external sources of debt financing. As at the date of this Offering Circular, the following are our main external sources of debt financing: (i) loans and borrowings granted mainly by financial institutions, (ii) issuance of bonds, and (iii) to a lesser extent, financial and operational leases (See “Operating and Financial Review—Indebtedness—Financial indebtedness”). The profile of our financial indebtedness (including interest-bearing loans and borrowings) as at 30 September 2013 is presented in “Operating and Financial Review—Indebtedness—Financial indebtedness”. Among other things, our indebtedness could: (i) require us to dedicate a substantial portion of our cash flows from operations to debt servicing, which may reduce the funds available for working capital, capital expenditures and other general corporate purposes; (ii) place us at a competitive disadvantage compared to our competitors who have less debt than we do; (iii) increase our vulnerability in the event of general and/or industry specific adverse economic conditions; and (iv) limit our ability to borrow additional funds or increase the cost of any such borrowing, particularly due to financial and other restrictive covenants contained in the agreements governing our debt.

Our ability to make payments on or repay our indebtedness, and to abide by the terms thereof, including financial ratio covenants, will depend on our future operating performance and ability to generate sufficient cash to make such payments or satisfy our other obligations. This depends, to a significant degree, on general economic, financial, competitive, market, legislative, regulatory and other factors discussed in “Risk Factors”, many of which are beyond our control. If our future cash flows from operations and other capital resources are insufficient to repay our financial obligations as they mature or to fund our financial liquidity needs, we may be forced to (i) reduce the scope of our business activities or curtail or delay capital expenditures; (ii) sell assets; (iii) obtain additional debt or equity capital; or (iv) restructure or refinance all or a portion of our debt on or before maturity. If we default on the payments required under the terms of certain elements of our indebtedness or we fail to abide by the terms thereof, then such indebtedness, together with the debt incurred pursuant to other debt agreements or instruments, may become payable upon demand, and we may not have sufficient funds to repay all of our indebtedness.

The above factors may have an adverse material effect on our business, results of operations, financial condition or development prospects.

***Our rating may be lowered or withdrawn***

As of the date of this Offering Circular, the Company has received credit ratings from Fitch Ratings and from Moody's Investors Service. Independent credit rating agencies, including Fitch Ratings and Moody's Investors Service may at any time lower the ratings or inform us of their intention to lower such ratings or



withdraw the ratings altogether. Each of the above may increase the costs of external financing, limit access to capital markets and negatively influence our ability to sell our products and enter into business transactions, especially long-term. Such situation may affect our liquidity and ability to obtain financing for our investments and have a material adverse effect on our business, results of operations, financial condition or development prospects.

***We face exchange rate risk, which may have a material adverse effect on our Group, and in particular may lead to an increase in our financial liabilities***

While the zloty (PLN) is the reporting and functional currency of our Group, some of our transactions are settled in foreign currencies, particularly in EUR, and may in the future be settled in EUR and other foreign currencies. We currently have a eurobond medium-term note programme (“EMTN”) under which we may issue bonds not exceeding EUR 1 billion. As at 30 September 2013, we have issued Eurobonds of the total nominal value of EUR 500 million. As a consequence, major fluctuations in the EUR/PLN exchange rate can increase the value of our financial liabilities and affect our results. Material depreciation of PLN in relation to EUR may have a material adverse effect on our business, results of operations, financial condition or development prospects.

***Provisions created by us may turn out to be insufficient to cover our liabilities***

Pursuant to IFRS and for the purpose of the consolidated financial statements, we create and update provisions, in particular provisions for benefits for former employees and long-service awards, provisions for customers’ claims, court litigation and employment matters, the rehabilitation of ash landfills, provision for liabilities related to the emission of gases and provisions for the submission of certificates of origin for redemption as well as restructuring provisions. The amount of the created, terminated and updated provisions is estimated by us on the basis of several assumptions and forecasts, which may differ from actual data or events in the future and therefore are uncertain. Factors that are uncertain and that may influence the value of our future liabilities include, among others, amendments to legal provisions and regulations, in particular those related to environmental protection, technological progress, a change in the discount rate applied to estimate such liabilities, and other events which are beyond our control. Due to the fact that estimating provisions is a complex procedure that is based upon several factors that are uncertain, we cannot guarantee that our provisions will be sufficient and that in future we will not be obliged to create additional provisions or significantly increase the existing ones, which may have a material adverse effect on our business, results of operations, financial condition or development prospects.

***Our ability to pay dividends may be limited, thus there is no certainty that the Company will pay dividends in line with the adopted dividend policies or that it will pay any dividend in a given year at all***

There are many factors which could influence the possibility and the dates for payment of dividends by the Company to its shareholders.

Pursuant to the CCC, the Company is only allowed to pay dividends from its net profit, plus retained earnings and sums transferred from the reserve capital and supplementary capital created from distributable retained earnings, less losses carried forward, treasury shares and amounts that have to be reclassified from our reserve capital or reserves pursuant to the applicable laws or our Articles of Association, in each case as recognised in the Company’s standalone financial statements, in which the amounts may differ significantly from the ones recognised in the consolidated financial statements of the Group.

The Management Board’s recommendation regarding the payment of dividends will, as prescribed by legal provisions, depend on a number of additional factors, including the liquidity and the capital needs of the Company and the Group (in particular related to our investment plan). It will also depend on the current cost and availability of external financing and the Company’s financing structure. The possible increased financing costs would adversely affect the Company’s results, and consequently the Company’s ability to pay dividends. Moreover, the terms of our external financing may limit the ability of the Company, and other Group companies, to pay dividends.

## RISK FACTORS

---

As at 30 September 2013, the Company's share capital amounted to PLN 4,521.6 million and its supplementary capital to PLN 521.5 million. Pursuant to the CCC, the Company is required to allocate at least 8% of its net profit to its supplementary capital, as long as its supplementary capital amounts to less than one-third of its share capital, which, at least until such time as the supplementary capital reaches that threshold, will reduce the distributable net profit generated by the Company (if any) and, consequently, limit the Company's ability to pay dividends.

Furthermore, since the Company is a holding company, its revenues and, in consequence, its net profit and the ability to pay dividend in a given year, depend on its subsidiaries. The ability of subsidiaries to pay dividends to the Company in a given financial year depends in turn on whether the subsidiaries generated appropriate net profit in the previous financial year or have sufficient supplementary and reserve capital that may be earmarked for the payment of dividends, or have sufficient financial resources; it also depends on contractual provisions, in particular provisions of financing agreements entered into with financial institutions that limit the dividend payment vis-à-vis the Company. Consequently, any factors negatively affecting the financial results of the Company's subsidiaries will indirectly have an adverse effect on the Company's ability to pay dividends to its shareholders. Such factors include not only factors affecting revenues of subsidiaries but also other items included in their income statements, including, for example, items such as impairment losses. (See "—If the value of our property, plant and equipment decreases, we will be obliged make appropriate impairment write-downs"). In addition, as the Company holds less than 100% of the shares in some of its subsidiaries, it is entitled to receive only a portion of dividends paid by such companies. Moreover, notwithstanding the provisions regarding advance payment of the dividend, the ultimate decision on the Company's dividend payment will be taken by its shareholders who may not agree with the Management Board's recommendation in this respect. Consequently, there is no certainty that the Company will pay dividends in line with its dividend policy or that it will pay any dividends in a given year at all (See "Dividends and Dividend Policy").

### ***If we fail to retain our present or attract new qualified personnel, the Group's growth would be hindered***

Our expected growth depends on retaining our present and recruiting new personnel possessing suitable skills and experience in the field of the operation of power enterprises. Due to the limited number of adequately qualified people and the limitations regarding remuneration of members of the Management and Supervisory Boards imposed by the Act on Limitation of Remunerations, which will continue to apply as long as the State Treasury holds more than 50% of the Company's Shares, we may encounter difficulties in recruiting or maintaining qualified staff. Although the Management Board members are employed on managerial contracts, we cannot offer them competitive remuneration packages compared to other companies in the industry. The Group requires well-qualified staff such as: engineers, technicians, analysts, sales specialists, commodities brokers, accountants and managers. There are a limited number of people in the labour market, in particular highly-skilled specialists, who meet our staffing needs. As the market grows and new entities offering attractive terms of employment appear, there is a risk of losing some of our current personnel to such entities or of an increase in labour costs associated with hiring highly-skilled personnel in times of high demand. Additionally, the average age of our employees is high, which means that a significant number of our employees will reach retirement age and retire during the coming years. Inability to retain current or attract new suitably qualified personnel may have a material adverse effect on our business, results of operations, financial condition or development prospects.

### ***Our insurance policies may not cover all risks that may materialise in future***

Our business carries a number of risks, in particular the risk of outages, disasters and other events, which are partially or totally beyond our control. A significant number of our activities carry a risk of personal injury (including loss of life or health) or significant property damage. In the event of the breakdown of individual machines or systems, we may be unable to effect electricity sales and delivery to our customers or the volume of such sales may fall. We may also have to bear the costs of repairs to our infrastructure and face claims from people injured as a result of accidents, damage or disasters. In particular, despite implementing occupational health and safety and environmental protection rules, there remains a risk of non-compliance with the applicable laws (including the numerous environmental and health and safety regulations).

We hold insurance policies providing cover against the majority of risks, such as the risk of property damage as a result of various occurrences or business interruption risk being the result of property damage. However, the compensation payments under these policies may not cover the entire value of the losses. In addition, there are risk areas in our Group for which no insurance has been purchased or the policies held apply only to selected companies from our Group or they only cover a given segment of the potential risk area. These may include, among other things, the risk of environmental contamination or of terrorist attacks. Events that are not covered by any insurance policy would have to be covered by individual Group companies or by funds obtained from external sources which may have a material adverse effect on our business, results of operations, financial condition or development prospects.

***Collective disputes with labour organisations, strikes and other forms of industrial action, and collective bargaining agreements providing for terms of employment that differ from market terms may have a material adverse effect on our Group***

Labour unions are particularly strong in the Polish energy sector due to the number of employees and the strategic importance of this sector for the whole economy. As at 30 September 2013, 48 trade union organisations, including 17 internal and 31 intercompany unions, operated within our Group, and approximately 62% of our employees were union members. In the future, we may need to engage in lengthy negotiations with labour unions or expect collective disputes, strikes, stoppages and other industrial actions resulting, in particular, from attempts to reduce employment, the scope of social benefits, optimise labour costs or carry out the restructuring necessary to implement our strategy, as well as in relation to employee demands for pay rises. Group companies and labour unions are also signatories to collective bargaining agreements, which guarantee a certain standard of employee benefits. The ability of the Group companies to terminate collective bargaining agreements is limited due to the provisions they contain. There are two social agreements (*umowa społeczna*) and one social benefits package (*pakiet socjalny*) in force in the ENERGA Group; however the majority of our employees are covered by the special labour agreement of 19 July 2007. According to this agreement, labour unions have the right to be consulted and participate in negotiations with employers concerning any actions contemplated by the employers affecting the rights and interests of the employees, such as restructuring processes. This agreement also affords special protection against the termination of employment (known as “employment guarantees”) until 31 July 2017.

The strong position of labour unions entails the risk of labour costs increasing in the future as a result of renegotiating the existing collective bargaining agreements and labour agreements. The majority of the Group companies are covered by the Collective Bargaining Agreement for Power Industry Employees of May 13, 1993, which guarantees the employees the right to numerous benefits, e.g. to a length-of-service allowance, electricity allowance (the “employee tariff”), long-service bonuses or an annual bonus. The influence of individual companies on the operation and provisions of the collective agreement is limited, since the parties to this agreement are not the Group companies directly, but employers’ organisations, hence individual companies are not authorised to terminate the agreement or demand its amendment. Consequently, in the event of group redundancies or similar restructuring efforts we may be required to make high severance payments to employees, which may delay or impair the restructuring or layoffs programme, or increase the costs of such programmes, which may significantly limit our ability to rationalise our costs or improve profitability by optimising our employment level and, as a result, our ability to effectively compete in the energy market. Should such circumstances materialise, they may have a material adverse effect on our business, results of operations, financial condition or development prospects.

***Our information technology systems may suffer damage***

In our business we rely on many different IT systems that may suffer damage. The complex structure of the Group and diversity of IT systems used by us create an additional risk of a lack of coordination and cooperation between various systems. Despite our efforts to minimise the risk of any failure of our IT systems, any such failure or possible partial or total loss of data may have a material adverse effect on our business, results of operations, financial condition or development prospects.

## RISK FACTORS

---

### ***The outcome of administrative or court proceedings in which we are involved may be unfavourable to us***

We are a party to many court and administrative proceedings including ones related to the enforcement of claims related to supply of electricity and provision of distribution services. The most important proceedings are described in “Our Business—Legal and administrative proceedings”. It cannot be ruled out that the outcome of such and other proceedings will be unfavourable to us. There is also a risk of other litigation being instituted against us in the future, which may be resolved to our disadvantage. Any unfavourable outcome of current or future court, arbitration or administrative proceedings may have a material adverse effect on our business, results of operations, financial condition or development prospects.

### ***Group companies use the majority of real properties without legal title, may not hold the proper legal title to certain properties, and the legal title to certain other properties may be challenged***

We use a very large number of real properties for our operations. This applies in particular to activities related to the distribution of electricity and heat. We are not certain that we have legal title to a significant number of, and we are certain that we do not have legal title to some, real properties, especially ones used by the DSO and by heat distribution enterprises for the installation of devices, equipment and structures that make up the distribution network and with regard to some of the properties, we do not have a legal title. The uncertain or unregulated legal status of the real properties we use is mostly due to the manner in which land was acquired for the expansion of energy networks in the period following World War II. In that period, power generating projects, and, in particular, segments of the electricity and heat distribution networks were often erected on another person’s property without obtaining an appropriate legal title from the owners of the land and without paying use-based compensation.

The institution of the transmission easement was introduced in August 2008. Such easement can be established for the benefit of distribution enterprises on real properties on which distribution infrastructure equipment owned by such enterprises is located. Both network enterprises and real property owners obtained an additional possibility to settle the legal status relating to the use of such properties. Energy enterprises can, in particular, seek the establishment of a transmission easement in court if such easement is indispensable for the use of the network enterprise’s equipment, and the owner of the property refuses to enter into an appropriate agreement. The real property owner can meanwhile take an energy enterprise to court to seek compensation for the use of the real property if the energy enterprise avoids signing an agreement.

In case of properties to which we do not hold a legal title or for which our legal title may be challenged there is a risk of claims being lodged by their owners for compensation for the non-contractual use of such properties or for ceasing to use such property on a contractual basis and for the removal of equipment, systems or structures situated on the real properties owned by third parties. Additionally, we use some of our material properties on the basis of contractual relationships, including lease agreements (*umowy dzierżawy*) which may be terminated by the other party. We may also be deprived of the right to use the properties in question for example, the agreements pursuant to which we use our hydropower plants may be terminated if the permits required by the Water Law Act are withdrawn, expire or are restricted.

The loss of the right to use property or a challenge to legal title or other, third party claims in relation to some of our assets and claims for compensation for the use of real property used without legal title or with a title that could be subject to challenges may have a material adverse effect on our business, results of operations, financial condition or development prospects.

### ***Polish tax regulations are relatively complex and unclear and may be subject to change which, in turn, may lead to disputes with the tax authorities***

Certain Polish tax regulations are relatively complicated and unclear and often quite unexpectedly revised. For this reason the application of tax regulations by taxpayers and tax authorities is marked by numerous controversies and disputes that often need to be resolved by administrative courts. Frequent changes to the tax law and difficulties regarding its interpretation related to its application hinder both our day-to-day activities as well as proper tax planning. This leads to uncertainty regarding the appropriate application of the tax law in our day-to-day operations and carries a risk of errors. In addition, often there is no consistent and uniform interpretation of the provisions of tax law and their application by the tax authorities. In

particular, the provisions of the tax law concerning income taxes are subject to doubts regarding their interpretation with respect to the manner and time of recognising revenues and tax deductible costs in the case of various legal and factual actions and events, e.g. those relating to restructuring. Additional examples of complicated and/or unclear include, inter alia, tax regulations concerning social insurance premiums and the real property tax regulatory framework. The real property tax regulatory framework is particularly unclear with respect to the definitions of a building (*budynek*) and structure (*budowla*) which are fundamental to determining tax base subject to this tax. Tax authorities often conclude that the value of any infrastructure located on a property should be included in the taxable value of the property. We cannot rule out disputes with tax authorities in respect of the amounts of the real property tax payable. Further, the provisions of Polish tax law also do not clearly specify the rules of taxation with respect to other taxes, including the tax on goods and services (VAT) or excise duty. Inconsistencies in the practice of tax authorities and judicial decisions in the area of tax law are not unusual. In consequence, there is a risk that the tax authorities will issue quite unexpected or even contradictory decisions in individual tax cases or rulings.

Due to frequent changes, existing inaccuracies, the lack of a uniform interpretation of tax law and the relatively long period of limitation for tax liabilities, the risk related to the incorrect application of tax regulations in Poland could be higher than in the legal systems of more developed markets. As a result, we face the risk that our activity in selected areas could be unsuited to the changing regulations and the changing practice of their application. Due to the foregoing, it is not possible to rule out potential disputes with the tax authorities, and, consequently, the challenging by the latter of the tax settlements of entities of our Group regarding non-time-barred liabilities and the determination of tax arrears for these entities. If such decisions and rulings are unfavourable to us, they could have a material adverse effect on our business, results of operations, financial condition or development prospects.

***Tax authorities may challenge the intragroup settlements of the Group on the grounds of transfer tax regulations***

In the course of our business activity Group companies conclude transactions with “related entities” within the meaning of the Corporate Income Tax Act. These transactions are necessary for the effective business operations of our Group and include, among other things, mutual sales of services and goods. In concluding and performing transactions with related entities, Group companies take actions aimed at ensuring compliance with applicable transfer tax regulations. However, given the specifics and variety of the transactions with related entities, as well as the complex and ambiguous legal framework concerning the methods of examining the relevant prices, the volatility of the market conditions affecting the calculation of the prices applied in these transactions and the difficulties in identifying benchmark transactions, Group companies may not be subject to tax audits and other scrutiny applied by tax and tax audit authorities in this area. A challenge to our methodology for establishing the arm’s length conditions adopted for these transactions may have a material adverse effect on our business, results of operations, financial condition or development prospects.

***Disputes with tax authorities concerning the free-of-charge use of certain real properties may result in an obligation to pay tax on unpaid benefits***

In practice, some of our real properties may be used without remuneration, in particular with respect to the free-of-charge transmission easements. There is a risk that the tax authorities may decide that in such instances the Group companies that use these real properties or the said easements without payment obtain “unpaid benefits”, which represent revenue within the meaning of the Act on Corporate Income Tax. It is possible that disputes with tax authorities may arise on these grounds. As at the date of this Offering Circular, it is not possible to precisely estimate the value of such potential disputes. Unfavourable decisions or rulings issued in this respect may have a material adverse effect on our business, results of operations, financial condition or development prospects.

**Risks related to regulation of the Polish power industry**

***The power sector in Poland is subject to the decisions of regulatory authorities***

A significant part of our operations in the power sector, including the distribution, sales and generation of electricity and heat, is regulated by the ERO President responsible, *inter alia*, for monitoring the compliance of energy companies with the applicable provisions of the Energy Law and the terms and



## RISK FACTORS

---

conditions of licences granted by the ERO President. In many areas the decisions of the ERO President may be highly discretionary and there can be no assurance that the ERO President will not take actions that are unfavourable to the interests of the energy sector, including the Group companies. Past experience regarding regulation of the Polish power sector indicates that the primary concern of the ERO President is to protect the interests of customers, which may conflict with the interests of energy companies. In addition, the ERO President's decisions may be impacted by political factors and the provisions of the Energy Law do not make the ERO President entirely independent of the Polish Government. Furthermore, the ERO President's decisions and policies may be subject to change at short notice that, in turn, may cause companies in the energy sector, including the Group companies, to incur substantial and unanticipated costs, influence the way in which our business is conducted or carry a risk that our activities will not conform to the changed regulations.

It is expected that in the next regulatory period for the distribution segment that begins in 2016, the ERO President may introduce certain financial incentives or fines related to the quality of services provided by DSOs, as well as change other critical items and the methodology for calculating regulated revenue presented in the ERO President's announcement of 30 August 2013 (See "Regulatory Matters—Energy sector regulation—Tariffs—Fees for distribution services"). As at the date of this Offering Circular, detailed regulatory solutions are unknown; however, should our services not reach the appropriate quality standards determined by the ERO President, we may be exposed to the risk of a decrease in the profitability of the distribution segment and to fines imposed by the ERO President.

The ERO President may impose fines on energy companies for their failure to comply with the Energy Law. In certain instances, the non-compliance of business activities with the law may lead to losing the licence necessary to conduct such activities. Additionally, pursuant to the Energy Law, the Council of Ministers may, at the request of the Minister of Economy, impose temporary limitations on the sale of fuel, as well as the supply and consumption of electricity, throughout Poland or in certain geographic areas within Poland, to protect against the threats enumerated in the Energy Law, including threats to national energy security, threats to the safety of persons and the threat of substantial damage to property.

The ERO President cooperates with the relevant bodies in preventing the antitrust practices of energy companies, and in this respect the power sector's activities are also influenced by the President of the Polish Antimonopoly Office, the European Commission and other authorities.

There is a risk that our activities will not conform to some of the regulatory decisions of the competent Polish and EU authorities or that such regulatory decisions will be unfavourable to us, which may in turn have a material adverse effect on our business, results of operations, financial condition or development prospects.

***Renewed regulation by the ERO President of areas of our activity which are not subject to price controls at present or the deregulation of electricity prices for customers from tariff group G may have a material adverse effect on our Group***

The authority of the ERO President to approve tariffs for the distribution of electricity, sales of electricity to customers from tariff group G, i.e. mainly retail customers (mostly households), as well as tariffs for the distribution and sale of heat, have a material impact on our business operations. The ERO President may exempt an energy company from the obligation to submit tariffs for approval if it is determined that such enterprise operates in a competitive environment which, in practice, means that a DSO enjoying a natural monopoly in the geographic region in which it operates is not able to benefit from the exemption. With regard to the areas of operation for which the obligation to submit tariffs for approval has already been lifted by the ERO President, the ERO President may withdraw or limit the exemption previously granted if it is determined that the conditions warranting the issuance of such exemption no longer exist. There is also a risk of a challenge to the exemptions granted by the ERO President to certain energy companies, in particular electricity generators, including generators within our Group, regarding the obligation to submit tariffs for approval and also of a challenge to the manner of tariff calculation or to other price lists. Withdrawal of the exemption from the obligation to submit tariffs for approval, the curtailing of the scope of such exemption or the challenging of the manner in which such exemption was granted may lead to renewed regulation by the ERO President of areas of our activity which are not currently subject to price controls, which may have a material adverse effect on our business, results of operations, financial condition or development prospects.



Moreover, according to announcements by the ERO President, liberalisation of electricity prices is also planned within tariff group G. If the obligation to submit tariff G to the ERO President for approval is lifted, the price of electricity for this group of customers will be determined by market mechanisms and we cannot rule out that it will be lower than the current prices, which could adversely affect our results of operations, financial condition or development prospects. We cannot rule out that increased competition on a market which is currently subject to tariff obligations could induce more customers to use the opportunity of changing their energy supplier (the TPA principle), which may translate into the attrition of the customers we serve and a decrease in the volume of electricity sold by us and this may have a material adverse effect on our business, results of operations, financial condition or development prospects.

***In the event of the introduction of more restrictive regulations concerning the autonomy of the operators of distribution systems, we could be obligated to incur additional costs or further decrease our influence on ENERGA-OPERATOR or even to withdraw completely from activity in the field of the distribution of electricity***

The Group has carried out the functional and legal unbundling of ENERGA-OPERATOR required by the provisions of European Community legislation. The current Community regulations as well as the provisions of Polish law do not require that capital groups engaging in the generation of or trading in electricity withdraw completely from distribution activities by disposing of the ownership of DSOs (ownership unbundling). However, we cannot rule out that such legal requirements will be introduced in the future. In the past, in 2010, the ERO President was critical of the process of the consolidation of Poland's energy groups and decided that ownership unbundling before the privatisation of these vertically integrated groups was in the interest of customers, competition and energy security, protection of environment and of Poland's sustainable economic growth. Furthermore, in 2010 the AMO President declared that the legal unbundling of the DSOs does not guarantee that the DSOs forming part of a vertically integrated enterprise will not discriminate against electricity sellers from outside the capital group of a given DSO. Therefore we cannot rule out the risk of a change in law aimed at obliging the Group to dispose of its ownership of an enterprise currently acting as a DSO or to transfer the operations of such enterprise relating to the management of distribution networks and the provision of electricity distribution services with the use of such networks to entities from outside the Group. The imposition of additional requirements concerning the autonomy of DSOs on our Group or our withdrawal from distribution activity may have a material adverse effect on our business, results of operations, financial condition or development prospects.

Furthermore, pursuant to Directive 2009/72/EC, vertically integrated operators of the distribution system may not cause, with respect to communication and brand, any misunderstandings with respect to a separate identity of a portion of the vertically integrated enterprise engaged in supply. Even if Directive 2009/72/EC is not directly implemented to the above-mentioned extent, we cannot exclude the risk that use by ENERGA-OPERATOR and ENERGA-OBRÓT of similar names and trademarks may be considered as misleading as to their separate identity, thus be contrary to the independence rules of distribution system operators. Thus, we cannot exclude the risk that the ERO President may impose the obligation to rebrand and this may have a material adverse effect on our business, results of operations, financial condition or development prospects.

***Withdrawal or refusal to extend the validity of licences and other administrative permits, or the refusal to grant new licences or other administrative permits could lead to the necessity to limit the scope of our operations***

Our operations require a number of licences and other administrative permits, in particular licences to generate electricity, generate heat, distribute heat, trade in electricity and distribute electricity. A description of the licences we hold as at the date of this Offering Circular is given in the Section "Our business—Licences". The maintenance of the validity of the licences held, the upholding of the terms of these licences and the possibility of extending their validity are central to our continued operations in their present scope. Furthermore, the realisation of our investment programme regarding our distribution network or the construction of new electricity or heat generating units, including units using renewable energy sources, may require obtaining new licences or other administrative permits.

As at the date of this Offering Circular, all the licences we hold were granted for a specified term and will expire unless extended in compliance with the law. Despite the fact that the licensing process requires compliance with certain requirements set out in statutes, compliance with some of them is of a

## RISK FACTORS

---

discretionary nature, and the obtaining of a licence depends to some extent on the discretion of an administrative body. Therefore there can be no certainty that we will obtain the licences indispensable for our operations on terms that are acceptable to us and within the assumed time frame. Furthermore, we cannot guarantee that in the future the licensing authorities will not change the practices of granting licences to Group entities, in particular that they will not change the terms of the licences, limit their scope or withdraw licences that have already been granted. We cannot guarantee that we will always be able to meet all the conditions set out in the licences or in the applicable provisions of the law. Moreover, in certain circumstances specified in law, the ERO President is authorised to withdraw a licence or revise its scope. The withdrawal or refusal to extend the validity or the limitation of the scope of any of the licences held at present or of other administrative permits or the refusal to grant new ones could have a material adverse effect on our business, results of operations, financial condition or development prospects.

***The imprecise regulations concerning the public sale of electricity by generators could lead to disputes with the ERO President and to challenges to electricity sale agreements concluded by us***

The provisions of the Energy Law, which have, since 9 August 2010, required electricity generators to sell at least 15% of their production via commodity exchanges or on the regulated market (the obligation of the public sale of electricity), are imprecise and give rise to various doubts regarding their interpretation, due to which there is no certainty as to how generators should carry out the obligations imposed on them. The questioning by the ERO President of ENERGA Elektrownie Ostrołęka's compliance with the obligation of the public sale of electricity, could lead to sanctions imposed by the ERO President (in particular a fine of up to 15% of revenues generated in the preceding fiscal year), and even to the challenging of electricity sale agreements to which ENERGA Elektrownie Ostrołęka is a party. The imposition of sanctions on us by the ERO President for non-compliance with the obligation of the public sale of electricity could have a material adverse effect on our business, results of operations, financial condition or development prospects.

***The State Treasury may make discretionary decisions in relation to us under the MST Veto Act that may conflict with the intentions or interests of other shareholders of the Company***

The Group companies may be subject to the provisions of the MST Veto Act, pursuant to which the Minister of State Treasury is empowered to exercise special rights in relation to companies managing the critical infrastructure, and such rights do not depend on the holding of any stake in such company. In particular, these rights consist in the possibility of objecting, in certain instances, to resolutions taken by a company's corporate bodies or other legal actions taken by the company, which involve the disposal of assets constituting a component of the critical infrastructure. It cannot be ruled out that Group companies will be affected by the MST Veto Act or that the Polish Minister of State Treasury will choose to exercise such rights in the future. Neither can we guarantee that any actions taken by the Polish Minister of State Treasury under the MST Veto Act will not clash with the intentions or interests of other shareholders of the Company. These factors may have a material adverse effect on our business, results of operations, financial condition or development prospects.

***Failures to meet our obligations regarding the keeping of buffer fuel stocks could result in the ERO President imposing fines on us***

The Energy Law requires electricity or heat generating enterprises to maintain stocks of fuel in an amount that can guarantee electricity and heat supply (see "Regulatory Matters—Energy sector regulation—Obligation to maintain fuel stocks"). Upon determining a breach of the level of fuel stocks, the ERO President imposes a fine. We cannot guarantee the maintenance of the stock of coal and other fuels, which in turn would guarantee continued electricity and heat supply, for reasons that are beyond our control, such as the fuel suppliers' failure to meet their contractual obligations. Therefore, we cannot guarantee that such fines will not be imposed on us in the future. The materialisation of any of these factors may have a material adverse effect on our business, results of operations, financial condition or development prospects.

***Certain transactions in which we participate may be held to constitute illegal public aid and may result in an obligation to repay the aid granted, including any interest thereon***

The provisions of Polish law and European Regulations related to public aid are imprecise. There is a risk that certain past transactions to which we were party may have constituted, or be held to have constituted, public aid granted to us in violation of the applicable Polish and/or EU regulations. Receipt of non-approved public aid may result in an obligation to repay the aid granted, including any interest thereon, which may have a material adverse effect on our business, results of operations, financial condition or development prospects.

***We are subject to public procurement regulations that are often difficult to interpret and apply***

We are required to comply with Polish public procurement regulations in various areas of our business. Such requirements apply, *inter alia*, to the process of selecting many of our suppliers, contractors on construction projects, and service providers. These regulations are often difficult to interpret and apply and may, in particular, considerably prolong the process of such selection and restrict our decision-making autonomy. In addition, an agreement entered into in breach of public procurement regulations may be rendered void or a financial penalty of up to 10% of the contract value may be imposed on the procuring party. All of the foregoing may have a material adverse effect on our business, results of operations, financial condition or development prospects.

***Some of our transactions may be challenged and held ineffective as a result of non-compliance with the MST Veto Act and the Commercialisation and Privatisation Act***

Under the CCC, the MST Veto Act and the Commercialisation and Privatisation Act, certain transactions require compliance with specific formalities or require the approval of specific corporate bodies or public entities in order to be valid. There can be no assurance, in particular in light of the size of our Group and the scale and complexity of our operations, that all of our Group companies have complied with all such requirements in the past, or that we will be able to ensure such compliance in the future. Accordingly, there is a risk that the effectiveness or validity of some of our past or future transactions, related among other things to the process of our historic consolidation, may be contested. If material transactions are found to be ineffective or invalid, this could have a material adverse effect on our business, results of operations, financial condition or development prospects.

***The national system of support for cogeneration may change or be lifted***

Similarly to other enterprises engaged in the generation of electricity combined with heat generation (cogeneration), we have been taking advantage of domestic support for our high-efficiency cogeneration units, i.e. units simultaneously generating electricity and heat with an efficiency level not lower than that specified in the Energy Law. From 1 April 2013, the system of support for high-efficiency cogeneration, based on a system of certificates of origin, is only partially in force (the obligation to obtain and present the yellow and red certificates to the ERO President for redemption expired on 31 March 2013) (see “Regulatory Matters—Energy sector regulation—Regulation of renewable energy and cogeneration (CHP)—Energy generated in combination with heat (cogeneration or CHP)”). The introduction of a system of support for cogeneration of electricity and heat in a form different from that which was in force prior to 31 March 2013, or a decision to re-introduce the obligation to obtain and present yellow and red certificates to the ERO President for redemption, could have an adverse impact on the profitability of ENERGA-OBRÓT. All of the foregoing may have a material adverse effect on our business, results of operations, financial condition and/or development prospects.

***New regulations concerning CO<sub>2</sub> emissions may force us to make additional material investments or incur additional costs or scale down our operations in the field of electricity generation***

Electricity generation in our power plants and CHP plants that are fired by fossil fuels involves the discharge of relatively large quantities of CO<sub>2</sub> into the environment. For this reason, any regulations concerning reductions in CO<sub>2</sub> emissions, including the EU energy and climate package regulations, may have a material effect on our operations. In particular, successive cuts in the number of free CO<sub>2</sub> emission allowances mean that CO<sub>2</sub> emissions outside the scope of free allowances allocated to Polish generators within the framework of National Allocation Plan require the purchase of EU emission allowances

(“EUA”) or Certified Emission Reductions (“CER”) or Emission Reduction Units (“ERU”) (see “Regulatory Matters—Environmental protection—Regulations concerning climate protection, including those related to the emissions of CO<sub>2</sub> and other substances”), the prices of which fluctuate. In particular, a growth in the prices of CO<sub>2</sub> emission allowances may be caused by the risk of a reduction in the volume of them offered at auctions following the suspension of trading in part of the allowances or the withdrawal thereof (*backloading*). Pursuant to draft lists of units with an allocation of free emission allowances within the framework of the EU Emissions Trading System Phase III for the years 2013-2020, some of the Group companies will be able to benefit from the derogation. Upon approval of such drafts by the European Commission, the Council of Ministers will adopt by way of an ordinance a list of systems covered by CO<sub>2</sub> emission allowances trading system under the EU Emissions Trading System Phase III with a number of emission allowances granted to those systems. Under the assumptions of the EU Emissions Trading System Phase III, free allowances will be gradually phased out and no new allowances will be granted by 2020 at the latest. The condition related to the granting of the free CO<sub>2</sub> emission allowances for the Polish energy sector is the timely implementation and settlement of investment projects contained in the “National Investment Plan” (“NIP”) that are to balance the costs of free allowances. The NIP provides for investment concerning modernisation and infrastructure improvements as well as clean coal technologies. Poland has prepared the NIP, which is awaiting the approval of the European Commission.

Accordingly, there is a risk that in the future we may be forced to purchase many more CO<sub>2</sub> emission allowances than we do now and at higher prices, scale down the generation of electricity in units emitting CO<sub>2</sub> or introduce costly technological upgrades to our systems, and facilities to reduce emissions. This may lead to a significant growth in electricity generation costs in such units, as a result of which the price of electricity sold to end-customers will become less competitive. Furthermore, we cannot rule out that with regard to certain new generating units we will have to decide if the use of certain technology to reduce emissions is feasible in a planned investment project. If the conditions of using such technology are met, we will need to reserve an appropriate amount of space on the site of this new project for installing such equipment for such technology; this may require the introduction of costly technological solutions.

The reduction in the volume of CO<sub>2</sub> emission allowances granted free of charge and the growth in the prices of such allowances, as well as the need to bear the costs related to the implementation of technology to reduce emissions may have a material adverse effect on our business, results of operations, financial condition or development prospects.

***The necessity of upholding more stringent standards with respect to pollutants such as SO<sub>2</sub>, NO<sub>x</sub>, dust and other substances may have a material adverse effect on our Group***

Our operations in the electricity generation segment, in particular with respect to energy generated from conventional sources, involve the emission of CO<sub>2</sub> as well as NO<sub>x</sub>, SO<sub>2</sub>, dust and other substances into the environment. The existing and future restrictions on the emissions of substances other than greenhouse gases (NO<sub>x</sub>, SO<sub>2</sub>, dust and other substances) may produce similar consequences as the restrictions on CO<sub>2</sub> emissions (see “—New regulations concerning CO<sub>2</sub> emissions may force us to make material additional investments or incur additional costs or scale down our operations in the field of electricity generation”). The evolution of European Regulations and Polish law is moving towards the imposition of even more rigorous conditions on the use of the natural environment by entrepreneurs, including lowering the quotas on the emission of pollutants into the environment. The introduction of lower emissions quotas may trigger the necessity to bear substantial costs for the modernisation of our equipment which fails to comply with the emission standard or its replacement, as well as the implementation of new technologies (including technologies related to emissions monitoring) and to carry the costs of penalties which may be imposed on us in the event of exceeding the emission quotas.

The IED Directive, which will replace among others, the IPPC and LCP Directives, tightens the emission standards for SO<sub>2</sub>, NO<sub>x</sub> and dust. The introduction of the obligation to include the Best Available Techniques (BAT) conclusions (arising from the application of the best available techniques) in environmental permits will make the standards even more stringent. The requirement imposed on Poland not to exceed the limits of emissions of SO<sub>2</sub> and NO<sub>x</sub> from all large combustion plants (50 MW or more), which is to be followed by the introduction of more stringent regulations, specified in Appendix XII to the Accession Treaty, to the Polish legal system, may trigger new obligations or accelerate the introduction of BAT conclusions. There is no guarantee that in the event of exceeding the limits imposed on Poland under



Appendix XII to the Accession Treaty, Poland will refrain from taking further action aimed at introducing more rigorous standards than those in place at present.

The obligation to comply with more stringent environmental requirements may require significant capital expenditures, which may translate into significantly higher energy prices, hence a decrease in the demand for our energy and this may, in turn, have a material adverse effect on our business, results of operations, financial condition or development prospects. In particular, failure to implement investments that provide for new, more stringent standards could force Elektrownia Ostrołęka to stop using two of its units from 2016 and the third one from 2017; hence we would have to build a new source of heat for Ostrołęka.

***Imposing fees for the use of water by the energy industry may have a material adverse effect on our Group***

Legislative work is presently in progress to introduce significant changes to the current regulations concerning water management and, in particular, the sources of financing it. Based on current assumptions, charges could be introduced for water intake or the use of water for electricity generation purposes. If such regulations or charges were introduced, electricity generating costs in hydroelectric plants and in conventional open-cycle power plants would increase and could threaten the profitability of certain hydroelectric projects, power plants and CHPs, including the units used by the Group.

Charges for intake or use of water for hydroelectric purposes may also result in the necessity to make significant capital expenditures, which may lead to a significant growth in energy prices, which in turn may lead to a reduced demand for electricity, and consequently have a material adverse effect on our business, results of operations, financial condition or development prospects.

***We are subject to various regulations in the area of environmental protection which mean we may have to bear substantial compliance costs and/or apply for new environmental permits resulting from environmental regulations becoming more stringent and from the implementation of best industrial practices***

Our business activity has a significant impact on the natural environment. For this reason we are required to comply with integrated permits that we need to obtain for all the facilities, which may cause, as a result of the type and scale of their operation, significant pollution of all or some elements of the natural environment. We are also required to obtain sectoral environmental permits concerning the emissions of substances and noise, water and waste water management and waste management. The regulations concerning environmental protection and the use of natural resources are subject to relatively frequent changes, and we may be required to obtain new permits or change the terms of permits already obtained. There is no guarantee that we will succeed in obtaining new permits or changing the terms of existing ones. Furthermore, in the event of certain permits held by the Group companies that underwent corporate transformations (in particular permits under the Water Law Act) they may not have been transferred correctly. Pursuant to a decision of the National Administrative Court of 2007, environmental permits are not automatically transferred as a result of merger or division of entities pursuant to the appropriate provisions of the CCC. If our administrative decisions are deemed defective, we will have to incur additional costs related to higher environmental charges. If we fail to obtain a new permit (or fail to obtain approval for changed terms on time) or the current permits turn out to be defective, then such circumstances may have a material adverse effect on our business, results of operations, financial condition or development prospects.

In the years ahead we should expect a continued move towards more stringent environmental requirements, ensuing from both Polish provisions of law and EU regulations as well as from international conventions. It is not possible to predict the exact nature or scope of such changes. In particular, as at the date of this Offering Circular, there is work in progress on an amendment to the framework directive and Commission Decision 2000/532/EC of 3 May 2000 establishing a list of types of waste (see “Regulatory Matters—Environmental protection—Waste management”), which may result in classifying some furnace waste from fuel combustion as hazardous waste. Due to the lack of clarity regarding future regulations and due to growing expenditures connected with the requirements ensuing from environmental protection regulations, we may be obliged in the future to bear substantial compliance costs or investment expenditures ensuing from new environmental requirements or related to disconnecting our equipment and systems which fail to comply with the increased environmental requirements. Failure to comply with the new environmental regulations in the required scope or by a specified date could lead to administrative and civil liability, as well as the criminal liability of our Group entities or members of the Management

## RISK FACTORS

---

Board or employees. In addition, a breach of environmental protection requirements could force us to suspend or discontinue permanently certain operations pursued by the Group and this could have a material adverse effect on our business, results of operations, financial condition or development prospects.

Furthermore, the systems that require an integrated permit must comply with the BAT, which in turn involves making significant capital expenditures. Such requirements are set forth in reference documents, BREFs (*BAT Reference Notes*), but may also arise directly from the provisions of law and other technical specifications, technical standards, etc. Although BREFs are just recommendations, the adjustment of systems and technology, the procedures and practices applied to the requirements of BAT nonetheless constitute the most crucial precondition for obtaining an integrated permit. The IED Directive replacing, among others, the IPPC and LCP Directives, introduces more stringent emission standards for SO<sub>2</sub>, NO<sub>x</sub> and dust and requires the implementation of the BAT conclusions, which will become the basis for determining the conditions for integrated permits and emission quotas. The draft of the new BAT reference document for the energy sector will broaden the requirements (also with respect to measurement requirements) and tighten emission standards. It cannot be ruled out that in the future that further requirements concerning BAT will be more stringent, including broadening of the scope of systems subject to such requirements. Furthermore, there is a risk that some of the equipment or systems used by us may not be adjusted to the necessary requirements within the deadlines imposed by regulations concerning BAT.

The foregoing may have a material adverse effect on our business, results of operations, financial condition or development prospects.

***Regulations regarding environmental protection may impose numerous restrictions, lead to a substantial increase in the costs of electricity generation as well as force us to decommission existing assets***

The location and implementation of new investment projects in the electricity generation segment, including wind farms, the potential development of the second water dam on the Vistula River (Vistula Project) and other investments in renewable energy sources, as well as the expansion of existing power plants are subject to restrictions ensuing from environmental regulations. In many instances, our projects require environmental permits and are subject to environmental impact assessment procedures. There is a risk that environmental organisations, invoking their statutory goals, will express their willingness to participate in certain proceedings concerning the granting of an environmental permit and that they will participate in such proceedings as a party, which may significantly affect the course and outcome of such proceedings. This may translate into the obligation to introduce changes to the contemplated projects, their delay or suspension as well as the necessity to bear additional costs.

Furthermore, the scale of our operations may require other restrictions to be observed. In particular, the Natura 2000 Programme provides a number of restrictions applicable to investment projects such as special instruments for the protection of birds and their habitats and the need to prepare a detailed analysis of the impact of an investment project on protected species and their habitats. It cannot be ruled out that the geographical reach of the Natura 2000 programme will be enlarged in the future, which may result in the necessity to relocate our planned investments. Therefore, when selecting the site of a planned undertaking, as well as in the case of an undertaking already operating in a special protection area, it is necessary to prepare analyses before and after the construction, as well as to monitor the environmental impact of the project on an on-going basis. In the event of a negative impact of a project on a protected area, operations may be significantly curtailed or may become unfeasible.

In relation to the above, the possibility of implementing future investments or the modernisation or the extension of the operation of existing facilities may be significantly limited, their use may be hindered, additional costs may need to be incurred or additional requirements to be fulfilled. Additionally, if the environmental protection regulations become more rigorous we may not be able to cover the additional expenses necessary to adjust our business to such new regulations and in turn we may be forced to temporarily or permanently decommission some of our existing generating assets.

These circumstances may have a material adverse effect on our business, results of operations, financial condition or development prospects.



***Frequent changes to the Polish regulations applicable to our industry may have a material adverse effect on the Group***

The Polish legal system, including regulations governing the power sector as well as its interpretations, is subject to frequent and significant changes. In particular, the Energy Law has been amended several times and some of the amendments introduced significant changes to our core business areas. At present, work is in progress concerning further amendments to the Energy Law, including a package of three new acts: the energy law, the gas law and the act on renewable energy sources, which are to replace the current Energy Law (see “Regulatory Matters—Energy sector regulation—Planned regulatory changes”). It is difficult to predict what effect such changes will have on our business. Regulations adopted by the EU with a view to deregulating the internal electricity and natural gas markets and enhancing environmental protection standards will stimulate changes in the provisions governing the power sector.

Due to their volatility, the provisions of law, including regulations concerning the power sector, are not consistently applied by courts, governmental agencies and other authorities enforcing law. There is a risk that rulings and decisions issued by particular courts or other authorities with respect to similar cases will be divergent. Furthermore, the position of relevant courts or other authorities with respect to matters within their area of competence may change, which would add to the instability of the whole law enforcement process. The instability of the legal system and the regulatory environment increases the risk of incurring a partial loss of revenues, substantial additional and unexpected expenses and the costs of adjusting our business to the changing legal environment or temporarily or permanently limiting our activities. It may also result in disputes on the interpretation of laws arising with both public authorities enforcing the law and private entities with which we have legal relations. Errors or delays in the implementation of EU directives into national law may give rise to additional concerns relating, *inter alia*, to the interpretation of the legal provisions affecting our business. Such risks, if they were to materialise, may have a material adverse effect on our business, results of operations, financial condition or development prospects.

***Unfavourable changes in the political environment may have an adverse effect on our Group***

Political decisions made at the national and EU level, as well as decisions made by governmental authorities and agencies in Poland and the EU, may have a material impact on our business. Such decisions may have an impact on both the directions of changes in regulations as well as other actions taken by governmental bodies, in areas that are of material importance for the power sector. This, in turn, may affect the structure and model of the electricity market operation, electricity pricing rules, the availability and cost of the fuel we use to generate electricity and environmental protection regulations. Examples of regulations which, in our view, have been and continue to be significantly influenced by political considerations, include, at the EU level, the constituents of the EU climate and energy package, and, at the national level, the forthcoming act on RES and the “Energy Tri-pack” including three new acts of law: energy law, gas law and the act on renewable sources of energy. All of which have a significant impact on our business and results of operations (see “Regulatory Matters—Energy sector regulation”). Consequently, unfavourable changes in the political environment in Poland and the EU may have a material adverse effect on our business, results of operations, financial condition or development prospects.

**Risks related to the Offering, capital markets and secondary trading in Shares**

***The Selling Shareholder, once the Offering has been completed, will hold the largest voting block at the General Meeting and will be able to undertake actions that may be contrary to the interests of other shareholders of the Company***

The Offer Shares represent no more than 34.18% of the Company’s share capital and no more than 25.32% of the total number of votes at the General Meeting. Therefore, the Selling Shareholder, upon completion of the Offering, will hold at least 62.96% of the total number of votes at the General Meeting.

The Selling Shareholder, as a majority shareholder of the Company, may materially influence the decisions of the General Meeting concerning the payment of dividends and their amount, or even decide to refrain from payment of dividends in certain financial years or decide to pay dividends in an amount exceeding the Management Board’s recommendations, which may be contrary to the interests and expectations of other

shareholders and the Management Board. Due to the fact that upon completion of the Offering the Selling Shareholder will maintain the majority stake in the share capital of the Company, the Selling Shareholder will have a decisive influence on the Company's affairs, among other things, on shaping our policy and strategy, our business development trends, election of members to the Supervisory and Management Boards of the Company and other Group companies. Resolutions of the General Meeting adopted by the votes cast by the Selling Shareholder may be contrary to the intentions or interests of minority shareholders. Additionally, the Selling Shareholder, upon completion of the Offering, will maintain its powers described in the section "Management Board and Supervisory Board—Supervisory Board—Composition, rules of procedure and competences of the Supervisory Board" and in the section "Selling Shareholder—Control over the Company and arrangements which in the future may result in change of control in the Company—Control over the Company". In particular, pursuant to the Articles of Association, the Selling Shareholder is entitled to preferred shares and, as long as the Selling Shareholder holds at least 10% of the total number of shares in the share capital, it is solely entitled to appoint and recall the majority of the Supervisory Board members and the chairman of the Supervisory Board. On the other hand, pursuant to the Articles of Association, the Supervisory Board appoints Management Board members. In consequence, the Selling Shareholder is able to indirectly control the composition of the Management Board. The position of the Selling Shareholder is additionally strengthened by the fact that pursuant to the provisions of the Articles of Association, the voting rights to which the shareholders of the Company are entitled and the voting rights to which the users or pledgees are entitled are restricted in such a manner that none of them may exercise, at the General Meeting, more than 10% of votes existing in the Company as at the date of the General Meeting. This restriction does not apply to the Selling Shareholder (see the section "Share capital and Shares—Shareholders' rights related to the General Meeting—Participating and voting at the General Meeting—Manner of participation and voting procedure at the General Meeting").

We are not able to predict what the policy of the Selling Shareholder (which may be influenced by the State's political agenda and the general political environment) will be with respect to the exercising of the above-mentioned powers or foresee the influence of the Selling Shareholder's activities, including the exercising by the Selling Shareholder of its rights to Shares and other special powers, on our operations, financial results or financial situation and the ability to implement the Group's strategy or on our market position. We cannot predict whether the policy and actions of the Selling Shareholder will be in line with the interests of the acquirers of the Offer Shares and other shareholders of the Company.

Continuing further privatisation of the Company (selling by the Selling Shareholder of the Company's shares once the Offering is closed) will depend upon the future decisions of the Minister of State Treasury, the Council of Ministers and other political factors related thereto. We cannot foresee if, and on what terms, further privatisation of the Company will be carried out. The above circumstances may have a material adverse effect on our business, financial results, financial condition or development prospects.

***If a final and non-appealable judgment is issued repealing the Resolution on the Share Capital Decrease and the Resolution on Preferred Shares, the amount of the share capital of the Company, the nominal value of the Shares and the number of votes carried by each series BB share may change***

On 3 September 2013 the Extraordinary General Meeting adopted, inter alia, the Resolution on Preferred Shares, whereby preference in respect of voting rights of series BB shares was introduced to the Articles of Association and the Resolution on the Share Capital Decrease pursuant to which the share capital of the Company was decreased to PLN 4,521,612,884.88, i.e. by PLN 447,192,483.12, by decreasing the nominal value of each Share. Amendments to the Articles of Association adopted pursuant to the resolutions were recorded by the Registry Court on 9 September 2013. On 16 October 2013, the company was served with a lawsuit filed by a minority shareholder for the repeal of the Resolution on the Share Capital Decrease and for the annulment of (or alternatively for the repeal of) the Resolution on Preferred Shares. In response, the Company filed a submission challenging the lawsuit as a whole (see "Our Business—Legal and Administrative Proceedings—Court proceedings initiated by FORTA sp. z o.o.").

As at the date of this Offering Circular, we cannot predict what will be the outcome and effects of these proceedings. If the lawsuit is granted in a final and non-appealable judgment, the Management Board will be required to take action to rectify the effects of such resolution, which is to restore the status which would have existed had the Extraordinary General Meeting not adopted the challenged resolutions and

had they not been implemented. In particular, the final and non-appealable repeal of the Resolution on the Share Capital Decrease may result in the need to promptly adjust the amount of the Company's capitals, including the share capital and the nominal value of shares, as well as to make appropriate adjustments to the Company's equity. On the other hand, if the Resolution on Preferred Shares is effectively challenged, series BB shares held by the Selling Shareholder as at the date of this Offering Circular will cease to be preferred as to the voting rights at the General Meeting. Although, in the Company's view, the final and non-appealable repeal of the resolutions should not effect the validity and effectiveness of any other resolutions adopted at the Extraordinary General Meeting of 3 September 2013, the risk of a different court verdict, the effects of which cannot be predicted as at the date of this Offering Circular, cannot be ruled out. Furthermore, if the Resolution on Preferred Shares is overturned or is repealed, actions may be filed for the annulment or repeal of resolutions adopted at General Meetings of ENERGA after 9 September 2013 (date of recording the amendments to the Articles of Association), if these resolution could not have been adopted without the votes resulting from the preferred status, and provided that the statutory time limits for filing an action for the annulment of or repealing these resolutions have not expired. As at the date of this Offering Circular it is impossible to assess the effects of these actions or challenges.

On 28 November 2013 the Company was served with a motion of FORTA sp. z o.o. which contained a statement of FORTA sp. z o.o. on withdrawal of its statement of claim in the part relating to a demand for the repeal of the Resolution on the Share Capital Decrease.

The above circumstances may have a material adverse effect on our business, financial results, financial condition or development prospects.

***The Selling Shareholder may withdraw from the Offering or suspend it***

At any time prior to the commencement date of the subscription period for Retail Investors and Qualified Retail Investors, the Selling Shareholder, in agreement with the Joint Global Coordinators and the Joint Bookrunners, may revoke the sale of the Offer Shares in the Offering without stating any reasons for its decision, thereby effectively revoking the Offering.

From the commencement of the subscription period for the Offer Shares offered in the Offering to Retail Investors and Qualified Retail Investors not later than until 09:00 Warsaw time on the working day preceding the first day of listing the series AA Shares on the WSE, which is the commencement of distribution of the information on clearing or transfers in order to record the Offer Shares in the securities accounts of the Institutional Investors (currently planned for 10 December 2013), the Selling Shareholder may, in agreement with the Joint Global Coordinators and the Joint Bookrunners, withdraw from the sale of the Offer Shares in the Offering, provided that such withdrawal may only occur for reasons which, in the opinion of the Selling Shareholder, are material and which may include, among other things: (i) the occurrence of a sudden or unforeseeable change in the economic or political situation in Poland or abroad, which may have a material adverse effect on the financial markets, Poland's economy, the Offering or the Group's operations (such as terrorist acts, wars, disasters or floods); (ii) the occurrence of a sudden or unforeseeable change or event other than those stated under item (i) above which could have a material adverse impact on the Group's operations or which could result in the Group incurring material damage or in any material disruption to its operations; (iii) the occurrence of a material adverse change in the Group's business, financial condition or operating results; (iv) a suspension of, or material limitation in trading of, securities on the WSE or on any other exchange, if such circumstances could have a material adverse effect on the Offering; (v) an unsatisfactory number of applications for the Offer Shares in the book building process; (vi) in the opinion of the Joint Global Coordinators and the Joint Bookrunners, an insufficient number of the Shares expected to be traded on the WSE which would not warrant the required liquidity of the Shares; (vii) the occurrence of a sudden and unforeseeable change which could have a direct, material and adverse effect on the Group's operations, or (viii) the termination of the Underwriting Agreement.

Upon the publication of the Prospectus, information regarding the revocation or withdrawal from the sale of the Offer Shares in the Offering will be published in the same manner as the Prospectus. In case of withdrawal from the sale of the Offer Shares in the Offering, any received purchase orders for the Offer Shares will be deemed void, and all payments made will be refunded, without any interest or damages, no

## RISK FACTORS

---

later than 14 days following the announcement of the withdrawal from the sale of the Offer Shares in the Offering.

In case of the withdrawal from the sale of the Offer Shares in the Offering until the submission of orders for the sale of the Offer Shares to Retail Investors and Qualified Retail Investors through the WSE system, the purchase orders will be deemed void and any payments made will be returned without interest or damages not later than 14 days from the date of announcing the withdrawal from the sale of the Offer Shares in the Offering.

In case of the withdrawal from the sale of the Offer Shares in the Offering after instructions have been issued to sell the Offer Shares to Retail Investors and Qualified Retail Investors through the WSE and not later than 09:00 Warsaw time on the working day preceding the first day of listing the series AA Shares on the WSE (currently planned for 10 December 2013), the entities accepting purchase orders from Retail Investors and Qualified Retail Investors shall return the Offer Shares previously acquired by the Retail Investors and the Qualified Retail Investors in accordance with the powers of attorney granted by Retail Investors and the Qualified Retail Investors on the purchase order forms for the Offer Shares and in accordance with the instructions issued by the Offering Agent. Any payments made by Retail Investors and Qualified Retail Investors for the Offer Shares will be returned to them without any interest or damages within 14 days following the return of these Offer Shares to the Selling Shareholder's securities account. The payments will be made to the cash account maintained for the Retail Investor's or Qualified Retail Investor's securities account through which the purchase order was made, in accordance with the rules prevailing at the given investment firm.

This mechanism for the return of the Offer Shares upon the withdrawal from the sale of the Offer Shares in the Offering is intended to protect investors against the impact of adverse or exceptional and unforeseeable events which may occur during the Offering.

These rules for the revocation and withdrawal from the sale of the Offer Shares in the Offering shall also apply to Institutional Investors up to the time by which the Selling Shareholder is entitled to revoke or withdraw from the sale of the Offer Shares in the Offering.

A decision to suspend the Offering, without providing any reason for doing so, may be taken at any time before the commencement of the subscription period for Retail Investors and Qualified Retail Investors by the Selling Shareholder in agreement with the Joint Global Coordinators and the Joint Bookrunners. From the commencement of the subscription period for the Retail Investors and Qualified Retail Investors up to the submission of orders for the sale of the Offer Shares to Retail Investors and Qualified Retail Investors through the WSE system (i.e. 6 December 2013), the Selling Shareholder, in agreement with the Joint Global Coordinators and the Joint Bookrunners, may decide to suspend the Offering only for reasons that are (in the opinion of the Selling Shareholder) material, which may include, among other things, any event that might adversely affect the success of the Offering or cause increased investment risks for the purchasers of the Offer Shares. The decision to suspend the Offering may be made without specifying a new timetable for the Offering, which may be determined at a later date.

Information regarding the suspension of the Offering will be published in the form of a supplement to the Prospectus after such supplement has been approved by the PFSA. Such supplement will be published in the same manner as the Prospectus.

If the decision to suspend the Offering is made in the period between the commencement of the subscription period for Retail Investors and Qualified Retail Investors and the submission of orders for the sale of the Offer Shares to Retail Investors and Qualified Retail Investors through the WSE system (i.e. 6 December 2013), any purchase orders received and any payments made will still be considered valid, however, investors will have the right to void the legal validity of their purchase orders by submitting a relevant representation within two business days from the date of the publication of the supplement to the Prospectus relating to the suspension of the Offering.



*In the event of a breach or a suspected breach of law in relation to the public offering or the application for the admission and introduction of the series AA Shares to trading on a regulated market, the PFSA may, inter alia, prohibit or suspend the Offering and issue an order to withhold or to prohibit the application for the admission or introduction of the series AA Shares to the regulated market*

Pursuant to the provisions of the Offering Act, in the event that an issuer, any seller or other entities participating in the offering, subscription or sale carried out pursuant to such offering, on behalf of or upon the instructions of the issuer or the seller are in breach, or there is a reasonable suspicion that a breach of the laws in connection with public offerings subscription or sale in the territory of Poland has occurred, or there is a reasonable suspicion that such breach may occur, the PFSA may: (i) order that the commencement of the public offering, subscription or sale be suspended for no longer than 10 business days; or (ii) prohibit the commencement of the public offering, subscription or sale or their further conduct; or (iii) publish at the issuer's or the selling shareholder's expense, information on acting in breach of the law in connection with the public offering, subscription or sale. With respect to any public offering, subscription or sale, the PFSA may repeatedly apply the measures provided in items (ii) and (iii) above.

Pursuant to the provisions of the Offering Act, in the event that the issuer, or other entities acting on its behalf or upon its instructions, are in breach, or there is a reasonable suspicion of their being in breach, of the law in connection with applying for the admission of securities or the introduction to trading of securities on the regulated market in the territory of Poland, or there is a reasonable suspicion that such breach may occur, the PFSA may: (i) order that the application for the admission or introduction of the securities to trading on the regulated market be suspended for up to 10 business days; (ii) prohibit the application for the admission or introduction of the securities to trading on the regulated market; (iii) publish, at the issuer's expense, information on acting in breach of the law when seeking to have the securities admitted or introduced to trading on the regulated market. With respect to the application for the admission or introduction of securities to trading on the regulated market, the PFSA may repeatedly apply the measures provided in items (ii) and (iii) above.

Pursuant to the provisions of the Offering Act, the PFSA may apply the measures specified above if from any documents and information submitted to the PFSA or published, it follows that: (i) the public offering, subscription or sale of securities pursuant to such offering or their admission to trading on the regulated market would materially infringe investors' interests; (ii) there are premises, which in light of the legal provisions, prove that the issuer may cease to exist as a legal person; (iii) the issuer's activity has been or is conducted in flagrant breach of the law and such breach may have a material influence on the valuation of the issuer's securities or may, under the provisions of law, cause the issuer to cease to exist as a legal person or go bankrupt; or (iv) the legal status of securities is in breach of the provisions of law and under the provisions of law there is a risk that such securities will be considered non-existent or burdened with a legal defect that has a material influence on their price.

Pursuant to provisions of the Trading Act, if the security of trading on a regulated market so requires or if the interests of investors are threatened, the company operating a regulated market shall suspend, at the request of the PFSA, the admission to trading on that market or the commencement of the listing of securities or other financial instruments designated by the PFSA for a period not exceeding 10 days.

*The Company's failure to meet the requirements set forth in the WSE Rules or the Offering Act may prevent the series AA Shares from being admitted to trading on a regulated market*

The admission of the series AA Shares (including the Offer Shares) to stock exchange trading on the official listing market (the WSE's main market) requires the satisfaction of the conditions for admission to trading as set out in § 2 Section 1 and § 3 of the Ordinance of the Minister of Finance of 12 May 2010 regarding the detailed conditions of the market of official stock exchange listing and issuers of securities admitted to trading on the market (Dz. U. of 2010, No. 84, Item 547; hereinafter the "Market Ordinance") as well as § 3 of the WSE Rules, including the minimum free float requirements, the satisfaction of which will depend on the results of the Offering. The admission also requires a decision of the WSE management board. The WSE management board may refuse to admit the series AA Shares to trading on the main market if the conditions set out in the WSE Rules and § 2 Section 1 and § 3 of the Market Ordinance are not met.

## RISK FACTORS

---

A resolution of the WSE's management board approving the admission to trading of the series AA Shares, including the Offer Shares, shall be adopted based on an application filed by the Company within 14 days of such application being filed, subject to the detailed provisions of the WSE Rules. If the application filed is incomplete or additional information must be obtained, the time limit specified above shall start to run when the application is supplemented or additional information is provided. When examining the application for the admission of securities to trading on the WSE, the WSE management board will take into account:

- the issuer's financial condition and its forecasts, especially its profitability, liquidity and debt-servicing ability, as well as other factors affecting the issuer's financial performance;
- the issuer's development prospects, in particular the assessment of its ability to perform investment plans taking into account their financing sources;
- the experience and qualifications of members of the management and supervisory bodies of the issuer;
- the terms on which the securities were issued and the compliance of these terms with the principles of a public nature laid out in §35 of the WSE Rules;
- the security of stock exchange trading and the interests of its participants.

There is a risk that we might fail to meet the criteria set out in the Market Ordinance and the WSE Rules and fail to obtain the consent of the WSE management board for the admission of the series AA Shares to stock exchange trading, although such a resolution, refusing consent by the WSE management board, could be appealed by the Company to the WSE supervisory board. If the admission of the series AA Shares to trading on the WSE is refused, the Company will not be able to submit another application for the admission of the same shares to trading for a six-month period from the delivery date of the WSE management board's resolution or, if the aforementioned resolution is appealed, from the delivery date of the WSE supervisory board's resolution.

Additionally, pursuant to § 11 of the WSE Rules, the WSE management board may repeal the resolution on the admission of financial instruments to trading if no application for the introduction of the series AA shares, including the Offer Shares, to stock exchange trading is filed within six months of the adoption of such resolution.

### ***Trading in the Shares on the WSE may be suspended***

Under § 30 of the WSE Rules, the WSE management board may suspend trading in the Shares listed on the WSE, including the Offer Shares, for a period of up to three months:

- upon the Company's request; or
- if it considers that it is required in the interest and security of the trading participants;
- if the Company is in breach of the WSE Rules.

Additionally, under Article 20 Section 2 of the Trading Act, the PFSA is empowered to direct the WSE to suspend trading in securities or financial instruments quoted on the WSE for a period of no more than one month. The PFSA may exercise its right to suspend the trading in securities and financial instruments where such trading is conducted in circumstances which may constitute a threat to the proper functioning of the regulated market or to the safety of trading on such regulated market, or where investors' interests may be infringed. During the suspension of securities trading, investors are unable to purchase or sell the affected securities on the stock market, which may adversely affect the liquidity levels of the securities.

We cannot guarantee that trading in the Shares, including the Offer Shares, will never be suspended.

### ***The Shares may be excluded from trading on the WSE***

The WSE management board may exclude financial instruments from trading on the stock exchange in the event of circumstances provided for in the WSE Rules. Pursuant to § 31 Section 1 of the WSE Rules, the WSE management board shall exclude a financial instrument from trading on the stock exchange: (i) if its transferability has become restricted; (ii) upon the request of the PFSA in accordance with the provisions



of the Trading Act; (iii) if they are no longer dematerialised; (iv) if they are excluded from trading on the regulated market by a relevant supervisory authority (the PFSA).

In addition, the Management Board of the WSE may exclude financial instruments from trading on the stock exchange: (i) if the financial instruments no longer meet the requirements for admission to trading on a given market other than the requirement provided in § 31 Section 1 Item 1 of the WSE Rules (e.g. the requirement of unrestricted transferability); (ii) if the issuer is persistently in breach of the regulations governing the WSE; (iii) if so requested by the issuer; (iv) if the issuer's bankruptcy is declared or the petition in bankruptcy is dismissed by the court because the issuer's assets are insufficient to cover the costs of the proceedings; (v) if it considers that it is necessary to protect the interests and safety of trading participants; (vi) following a decision on merger, division or transformation of the issuer; (vii) if within the last three months no exchange transactions were effected with respect to the financial instrument; (viii) if the issuer starts a business that is illegal under the applicable laws; or (ix) if the issuer is placed in liquidation.

Pursuant to Article 20 Section 3 of the Trading Act, the WSE, upon the PFSA's demand, excludes the securities indicated by the PFSA from trading if the trading in securities poses a material threat to the proper operation of the regulated market or the security of trading on such market, or where investors' interests are being infringed.

We cannot guarantee that the Shares, including the Offer Shares, will never be excluded from trading on the regulated market operated by the WSE.

***The liquidity and the trading price of the Shares may be volatile***

Prices of shares listed on a regulated market depend on the relation between supply and demand. Consequently, investors may be exposed to significant fluctuations in the prices of the Shares, including the Offer Shares, due to, among other things: variations in the Group's operating results; changes in the analysis and recommendations of securities analysts; announcements made by the Group or its competitors; changes in investors' perception of the Group and the investment environment; changes in pricing by the Group or its competitors; regulatory changes in Poland and the European Union; the liquidity of the market for the Shares as well as general economic and other factors. Fluctuations on the securities market in the future could also have an adverse effect on the market price of the Shares, regardless of the Group's activities, financial position, operating results or development prospects. Consequently, orders to buy and sell the Shares may not be executed at the anticipated level.

Thus far, the Shares have not been traded on a stock market. The admission and introduction of the Shares to trading on the WSE does not guarantee their liquidity. Listed companies from time to time experience significant fluctuations in securities trading volumes, which can also have a significant adverse impact on the market price of the Shares. If an appropriate level of trading in the Offer Shares is not achieved or maintained, it could have a material impact on the liquidity and price of the Shares. In particular, if a significant number of Offer Shares are purchased by a limited number of institutional investors, the number of entities holding the Shares may be reduced which consequently may have a negative influence on the liquidity of the Shares.

As a result, the price of the Shares may change and investors may be unable to buy or sell the Shares at the expected price and time and, in particular, the price of the Shares may be higher or lower than the Sale Price for Institutional Investors or Sale Price for Retail Investors.

***Administrative sanctions may be imposed on the Company for breach of its obligations under the Offering Act and the Trading Act***

Pursuant to Article 96 of the Offering Act, if an issuer or a seller of securities fails to meet certain legal requirements, including disclosure obligations, the PFSA may issue a decision to exclude its securities from trading on the regulated market, for a specified term or indefinitely, or impose, taking into consideration, in particular, the financial condition of the entity on which the penalty is imposed, a fine of up to PLN 1 million, or may administer both sanctions simultaneously.

Additionally, pursuant to Article 176 of the Trading Act, if an issuer does not fulfil or inadequately fulfils the obligations provided for in Articles 157, 158 or 160 of the Trading Act, including in particular those

## RISK FACTORS

---

resulting from the regulations issued under Article 160 Section 5 of the Trading Act, the PFSA may: (i) decide to exclude the securities from trading on the regulated market; (ii) impose a fine in an amount of up to PLN 1 million on such company; or (iii) decide to exclude the securities from trading on the regulated market for a specified period of time or indefinitely, while at the same time imposing the fine referred to in item (ii) above. Following such decision of the PFSA, pursuant to § 31 Section 1 item 4 of the WSE Rules, the WSE management board must exclude such securities from the stock exchange.

There can be no assurance that the PFSA will not impose such sanctions on the Company in the future.

### ***The value of the Offer Shares to foreign investors may decrease due to exchange rate fluctuations***

Upon admission to trading on the WSE, the price of the Shares will be expressed in PLN. The Sale Price for Retail Investors and the Sale Price for Institutional Investors will be expressed in PLN and the payments for the Offer Shares will be made by foreign investors in PLN. Foreign investors generally will have to convert amounts into PLN at a certain exchange rate, which may fluctuate. As a result, the return on investment in the Offer Shares will depend not only on the changes in the price of the Shares during the investment period, but also on fluctuations in the exchange rate between PLN and other currencies. Additionally, the depreciation of PLN against foreign currencies may adversely affect the equivalent of the amount paid out in relation to the Offer Shares expressed in foreign currencies, which will decrease the real rate of return on the investment in the Offer Shares. Exchange rate risk will also apply to any cash disbursements under the Offer Shares, including the payment of dividends, which would be made in PLN.

### ***If securities analysts do not publish research reports about the Company, or if they change their recommendations to negative, then the Company's Share price and trading volume could decline***

The price and liquidity of the Shares will be influenced by reports published by stock market analysts. If no analyst elects to cover the Company and publish research reports about it or if one or more analysts ceases coverage of the Company or fails to regularly publish reports on it, the Company could lose visibility in the financial markets, which would adversely affect the trading volume of Shares which in turn could cause the Share price to decline. If one or more analysts who elect to cover the Company changes their recommendations to negative, the market price of the Shares could decline significantly.

### ***Any issuance of new shares by the Company in the future or any future transactions involving the sale of a substantial number of shares by its shareholders, or the perception that such issuance or sale could occur may adversely affect the market price of the Shares or the Company's ability to obtain capital in the future***

As with other securities offerings which are similar to this Offering, the Company and the Selling Shareholder assumed obligations with respect to restrictions in the disposal and issuance of shares and the carrying out of similar transactions with respect to the disposal and issuance of shares of the Company (lock-up agreements), which is valid for the period between the assumption of such obligation and the period agreed by the parties, which commences on the first day of the trading of the Shares on the main market of the WSE, (see "Underwriting, stabilisation and lock-up—Lock-up Agreements"). Once the aforementioned restrictions expire or, even during the period of their validity, subject to the requisite consent of the Joint Global Coordinators or benefiting from an exception provided in such obligations, the parties assuming such obligations will be able to dispose of Shares and the Company will be able to issue new shares. The sale of a significant number of Shares on the stock market or the perception that such sale will occur following the Offering, may have an adverse effect on the price of the Shares and materially limit the Company's ability to raise capital through securities offerings in the future. Furthermore, the sale of Shares by one or more major shareholders may lead to a situation in which the Company or its prospects for development may be perceived in a negative manner, which may have an adverse effect on the price of the Shares. The future issue of shares may lead to a dilution of the shares held by the current shareholders of the Company. If the existing shares held by the majority shareholders of the Company are sold, or the Company issues other shares or the market expects such issue or sale, the supply of the Company's shares on the WSE may increase, which may have a material adverse effect on the shape of the future market price of the Shares.

The price of Shares may also be adversely affected by the potential sale of Shares by shareholders other than the State Treasury, including former or current employees of the Company who obtained (pursuant to the Act on Exchange of Employee Shares) or acquired (as a result of the division of ENERGA-

OPERATOR and the transfer of a portion of assets to the Company) Shares representing 15.8% of the Company's share capital as at 30 September 2013. These shares are not subject to lock-up arrangements. Holders of the shares may sell them at any time, also after their dematerialisation and listing on the WSE. The sale of a considerable number of such Shares by these persons, if effected over a short time span, or even a belief that such a sale may take place, may have an adverse effect on the future market price of the Shares, or limit the Company's ability to obtain financing through the issuance of new shares.

***Holders of Shares in certain jurisdictions may be subject to restrictions regarding exercising pre-emption rights in new issuances***

In case of an increase in the Company's share capital, existing shareholders of the Company will be entitled to exercise pre-emption rights pursuant to the CCC, unless deprived of such rights in whole or in part by a resolution of the General Meeting. To the extent that pre-emption rights are granted, holders of the Shares in the United States may be unable to exercise their pre-emption rights unless a registration statement under the U.S. Securities Act is filed with respect to such rights or an exemption from the registration requirements is available. Shareholders in other jurisdictions may also be limited in exercising their pre-emption rights. The Company cannot guarantee that in the future it will register any of the Shares in accordance with the U.S. Securities Act, or the provisions of any other jurisdiction outside of Poland. If the Company's share capital is increased in the future, the Company's shareholders who are unable to exercise a potential pre-emption right (in accordance with the laws of the country in which they have their registered office) should take into account that their interest in the Company's share capital may be diluted upon such an issuance of Shares. Furthermore, although in some jurisdictions shareholders who have been deprived of their pre-emption rights may be given compensation in cash for the value of their rights, there is no requirement to do so in Poland, and consequently, an investor in the Shares may not receive the benefit of, or be able to enforce, any exercisable rights, or any compensation in lieu of such rights, if such an investor is located within a jurisdiction such as the United States.

***The reform of the open pension funds ("OFE"), which comprise the second pillar of the pension system in Poland, may have an adverse effect on Poland's capital market and result in a decrease in investments in shares of Polish listed companies***

Collectively, open pension funds (OFE) have been, historically, the largest private investor on the WSE and an important participant in the privatisation transactions carried out by the State Treasury through initial public offerings on the WSE. On 4 September 2013, the Government presented a resolution to be incorporated in the governmental draft bill concerning open pension funds reform to be carried out by the Government in order to decrease the debt-to-GDP ratio as well as the deficit of the Social Security Institution ("ZUS"). According to the proposal, the OFE reform envisages, among others, the transfer of treasury bonds and bonds guaranteed by the State Treasury from OFE to the Social Security Institution. Pursuant to press releases, such bonds constitute half of the OFEs' assets. Additionally, according to government announcements, upon completion of the OFE reform, the insured will be able to decide whether they want to transfer their payments to both OFE and ZUS or to ZUS exclusively. The planned reform may have a material adverse effect on the ability of OFEs to invest in the shares of companies listed on the WSE, and in consequence on the WSE liquidity. In addition, uncertainties related to the planned reform and negative opinions related thereto have a negative impact on the willingness of other investors to invest in the shares of companies listed on the WSE, including the Offer Shares.

The above factors may have a material adverse effect on the ability to successfully complete the Offering, as well as on the price of the Offer Shares upon its completion.

***The Underwriting Agreement is subject to customary conditions precedent concerning the underwriting obligation and contains customary conditions authorising the parties to terminate such agreement***

Pursuant to the Underwriting Agreement and conditions described in the Underwriting Agreement, the Managers agreed, subject to the satisfaction of certain conditions described below, to indicate alternative buyers for the Offer Shares, which will not be subscribed and paid for by Institutional Investors, to whom invitations to subscribe for such Offer Shares were sent and to acquire and pay or cause their affiliates to acquire any Offer Shares that have not been acquired by such alternative buyers. See "Underwriting, stabilisation and lock-up—Underwriting Agreement".

## RISK FACTORS

---

The Underwriting Agreement could be terminated pursuant to the conditions which reflect the prevailing market practices regarding similar offers, in particular in the event of a material change in the situation on the financial markets.

The Underwriting Agreement is governed by the laws of England and Wales and contains customary representations and warranties of the Company and the Selling Shareholder contained in international offers similar to the Offering itself.

Pursuant to the Underwriting Agreement, the Selling Shareholder and the Company undertook to release the Managers and other specified persons from any liability and obligation to satisfy any instituted claims, obligations or costs incurred by the Managers, Underwriters or other persons in relation to the Underwriting Agreement.

As at the date of this Offering Circular, we cannot guarantee that the terms and conditions of the Underwriting Agreement will be fulfilled or that the Underwriting Agreement will be terminated pursuant to its provisions.

***Enforcement of civil liabilities and judgments against the Issuer or any of its Management or Supervisory Board members, including those relating to the Offering or the Offer Shares, may be difficult***

The Company is organised under, and governed by, Polish law. All of the Issuer's material fixed assets are located in Poland. Furthermore, all of the Management Board and the Supervisory Board members are Polish residents. Therefore, investors outside the jurisdiction of the courts of Poland may face difficulties in effecting service of process on the Company, the Management Board or the Supervisory Board members in connection with proceedings instituted against such entities or individuals with reference to the Offering or the Offer Shares. There is uncertainty as to whether the courts of Poland would enforce (i) court judgments issued outside the EU against the Company or the members of the Company's corporate bodies, and (ii) claims against the Company or the members of the Company's corporate bodies brought in courts outside the EU. For additional information see "Important Information—Service of process and enforcement of liabilities".

**DIVIDENDS AND DIVIDEND POLICY****Dividend payment policy**

The Management Board intends to recommend to the General Meeting the payment of dividends taking into account predominantly the level of generated cash flows and net profit as disclosed in the stand-alone financial statements of the Company prepared in accordance with IFRS, the investment requirements of the Group, the Company's ability to obtain debt financing and its cost, as well as the amounts available for distribution as dividend.

Subject to the binding provisions of law, in particular subject to the condition that the Company generates sufficient net profit as disclosed in its stand-alone financial statements prepared in accordance with IFRS, and subject to the existing and expected financial standing of the Company and the market conditions, the Management Board intends to recommend to the General Meeting the payment of dividends. Until such time as the supplementary capital reaches one-third of the share capital, if the Company generates a net profit allowing the payment of dividends, the Management Board intends to recommend to the General Meeting the payment of dividends amounting to 92% of the Company's net profit disclosed in its stand-alone financial statements prepared in accordance with IFRS, provided that the maximum amount of dividend that the Management Board intends to recommend for the years ended 31 December 2013 and 2014 will not exceed PLN 400 million for the year ended 31 December 2013 and PLN 500 million for the year ended 31 December 2014. In subsequent years, if the conditions specified above are met, the Management Board intends to recommend the payment of dividends in an amount equal to the dividends paid for the year ended 31 December 2014, indexed by a ratio equal to or exceeding the inflation rate in Poland.

As at 30 September 2013, the Company's share capital amounted to PLN 4,521.6 million and its supplementary capital amounted to PLN 521.5 million. Pursuant to the CCC, the Company is required to allocate at least 8% of its profit to its supplementary capital, as long as its supplementary capital amounts to less than one-third of its share capital.

The Company is a holding company, hence its revenue, its net profit and as a consequence its ability to pay dividends in a given year, are determined by the amount of dividends it receives from its subsidiaries. On the other hand, the subsidiaries' ability to pay dividends to the Company in a given financial year depends on whether they generate sufficient net profit in the previous financial year or have sufficient supplementary capital and reserve capital that can be earmarked for the payment of dividends. It also depends on whether the subsidiaries have sufficient cash and on the provisions of certain agreements, in particular the financing agreements entered into with financial institutions, which may restrict the dividend payment to the Company. In consequence, any factors negatively affecting the financial results of the Company's subsidiaries will indirectly have an adverse effect on the Company's ability to pay dividends. Such factors include not only the factors affecting their revenues but also all income statement items, including, for example, items such as impairment losses.

There are no limitations on the payment of dividends in the Articles of Association of the Company. Additional information regarding the terms of dividend payments is provided in the section "Share Capital and Shares".

***Dividend payments in the period covered by the historical financial information***

Pursuant to Resolution No. 3 of the Annual General Meeting of 23 April 2013 on the distribution of net profit, the Company's net profit for the financial year ended 31 December 2012 (according to the stand-alone financial statements prepared in accordance with IFRS) and retained earnings from previous years of PLN 547.1 million were distributed in the following manner: the amount of PLN 496.9 million was earmarked for the payment of cash dividends to shareholders and PLN 50.3 million for the supplementary capital.

Pursuant to Resolution No. 3 of the Annual General Meeting of 31 May 2012 on the distribution of net profit, the Company's net profit for the financial year ended 31 December 2011 (according to the stand-alone financial statements prepared in accordance with the Accounting Act) of PLN 754.7 million was divided in the following manner: the amount of PLN 645.9 million was earmarked for the payment of cash dividends to shareholders, and PLN 108.7 million for the supplementary capital.

## DIVIDENDS AND DIVIDEND POLICY

---

Pursuant to Resolution No. 3 of the Annual General Meeting of 27 April 2011 on the distribution of net profit, the Company's net profit for the financial year ended 31 December 2010 (according to the stand-alone financial statements prepared in accordance with the Accounting Act) of PLN 347.9 million was divided in the following manner: the amount of PLN 149.1 million was earmarked for the payment of cash dividends to shareholders, and PLN 198.9 million for the supplementary capital.

The table below presents the value of dividend per share distributed for the financial years ended 31 December 2012, 2011 and 2010.

<b>Financial year ended 31 December</b>	<b>Number of shares at the end of the year</b>	<b>Cash dividend per share for the financial year (PLN)</b>
2012 .....	4,968,805,368	0.10
2011 .....	4,968,805,368	0.13
2010 .....	4,968,805,368	0.03

*Source: Stand-alone financial statements of ENERGA in accordance with IFRS for 2012 and condensed interim stand-alone financial statements of ENERGA in accordance with IAS 34 for the six-month period ended 30 June 2013.*

The table below presents the value of dividends per share that would have hypothetically been paid for the financial years ended 31 December 2012, 2011 and 2010, had the 1-for-12 reverse stock split occurred before the payment of dividends for those years. (See "Share Capital and Shares—General—Changes of our share capital").

<b>Financial year ended 31 December</b>	<b>Number of shares at the end of the year</b>	<b>Cash dividend per share for the financial year (PLN)</b>
2012 .....	414,067,114	1.20
2011 .....	414,067,114	1.56
2010 .....	414,067,114	0.36

*Source: Company (unaudited).*



## CAPITALISATION AND INDEBTEDNESS

The following table shows the capitalisation and indebtedness of the Group as at 30 September 2013. The figures presented below have not been audited or reviewed by an auditor. The following data should be analysed in conjunction with the Financial Statements and the information provided in “Operating and Financial Review”, as well as the financial data provided elsewhere in the Offering Circular.

	As at 30 September 2013 (PLN million)
<b>Short-term indebtedness<sup>(1)</sup></b> . . . . .	<b>339.2</b>
Guaranteed* . . . . .	0.0
Secured** . . . . .	8.0
Non-guaranteed/unsecured . . . . .	331.2
<b>Long-term indebtedness<sup>(2)</sup></b> . . . . .	<b>4,970.1</b>
Guaranteed* . . . . .	0.0
Secured** . . . . .	12.0
Non-guaranteed/unsecured . . . . .	4,958.1
<b>Equity</b> . . . . .	<b>7,865.6</b>
<i>Equity attributable to equity holders of the parent company</i> . . . . .	7,839.0
Share capital . . . . .	4,521.6
Foreign exchange gains/losses on translation of foreign operations . . . . .	(0.7)
Capital reserves . . . . .	447.2
Supplementary capital . . . . .	521.5
Cash flow hedge reserve . . . . .	28.3
Retained earnings . . . . .	2,321.1
<i>Non-controlling interests</i> . . . . .	<b>26.6</b>
<b>Total indebtedness and equity</b> . . . . .	<b>13,174.9</b>
A. Cash and cash equivalents . . . . .	2,306.8
B. Securities held for trading . . . . .	0.0
<b>C. Liquidity (A + B)</b> . . . . .	<b>2,306.8</b>
D. Short-term loans and borrowings . . . . .	6.0
E. Current portion of long-term indebtedness . . . . .	328.3
F. Other short-term indebtedness . . . . .	4.9
<b>G. Short-term indebtedness (D + E + F)</b> . . . . .	<b>339.2</b>
<b>H. Short-term indebtedness net (G – C)</b> . . . . .	<b>(1,967.6)</b>
I. Long-term loans and borrowings . . . . .	1,812.3
J. Outstanding bonds with maturity exceeding 1 year . . . . .	3,155.1
K. Other long-term indebtedness . . . . .	2.7
<b>L. Long-term indebtedness (I + J + K)</b> . . . . .	<b>4,970.1</b>
<b>M. Net indebtedness (H + L)</b> . . . . .	<b>3,002.5</b>

(1) The short-term indebtedness includes the current portion of loans and borrowings, liabilities under outstanding bonds and finance lease liabilities.

(2) The long-term indebtedness includes long-term loans and borrowings, liabilities under outstanding bonds and finance lease liabilities.

\* Including indebtedness collateralised with guarantees of entities outside the Group.

\*\* Including financial debts collateralised on the Group’s assets.

Source: Company (unaudited).

### Contingent and indirect liabilities

Our contingent liabilities as at 30 September 2013 are described in “Operating and Financial Review—Contingent liabilities”.

The Group has no liabilities that would be classified by the Management Board as indirect liabilities.

**Working capital statement**

The Management Board represents that in its opinion the working capital of the Group, as at the date of this Offering Circular, is sufficient for the Group's current requirements for a period of at least 12 months following the date of this Offering Circular.

SELECTED HISTORICAL FINANCIAL INFORMATION

**SELECTED HISTORICAL FINANCIAL INFORMATION**

The following tables present selected historical financial information derived from the Financial Statements. The information provided herein should be analysed in conjunction with the Financial Statements and the information provided in “Operating and Financial Review”, as well as the financial data provided elsewhere in the Offering Circular.

**Selected information from the consolidated profit and loss account statement and the consolidated statement of cash flows for the nine-month period ended 30 September 2013 and 2012 and for the years ended 31 December 2012, 2011 and 2010**

Selected information from the consolidated profit and loss account statement	Nine-month period ended 30 September		Year ended 31 December		
	2013	2012	2012	2011	2010
	(PLN million)				
Revenue including excise tax . . . . .	8,753.7	8,486.9	11,506.4	10,685.7	9,782.2
Excise tax . . . . .	(216.2)	(245.7)	(329.6)	(317.7)	(314.5)
<b>Revenue . . . . .</b>	<b>8,537.5</b>	<b>8,241.2</b>	<b>11,176.8</b>	<b>10,368.0</b>	<b>9,467.8</b>
Cost of sales . . . . .	7,062.1	6,936.9	9,532.1	8,759.1	8,055.3
<b>Gross profit . . . . .</b>	<b>1,475.4</b>	<b>1,304.3</b>	<b>1,644.7</b>	<b>1,609.0</b>	<b>1,412.5</b>
Other operating income . . . . .	97.7	81.9	134.9	154.5	69.2
Selling and distribution expenses . . . . .	213.5	206.6	247.5	187.9	109.2
General and administrative expenses . . . . .	280.0	277.5	375.3	414.3	329.8
Other operating expenses . . . . .	146.5	103.5	250.8	298.3	226.5
Financial income . . . . .	129.6	65.0	79.2	207.9	82.5
Financial costs . . . . .	246.8	186.0	359.1	172.7	103.7
Share of profits (losses) of associates accounted for under the equity method . . . . .	(0.5)	(0.2)	0.2	1.1	0.7
<b>Profit before tax . . . . .</b>	<b>815.5</b>	<b>677.5</b>	<b>626.3</b>	<b>899.2</b>	<b>795.6</b>
Income tax . . . . .	212.0	162.5	166.5	196.6	171.0
<b>Net profit on continuing operations . . . . .</b>	<b>603.4</b>	<b>515.0</b>	<b>459.8</b>	<b>702.6</b>	<b>624.6</b>
Net loss from discontinued operations . . . . .	(5.8)	—	(18.3)	—	(0.4)
Net profit on disposal of non-current assets classified as held for sale . . . . .	—	15.2	14.9	—	—
<b>Net profit for the period . . . . .</b>	<b>597.6</b>	<b>530.2</b>	<b>456.4</b>	<b>702.6</b>	<b>624.2</b>
Attributable to:					
Equity holders of the Parent Company . . . . .	610.8	529.6	457.0	663.9	604.3
Non-controlling interests . . . . .	(13.2)	0.6	(0.6)	38.7	19.9
<b>Selected information from the consolidated statement of cash flows</b>					
Net cash from operating activities . . . . .	1,489.6	852.3	1,334.7	1,481.9	1,179.2
Net cash used in investing activities . . . . .	(2,297.7)	(1,248.0)	(1,803.1)	(2,003.7)	(1,003.3)
Net cash from financing activities . . . . .	1,120.5	(64.6)	742.3	616.5	620.6

Source: Financial Statements.

SELECTED HISTORICAL FINANCIAL INFORMATION

**Selected information from the statement of comprehensive income for the nine-month period ended 30 September 2013 and 2012 and for the years ended 31 December 2012, 2011 and 2010**

	Nine-month period ended 30 September	
	2013	2012
	(PLN million)	
<b>Net profit/(loss) for the period</b> . . . . .	<b>597.6</b>	<b>530.2</b>
<i>Items that will never be reclassified to profit or loss</i> . . . . .	31.3	(44.2)
Actuarial gains and losses on defined benefit plans . . . . .	38.6	(54.6)
Income tax on items that will never be reclassified to profit or loss . . . . .	(7.3)	10.4
<i>Items that are or may be reclassified to profit or loss in the future</i> . . . . .	27.6	(0.2)
Foreign exchange gains/losses on translation of foreign operations . . . . .	(0.7)	(0.2)
Cash flow hedges . . . . .	34.9	—
Income tax on items that may be reclassified to profit or loss in the future . . . . .	(6.6)	—
<b>Net other comprehensive income</b> . . . . .	<b>58.8</b>	<b>(44.5)</b>
<b>Total comprehensive income</b> . . . . .	<b>656.5</b>	<b>485.7</b>
Attributable to:		
Equity holders of the Parent Company . . . . .	669.5	485.7
Non-controlling interests . . . . .	(13.1)	0.0

Source: Condensed Interim Consolidated Financial Statements.

	Year ended 31 December		
	2012	2011	2010
	(PLN million)		
<b>Net profit/(loss) for the period</b> . . . . .	<b>456.4</b>	<b>702.6</b>	<b>624.2</b>
CIT reimbursement under Distribution Plan . . . . .	—	92.3	—
Actuarial gains and losses on defined benefit plans . . . . .	37.5	(48.1)	4.1
Foreign exchange gains/losses on translation of foreign operations . . . . .	(0.2)	0.3	0.0
Income tax on defined benefit plans . . . . .	(7.1)	9.1	(0.8)
<b>Net other comprehensive income</b> . . . . .	<b>30.1</b>	<b>53.5</b>	<b>3.3</b>
<b>Total comprehensive income</b> . . . . .	<b>486.5</b>	<b>756.1</b>	<b>627.6</b>
Attributable to:			
Equity holders of the Parent Company . . . . .	487.2	717.5	607.6
Non-controlling interests . . . . .	(0.6)	38.7	20.0

Source: Consolidated Financial Statements.

SELECTED HISTORICAL FINANCIAL INFORMATION

Information from the consolidated statement of financial position as at 30 September 2013 and as at 31 December 2012, 2011 and 2010

	As at 30 September	As at 31 December		
	2013	2012	2011	2010
(PLN million)				
<b>ASSETS</b>				
Property, plant and equipment . . . . .	11,356.1	10,000.9	9,150.7	8,451.1
Investment property . . . . .	15.3	17.1	24.6	19.0
Intangible assets . . . . .	376.4	378.6	312.5	269.4
Goodwill . . . . .	145.0	28.6	17.6	17.2
Investments associates accounted for under the equity method . . . . .	2.0	2.6	2.8	41.6
Other investments . . . . .	1.3	1.0	1.6	32.5
Deferred tax assets . . . . .	225.5	209.9	171.4	116.0
Derivative instruments . . . . .	50.4	—	—	—
Other non-current assets . . . . .	55.7	58.8	32.4	18.3
<b>Non-current assets</b> . . . . .	12,227.8	10,697.4	9,713.4	8,965.1
Inventories . . . . .	291.6	376.9	395.9	313.0
Current tax receivables . . . . .	40.4	37.5	15.5	62.9
Trade receivables . . . . .	1,274.7	1,520.7*	1,515.7*	1,440.8*
Deposits . . . . .	20.4	26.8	—	0.1
Other financial assets . . . . .	20.3	18.7**	52.2**	16.8**
Cash and cash equivalents . . . . .	2,306.8	2,069.1	1,777.3	1,683.6
Other current assets . . . . .	235.8	155.5	210.7	157.6
<b>Current assets</b> . . . . .	4,189.9	4,205.2	3,967.3	3,674.8
Assets classified as held for sale . . . . .	142.8	10.2	4.5	0.2
<b>TOTAL ASSETS</b> . . . . .	16,560.5	14,912.8	13,685.3	12,640.1

\* The amount presented under “Trade and other financial receivables” in the Consolidated Financial Statements.

\*\* The amount includes the value of shares disclosed separately under “Other shares” in the Consolidated Financial Statements and the value of other financial receivables presented together with trade receivables under “Trade receivables and other financial receivables” in the Consolidated Financial Statements.

Source: Financial Statements.

SELECTED HISTORICAL FINANCIAL INFORMATION

	As at 30 September	As at 31 December		
	2013	2012	2011	2010
	(PLN million)			
<b>EQUITY AND LIABILITIES</b>				
<b>Equity attributable to equity holders of the parent company</b>				
Share capital . . . . .	4,521.6	4,968.8	4,968.8	4,968.8
Foreign exchange gains/losses on translation of foreign operations . . . . .	(0.7)	0.0	0.3	0.0
Reserve capital . . . . .	447.2	—	—	—
Supplementary capital . . . . .	521.5	471.2	362.5	163.6
Cash flow hedge reserve . . . . .	28.3	—	—	—
Retained earnings . . . . .	2,321.1	2,231.1	2,494.2	1,893.7
<b>Non-controlling interests</b> . . . . .	26.6	47.3	59.7	887.5
<b>Total equity</b> . . . . .	7,865.6	7,718.5	7,885.5	7,913.6
Loans and borrowings . . . . .	1,812.3	2,026.1	1,904.2	1,033.6
Bonds issued . . . . .	3,155.1	1,079.2	—	—
Non-current provisions . . . . .	652.8	710.8	667.3	599.6
Deferred tax liabilities . . . . .	516.8	519.7	525.6	553.5
Deferred income and non-current government grants . . . . .	462.7	456.0	465.9	442.9
Finance lease liabilities . . . . .	2.7	7.3	3.6	1.6
Other non-current financial liabilities . . . . .	2.6	1.7*	1.6*	0.3*
Other non-current liabilities . . . . .	10.1	0.6	3.5	0.1
<b>Non-current liabilities</b> . . . . .	6,615.1	4,801.5	3,571.7	2,631.7
Trade liabilities . . . . .	718.0	709.8**	704.1**	736.8**
Other financial liabilities . . . . .	67.3	170.5**	189.4**	233.6**
Current loans and borrowings . . . . .	283.4	389.6	45.0	42.8
Bonds issued . . . . .	50.9	—	—	—
Current income tax liability . . . . .	19.4	34.7	116.7	74.3
Deferred income and government grants . . . . .	30.2	28.9	28.1	21.0
Accruals . . . . .	87.4	117.8	122.8	85.8
Provisions . . . . .	376.1	555.3	511.3	354.0
Other current liabilities . . . . .	379.8	386.2	510.7	546.5
<b>Current liabilities</b> . . . . .	2,012.5	2,392.8	2,228.1	2,094.8
Liabilities related to assets classified as held for sale . . . . .	67.4	—	—	0.0
<b>Total liabilities</b> . . . . .	8,695.0	7,194.3	5,799.8	4,726.5
<b>TOTAL EQUITY AND LIABILITIES</b> . . . . .	16,560.5	14,912.8	13,685.3	12,640.1

\* This amount was presented as the item “Trade liabilities and other non-current liabilities” in the Consolidated Financial Statements.

\*\* These amounts were presented as elements of the item “Trade liabilities and other financial liabilities” in the Consolidated Financial Statements.

Source: Financial Statements.



SELECTED HISTORICAL FINANCIAL INFORMATION

**Selected operational information and EBITDA**

	Nine-month period ended 30 September	Year ended 31 December		
	2013	2012	2011	2010
Electricity distributed to end-customers (GWh) . .	15,165.4	20,058.0	19,610.7	19,310.9
Sale of electricity (GWh) . . . . .	21,386.5	25,916.2	24,025.0	20,792.2
Electricity offtakers in tariff groups of ENERGA- OBRÓT (in thousands) . . . . .	2,908.0	2,894.2	2,887.4	2,877.6
Achievable capacity (electricity) (as at the end of the period) (MWe) . . . . .	1,246.4	1,132.9	1,129.7	1,129.2
Achievable capacity (heat) (as at the end of the period) (MWt) . . . . .	747.2	747.2	771.2	771.2
Net generated electricity (GWh) . . . . .	3,474.9	3,729.7	4,322.9	4,208.3
Gross generated electricity (GWh) . . . . .	3,755.9	4,071.8	4,682.3	4,556.3
Gross heat generated (GJ) . . . . .	2,756,617.1	4,099,633.4	3,898,995.0	6,142,456.0
Net heat generated (GJ) . . . . .	2,605,327.7	3,877,663.4	3,686,224.0	5,906,292.2
Distribution networks as at the end of the period (thousand km) . . . . .	193.1 <sup>(1)</sup>	192.0	189.3	188.0
EBITDA <sup>(2)*</sup> (PLN million) . . . . .	1,501.4	1,629.2	1,519.7	1,407.6

(1) As at 30 June 2013

(2) We define and calculate EBITDA as operating profit/(loss) (calculated as net profit/(loss) on continued operations for the period/year adjusted for (i) income tax, (ii) share in profit (loss) of associates, (iii) finance income and (iv) finance costs) adjusted for depreciation and amortisation (as disclosed in the income statements). EBITDA is not an IFRS measure and should not be treated as an alternative to IFRS measures. Moreover, EBITDA is not uniformly defined. The method of calculating EBITDA used by other companies may differ significantly from that used by us. In consequence, the EBITDA presented in this section cannot, as such, be relied upon for the purpose of comparisons to other companies. See “Important Information—Financial information and operating data—Financial information not based on GAAP (Generally Accepted Accounting Principles)”.

Source: Company (unaudited); \*Financial Statements.

## OPERATING AND FINANCIAL REVIEW

*The following discussion of our operating and financial condition is based primarily on the Financial Statements. This section should be read in conjunction with the Financial Statements, including the accounting policies and the notes thereto, as well as other financial information contained elsewhere in this Offering Circular. A summary of the critical accounting policies that have been applied in the preparation of the Financial Statements is set forth in “—Critical accounting policies and estimates” below.*

*Certain information presented in this section, including information regarding our capital expenditures, described in “—Capital Expenditures” below, and information presented elsewhere in the Offering Circular, including the information in “Capitalisation and Indebtedness”, has not been derived from the Financial Statements and has not been audited or reviewed by independent auditors. Such information should not serve as an indicator of our past or future operating performance, financial condition or development prospects or be used to analyse our business in isolation from the Financial Statements (including the accounting policies and the notes thereto), and other financial information contained elsewhere in this Offering Circular. We have included this information in this Offering Circular as we believe that investors may find this information helpful in assessing our business.*

*This section contains certain forward-looking statements. These statements are subject to numerous risks and uncertainties, including, but not limited to, those described in “Important Information” and “Risk Factors”.*

### Overview

Our principal businesses are the distribution, generation and sale of electricity. We are the third largest distribution system operator in Poland in terms of the volume of electricity distributed to end-customers, with a leading position in Poland in terms of the share of electricity distribution in EBITDA. We also have a leading position among major power sector groups in terms of electricity production in hydro power plants and the share of electricity generated from renewable energy sources. We are the third largest seller of electricity in Poland in terms of the volume of electricity sold to end-customers.

Our core business segments are:

- the distribution segment, which comprises distribution of electricity and activities directly or indirectly related to distribution;
- the generation segment, which mainly comprises the generation of electricity from renewable energy sources, system power plants and CHPs as well as heat distribution; and
- the sales segment, which comprises sales of electricity, customer service as well as lighting services.

We operate as a natural monopoly in the northern and central part of Poland where our distribution assets are situated. As at 30 June 2013, our distribution network covered an area of approximately 77 thousand square kilometres, which represents approximately 25% of the country's total area. In the nine-month periods ended 30 September 2013 and 2012 we delivered, respectively, 15.2 TWh and 14,9 TWh of electricity to end-customers, and 20.1 TWh, 19.6 TWh and 19.3 TWh of electricity in the years ended 31 December 2012, 2011 and 2010, respectively.

As at the date of the Offering Circular, the total installed capacity of our power plants is approximately 1.3 GW. The installed capacity of our power plants is based on diversified energy sources, such as hard coal, water, biomass and, more recently, wind. In the nine-month periods ended 30 September 2013 and 2012 we generated 3.8 TWh and 3.3 TWh of gross electricity, respectively, and 4.1 TWh, 4.7 TWh and 4.6 TWh of gross electricity in the years ended 31 December, 2012, 2011 and 2010, respectively.

We sell electricity to 2.9 million customers, both households and businesses. We also trade in electricity on the domestic and the international wholesale electricity markets. The volume of electricity we sold to end-customers was 13.6 TWh and 15.1 TWh, respectively, in the nine-month periods ended 30 September 2013 and 2012, and 20.5 TWh, 19.3 TWh and 18.6 TWh, respectively, in the years ended 31 December 2012, 2011 and 2010. The volume of electricity sold to external customers by the sales segment on the wholesale market was 7.8 TWh and 4.0 TWh, respectively, in the nine-month periods ended 30 September 2013 and 2012, and 5.4 TWh, 4.7 TWh and 2.2 TWh in the years ended 31 December 2012, 2011 and 2010, respectively.

The table below sets forth selected financial data related to our core business segments for the periods indicated.

	Nine-month period ended 30 September				Year ended 31 December					
	2013		2012		2012		2011		2010	
	(PLN million)	(%)*	(PLN million)	(%)*	(PLN million)	(%)*	(PLN million)	(%)*	(PLN million)	(%)*
<b>Revenue:</b>										
Distribution	2,799.1	32.8	2,707.6	32.9	3,684.3 <sup>(1)*</sup>	33.0	3,389.4 <sup>(1)*</sup>	32.7	3,222.5 <sup>(1)*</sup>	34.0
Generation	1,115.8	13.1	1,158.2	14.1	1,547.7 <sup>(1)*</sup>	13.8	1,826.0 <sup>(1)*</sup>	17.6	1,607.1 <sup>(1)*</sup>	17.0
Sales	5,248.8	61.5	5,214.3	63.3	7,178.6 <sup>(1)*</sup>	64.2	6,804.4 <sup>(1)*</sup>	65.6	5,646.0 <sup>(1)*</sup>	59.6
Services	261.9	3.1	270.5	3.3	376.1 <sup>(1)*</sup>	3.4	274.8 <sup>(1)*</sup>	2.7	180.6 <sup>(1)*</sup>	1.9
Other and consolidation eliminations and adjustments	(888.1)	(10.4)	(1,109.4)	(13.5)	(1,610.0) <sup>(1)*</sup>	(14.4)	(1,926.7) <sup>(1)*</sup>	(18.6)	(1,188.6) <sup>(1)*</sup>	(12.6)
Group revenue	8,537.5	100.0	8,241.2	100.0	11,176.8	100.0	10,368.0	100.0	9,467.8	100.0
<b>EBITDA</b>										
Distribution <sup>(2)</sup>	1,136.1	75.7	1,036.9	77.8	1,218.0 <sup>(1)*</sup>	74.8	916.1 <sup>(1)*</sup>	60.3	653.6 <sup>(1)*</sup>	46.4
Generation <sup>(2)</sup>	198.6	13.2	114.8	8.6	158.2 <sup>(1)*</sup>	9.7	498.5 <sup>(1)*</sup>	32.8	591.0 <sup>(1)*</sup>	42.0
Sales <sup>(2)</sup>	188.0	12.5	201.2	15.1	264.5 <sup>(1)*</sup>	16.2	167.5 <sup>(1)*</sup>	11.0	242.7 <sup>(1)*</sup>	17.2
Services <sup>(2)</sup>	26.4	1.8	11.5	0.9	21.7 <sup>(1)*</sup>	1.3	(0.5) <sup>(1)*</sup>	(0.0)	2.5 <sup>(1)*</sup>	0.2
Other and consolidation eliminations and adjustments <sup>(2)</sup>	(47.8)	(3.2)	(31.9)	(2.4)	(33.1) <sup>(1)*</sup>	(2.0)	(61.9) <sup>(1)*</sup>	(4.1)	(82.1) <sup>(1)*</sup>	(5.8)
Group EBITDA <sup>(2)</sup>	1,501.4	100.0	1,332.4	100.0	1,629.2	100.0	1,519.7	100.0	1,407.6	100.0
Adjusted EBITDA <sup>(2)</sup>	1,681.0*	—	1,471.0*	—	1,876.1*	—	1,610.7*	—	1,602.6*	—

(1) The Company changed the presentation of the segments in the Condensed Interim Consolidated Financial Statements (see: “Operating and Financial Review—Reporting by segments” and “Important Information—Financial information and operating data—Changes in the presentation” above). With reference to these changes, in order to ensure the comparability of financial information for the segments between the Condensed Interim Consolidated Financial Statements and the Consolidated Financial Statements, the relevant items are presented in accordance with the manner adopted for the Condensed Interim Consolidated Financial Statements.

(2) The Company defines and calculates EBITDA as operating profit/(loss) (calculated as net profit/(loss) on continuing operations for the period/year adjusted for (i) income tax, (ii) share in profits of associates, (iii) financial income and (iv) finance costs) adjusted for depreciation and amortisation (as disclosed in the income statements). We define Adjusted EBITDA as EBITDA adjusted for non-recurrent events. A calculation of the EBITDA and Adjusted EBITDA is presented in detail in “Important Information—Financial information and operating data—Financial information not based on GAAP (Generally Accepted Accounting Principles)”. Neither EBITDA nor Adjusted EBITDA are IFRS measures and should not be treated as alternatives to IFRS measures. Moreover, neither EBITDA nor Adjusted EBITDA are uniformly defined. The method of calculating EBITDA and Adjusted EBITDA used by other companies may differ significantly from that used by us. In consequence, the EBITDA and Adjusted EBITDA presented in this chapter cannot, as such, be relied upon for the purpose of comparison to other companies. A reconciliation of net profit/(loss) for the period/year and EBITDA and Adjusted EBITDA, is presented in “Important Information—Financial information and operating data—Financial information not based on GAAP (Generally Accepted Accounting Principles)”.

Source: Financial Statements; \*Company (unaudited).

### Key factors and significant market trends affecting our results of operations

We believe that the following factors and market trends significantly affected our results of operations for the periods discussed, and we expect that they will continue to have a significant impact on our results of operations in the future.

#### Regulatory Matters and the ERO President’s policies

A significant part of our business is regulated. Our operations have been influenced in the past and, we believe, will likely continue to be influenced in the future by numerous regulations, including the Energy Law, European Community legislation and international conventions dealing, among others, with environmental protection and climate change (including CO<sub>2</sub> emissions), as well as with support for certain electricity generation technologies, including the generation of electricity from RES and high-efficiency cogeneration (see “Regulatory Matters—Energy sector regulation—Regulation of renewable energy and cogeneration (CHP)”). We believe that our performance will be influenced in particular by (i) continued deregulation and liberalisation of the electricity market (the final market liberalisation will include also the deregulation of electricity prices for households), which may lead to increased price competition in the

energy market in Poland, (ii) future regulatory changes in the methods of calculating distribution tariffs, including in particular the changes to methods of recognising the justified costs or the calculation of the justified return on capital, which can affect our revenue and the profitability of the distribution segment, (iii) the final form of the system of support for electricity coming from RES or high-efficiency cogeneration, which can affect our revenue and the profitability of the generation segment, as well as our investment programme related to the RES and cogeneration facilities, and (iv) the annual increments in the obligation to redeem certificates of origin from cogeneration or from renewable energy sources, which can increase our operating cost.

Furthermore, our business has been influenced in the past and, we believe, will likely continue to be influenced in the future by the policies of the ERO President and other public administrative bodies as well as by individual administrative decisions, interpretations and recommendations issued by those bodies in relation to our operations, especially the approving of tariffs and other regulatory obligations. We expect that the policies of the ERO President and future legislative changes, including those related to Polish electricity market, will aim at stricter regulation relating to environmental protection (including energy efficiency and emission of pollutants) (see “Regulatory Matters—Energy sector regulation—Planned amendments to legal regulations—New energy regulations” and “Risk Factors—Risks related to our business—The national support system for the generation of electricity from RES may change significantly”).

In the period covered by the Financial Statements the greatest influence on our performance that is caused by regulatory factors is attributed to the change in the methodology of determining the return on capital in distribution tariffs implemented in 2010, which caused an increase in our revenue from the distribution business. Additionally, for the regulatory period 2012-2015, the ERO President, based on the applied cost evaluation model, set a more favourable level of justified operating cost for ENERGA-OPERATOR than in the previous regulatory period (2009-2011) (see “—Electricity sale and distribution tariffs—Distribution tariffs” below). Additionally, the obligation to trade in electricity on the power exchange implemented in 2010 increased the liquidity and transparency of the wholesale electricity market in Poland. This, among other things, resulted in increasing the volume of electricity we sold on the wholesale market in recent years. Other important regulatory factors that affected our financial condition in the period in question include, in our view, the absence of regulations governing the domestic system of support for high-efficiency cogeneration units after 31 March 2013 (see “Regulatory Matters—Regulation of renewable energy and cogeneration (CHP)—Energy generated in combination with heat (cogeneration or CHP)”) and prolonging duration of the proceedings to obtain green certificates for the co-combustion of biomass (see “Risk Factors—Risks related to our business—The ERO President may expand the scope of documents required in proceedings concerning green certificates from biomass co-combustion thus extending their issuance period”).

### ***Electricity sale and distribution tariffs***

#### *General information*

A significant part of our revenue comes from the sale of electricity and distribution services at prices regulated in tariffs. According to the Energy Law, tariffs approved by the ERO President should in particular ensure (i) covering the justified costs of business activity of the power company related to the generation, processing, transmission, distribution or sales of electricity, with a justified return on capital involved in that business, and (ii) protecting the customers from unreasonable increases in prices and fee rates. The revenue based on tariffs approved by the ERO President represented 44.2% and 44.7% of our revenue in the nine-month periods ended 30 September 2013 and 2012, respectively, and 44.6%, 44.2% and 46.3% in the years ended 31 December 2012, 2011 and 2010, respectively. Therefore, similarly as in the past, the ERO President’s decision concerning the approval of tariffs or the abolition of the requirement to submit the tariffs for approval will impact our business and financial results in the years to come (see “Risk factors—Risks related to our business—The ERO President may delay or refuse to approve electricity distribution and sales tariffs or heat distribution tariffs and the approved tariffs may not be sufficient to cover the costs of the operation of Group companies or to cover their expected return on capital”).

*Electricity sale tariffs*

The price at which we sell electricity depends primarily on the type of customer. As at the date of the Offering Circular, the tariffs for sales of electricity, with the exception of tariffs for the sale of electricity to customers from tariff group G, i.e. customers other than enterprises (mainly households), are not subject to approval by the ERO President. Should the requirement to submit tariff G to the ERO President for approval indeed be lifted as announced by the ERO President, the price of electricity for households will be market-driven. It is also possible that increased competition in a market that is currently subject to tariff requirements will induce customers to switch electricity supplier (the TPA rule, see “Regulatory Matters—Energy sector regulation—Right to choose the seller and third-party access (TPA rule)”), which may result in an increased client migration. Currently, the level of client migration may be considered as negligible and having no real significance from the point of view of the revenue and margin targets that we pursue.

With regard to electricity sales to institutional customers (tariff groups A, B, C), the prices are deregulated and thus market-driven. The largest price competition concerns the sale of energy to the largest customers segment (strategic clients, mainly tariff group A and B). It is to be expected that the actions of both the regulatory authority and electricity sellers themselves will lead to a situation in which we could shortly witness significant migrations of smaller business clients, seeking financial benefits by buying electricity at lower prices from our competitors.

The table below illustrates the average electricity sale prices for particular tariff groups for the periods indicated.

Tariff groups <sup>(1)</sup>	Nine-month period ended 30 September		Year ended 31 December		
	2013	2012	2012	2011	2010
			(PLN/MWh)		
<b>Tariff A (HV)</b> . . . . .	221.9	244.4	246.0	243.4	235.0
<b>Tariff B (MV)</b> . . . . .	253.5	265.0	265.4	261.7	260.7
<b>Tariff C (LV)</b> . . . . .	309.1	321.9	319.0	314.8	305.6
<b>Tariff G (LV)</b> . . . . .	278.6	279.5	279.9	265.9	248.6
<b>Average prices</b> . . . . .	<b>268.9</b>	<b>277.1</b>	<b>276.9</b>	<b>271.9</b>	<b>265.1</b>

(1) Tariff group A—largest customers, connected to high-voltage lines (110 kV), e.g. steelworks, mines, shipyards and large factories; tariff group B—large industrial enterprises connected to medium voltage lines (from 1 kV to 110 kV), e.g. factories, hospitals, shopping centres, recreation and entertainment centres; tariff group C—institutional customers connected to the low voltage lines (up to 1 kV), e.g. banks, shops, health clinics, retail and service points, streets lighting; tariff group G—households and similar offtakers, regardless of voltage (tariff requires ERO President approval).

Source: Company (unaudited).

Since 1 July 2013, according to the tariff approved by the ERO President, the price at which we sell electricity to tariff Group G clients was decreased. This tariff will remain in force until the end of 2013.

Information regarding the structure of our sales of electricity in terms of volume and value in the period covered by the Financial Statements is provided in “Our Business—Organisational structure—Sales—Retail Sales”.

*Distribution tariffs*

The distribution segment is the key business area contributing to our operating profitability. Electricity distribution is a regulated activity in Poland and the tariffs applied in relation to electricity distribution services must be approved by the ERO President. The DSO tariff model is based on the principle of reimbursement of the costs incurred by the operator, with the main source of profit for the Company being the return on capital employed in the distribution business. The tariff is approved each year by the ERO president, based on the regulated revenue reported by the DSO. The regulated revenue reflects the planned costs of the distribution business to be incurred by the distribution company that the ERO President deems justified, and takes into account a target return on the capital employed. Distribution costs include operating cost, amortisation, taxes on network assets, the cost of purchasing electricity to cover network losses, the cost of purchasing transmission services and the cost of transition fees based on the PPA Act. The basis for calculation of the return on capital are the RAB and the WACC. Tariffs are typically approved for the period of one calendar year. The ERO President determines the duration of



## OPERATING AND FINANCIAL REVIEW

regulatory periods (from 3 to 5 years), for which the model of calculating operating cost and the principles of determining a reasonable level of network losses apply. Details regarding the methodology of calculating the distribution tariffs are provided in “Regulatory Matters—Energy sector regulation—Tariffs”.

It is expected that the current regulatory framework and rules regarding the determination of the RAB and the WACC should not change until 2015. As announced by the ERO President, the regulatory system is expected to be overhauled prior to the commencement of a new regulatory period in 2016 to take into account the quality of electricity supply and customer service. According to the assumptions outlined by the ERO President, an evaluation of the quality of service would affect the determination of the target return on capital. The ERO President has also declared that according to his assumptions, changes in the regulation should preserve a reasonable price level for distribution services and at the same time allow the following goals to be achieved: (i) improve the quality and reliability of electricity supplies, (ii) optimise the effectiveness of pending investments, (iii) reduce network losses (both technical and commercial), (iv) improve and protect the quality of services provided to offtakers/generators, and (v) improve energy efficiency. In the view of the ERO President, the quality of service regulation should be implemented in stages. As of 2016, the implementation of quality of service regulation based on the continuity of electricity supply should commence. Other ratios taking into account the quality of customer service should be implemented, and the other goals mentioned above pursued at later stages. As announced, the implementation of elements of quality of service regulation does not require any change in regulation and should be possible to be effected by way of reflecting these elements in the WACC and other ratios reflecting the changed terms and conditions of business and the expected improvement in efficiency. Due to the general nature of the description of the proposed changes, at the date of the Offering Circular, we are not able to assess the impact of these solutions on the level of our regulated revenue. However, we do not currently expect the proposed changes to adversely affect our regulated revenue, given our past and on-going efforts to improve the quality of our services, including a material reduction of SAIDI and SAIFI in line with international standards.

The table below sets out the average distribution prices for particular tariff groups in the periods indicated.

Tariff groups <sup>(1)</sup>	Nine-month period ended 30 September		Year ended 31 December		
	2013	2012	2012	2011	2010
			(PLN/MWh)		
<b>Tariff A (HV)</b> . . . . .	51.7	53.4	53.7	53.6	56.8
<b>Tariff B (MV)</b> . . . . .	104.2	103.4	104.3	95.3	89.8
<b>Tariff C (LV)</b> . . . . .	274.9	265.9	266.3	243.6	225.4
<b>Tariff G (LV)</b> . . . . .	251.4	241.7	242.0	219.0	202.0
<b>Average price</b> . . . . .	<b>168.4</b>	<b>165.3</b>	<b>165.9</b>	<b>153.4</b>	<b>146.1</b>

(1) Tariff group A—largest customers, connected to high-voltage lines (110 kV), e.g. steelworks, mines, shipyards and large factories; tariff group B—large industrial enterprises connected to medium voltage lines (from 1 kV to 110 kV), e.g. factories, hospitals, shopping centres, recreation and entertainment centres; tariff group C—institutional customers connected to the low voltage lines (up to 1 kV), e.g. banks, shops, health clinics, retail and service points, streets lighting; tariff group G—households and similar offtakers, regardless of voltage (tariff requires ERO President approval).

Source: Company (unaudited).

Detailed information regarding the structure of our regulated revenue and the sale of distribution services in terms of value and volume in the period covered by the Financial Statements is provided in “Our Business—Organisational structure—Distribution”.

In the period covered by the Financial Statements, an important factor resulting in an increase in our revenue from the distribution business were certain changes to the methodology of determining the justified return on capital reflected in the distribution tariff, implemented by the ERO President in 2010. These changes are intended to gradually adjust the RAB, being the basis for calculating the return on capital, to the actual market value of the distribution assets over a number of years. In line with this method, the distribution assets of DSOs which unbundled the distribution business and sales as of 1 July 2007, were valued according to uniform principles and used as a basis for the calculation of justified return on capital. The valuation was applied only to the assets held by the DSOs as at 31 December 2008, because any assets generated after that date are fully compensated. According to the binding methodology,



the DSOs are required to annually recalculate the RAB and submit the RAB revaluation reports to the ERO President, along with auditor's reports on the completion of the agreed procedures reviewing elements of those reports. Given the significant increase in the value of the return on capital (resulting from an increase in the RAB) in comparison to the previous years, the methodology also defines a path for achieving the full RAB compensation. The maximum annual return on capital related to the valuated assets is limited to 1.5% of the regulated revenue for the preceding year, less the return on capital and depreciation of new assets, i.e. those generated after 31 December 2008. Based on this methodology, we expect that the full value of the new RAB will be reflected in the 2014 tariff.

#### *System of support for the generation of electricity from RES and in cogeneration*

To the extent to which we sell electricity to end-customers, we are obliged to submit an appropriate number of certificates of origin to the ERO President for redemption or to pay substitution fees. We earn green and red certificates because, meeting certain regulatory requirements, we generate part of our electricity in hydroelectric power plants and the recently acquired wind farms and through the combustion of biomass (wood and agricultural), as well as from high-efficiency cogeneration (see "Regulatory Matters—Energy sector regulation—Regulation of renewable energy and cogeneration (CHP)—Energy from renewable sources"). The high rate of utilisation of renewable energy sources translates into revenue from the sale of certificates of origin (green mainly and, to some extent, red) that amounted to PLN 322.8 million and PLN 267.1 million in the nine-month periods ended 30 September 2013 and 2012, respectively, and PLN 344.1 million, PLN 392.9 million and PLN 395.5 million in the years ended 31 December 2012, 2011 and 2010, respectively.

We are required to obtain and redeem these certificates on a volume of energy that is calculated as a percentage of the total electricity that we sell to end-customers. This percentage will continue to grow gradually in the forthcoming years. Additionally, the volume of electricity sold by us to end-customers may rise in the years ahead, which will demand a greater number of certificates.

The table below illustrates the quantity of certificates of origin generated by our generation companies for the periods indicated.

	Nine-month period ended 30 September		Year ended 31 December		
	2013 <sup>(1)</sup>	2012	2012	2011	2010
			(MWh)		
<b>Green certificates</b> . . . . .	<b>1,328,953</b>	<b>988,452</b>	<b>1,261,360</b>	<b>1,288,648</b>	<b>1,414,359</b>
ENERGA Hydro . . . . .	809,740	585,773	732,982	983,184	1,145,569
FW Bystra . . . . .	3,980	—	—	—	—
FW Karścino . . . . .	19,220	—	—	—	—
FW Karcino . . . . .	18,630	—	—	—	—
ENERGA Elektrownie Ostrołęka . . . . .	477,382 <sup>(2)</sup>	402,679	528,378 <sup>(2)</sup>	305,464	268,790
<b>Red certificates</b> . . . . .	<b>71,590</b>	<b>58,343</b>	<b>112,095</b>	<b>111,467</b>	<b>258,073</b>
ENERGA Kogeneracja . . . . .	71,590	58,343	112,095	111,467	125,649
ENERGA Elektrownie Ostrołęka . . . . .	—	—	—	—	132,424

(1) As at the date of the Offering Circular not all rights generated in this period were registered by the ERO.

(2) As at the date of the Offering Circular the procedure of registering certificates of origin for energy generated in biomass co-combustion is pending (see "Risk Factors—Risks related to our business—The ERO President may expand the scope of documents required in proceedings concerning green certificates from biomass co-combustion thus extending their issuance period").

Source: Company (unaudited).

Because the Group comprises both assets that generate electricity from RES (hydroelectric plants, biomass co-combustion facilities and the recently acquired wind farms) and in cogeneration and conventional assets, green and red certificates are traded within the Group entities. An energy flow model has been in place in the Group, within which ENERGA-OBRÓT is the entity responsible for the purchase of certificates of origin generated by the Group's generating assets.

The oversupply of green certificates within the Group observed in the past has been significantly reduced as at the date of this Offering Circular, mainly as a result of the fact that the ERO President extended the process of allotting green certificates to biomass-fired sources, by stipulating additional formal and legal requirements (see “Risk Factors—Risks related to our business—The ERO President may expand the scope of documents required in proceedings concerning green certificates from biomass co-combustion thus extending their issuance period”). Additionally, as of 1 April 2013, the system of support for high-efficiency cogeneration relying on certificates of origin has been sustained only in part (the obligation to obtain and submit yellow and red certificates to the ERO President for redemption was lifted as of 31 March 2013 (see “Regulatory Matters—Energy sector regulation—Regulation of renewable energy and cogeneration (CHP)—Energy generated in combination with heat (cogeneration or CHP)”). The implementation of a new system of support for high-efficiency cogeneration in a different form than that binding until 31 March 2013, or a decision to reinstate the previous obligation to obtain and submit yellow and red certificates to the ERO President for redemption, may result in shortages of red and yellow certificates that will be covered by purchases on the Polish Power Exchange or under bilateral contracts. Furthermore, the support system for electricity generated from RES may be subject to significant changes (see “Risk Factors—Risks related to our business—The national support system for the generation of electricity from RES may change significantly” and “Regulatory Matters—Energy sector regulation—Planned amendments to legal regulations—New energy regulations”).

### *Capital expenditures*

We pursue our strategy by implementing an investment plan in the distribution, generation, and sales segments. Our operations require significant capital expenditures mostly connected with our operations in the electricity distribution segment. Due to market dynamics, the needs of our offtakers and the requirements of our strategy, we plan to invest PLN 12,463 million in the years 2013-2021 in the development and modernisation of our distribution networks, i.e. approximately 78.4% of all planned capital expenditures for core investment projects. Pursuant to the investment programme, we also plan to invest in cogeneration as well as increase our capacity in RES generation, and to develop our conventional energy production business mainly by the modernisation of our generating assets (Ostrołęka B power plant, ESP Żydowo). Furthermore, our assets require periodic renovations and modernisations, due to both the increasing requirements related to environmental protection and in order to improve our operational efficiency. For details of our investment programme see “Our Business—Investment programme”.

Our capital expenditures in the nine-month periods ended 30 September 2013 and 2012 amounted to PLN 2,103.6 million and PLN 1,192.5 million, respectively, whereas in the years ended 31 December 2012, 2011 and 2010 they amounted to PLN 1,848.8 million, PLN 1,445.5 million and PLN 1,162.7 million, respectively. The volume of capital expenditures had a material impact, and according to our expectations, will continue to have such impact on the results of our operations, our indebtedness, and future cash flows. Any delays in the implementation of the investment plan, amendments thereto or any budget overspending may have a material impact on our capital expenditures in future, and on our operations, financial condition and development prospects. Detailed information about our capital expenditures in the nine-month period ended 30 September 2013 and in the years ended 31 December 2012, 2011 and 2010, as well as the current and planned capital expenditures are presented in “—Capital expenditures” below.

We have completed material acquisitions since 1 January 2010 and may effect similar acquisitions in the future. These transactions may affect our results of operations and period-to-period comparisons. Detailed information regarding our recent acquisitions is provided in “Our Business—Acquisitions”.

### *Electricity prices*

#### *Electricity sale prices*

The majority of our revenue comes from the sales segment, comprising mainly activity related to electricity sales. Therefore the price at which we sell electricity has a material impact on our performance. In the nine-month periods ended 30 September 2013 and 2012, revenue from sales to external clients generated by the sales segment amounted to PLN 4,919.9 million and PLN 4,780.2 million, respectively, which represented 57.6% and 58.0% of our revenue, respectively. In the years ended 31 December 2012, 2011 and 2010, our revenue from sales to external clients generated by the sales segment amounted to

PLN 6,534.8 million, PLN 6,100.5 million and PLN 5,117.0 million, respectively, which accounted for 58.5%, 58.8% and 54.0% of our sales revenue, respectively. Furthermore, average electricity prices and expectations as to their value in future periods affected our operating results and the valuation of our generating assets (see “Risk factors—Risks related to our business—If the value of our property, plant and equipment decreases, we will be obliged to make appropriate impairment write-downs” and “—Critical accounting policies and estimates—Impairment loss of property plant and equipment”, below) and may affect them in future.

We expect that the main factors that could influence electricity prices in Poland in the near future include: (i) fuel costs in Poland, in particular hard coal and lignite, and to a lesser extent the price of biomass and gas; (ii) costs related to compliance with the requirements resulting from environmental protection regulations, including the restrictions on CO<sub>2</sub>, SO<sub>2</sub> and NO<sub>x</sub> emissions and the impact of the EU Emission Trading Scheme (EU ETS); (iii) other regulatory factors, including the requirement to submit certificates of origin for redemption and the level of substitution fees; (iv) the timeline for the deregulation of electricity prices for households in Poland (tariff group G); (v) the level of supply of and demand for electricity, driven by macroeconomic conditions; (vi) the decommissioning of generating units and the level of expenditures on new generating units and their subsequent commissioning; (vii) investments in the transmission grid in Poland, which currently lacks significant interconnections to the power systems of neighbouring countries, as a result of which the import and export of electricity do not constitute a material element of electricity supply (viii) changes in demand structure as a result of implementing the smart grid; (ix) changes in the power production structure in neighbouring countries and (x) an increase of generation from subsidised RES, translating into increased supply and a reduction in energy prices.

The table below presents a breakdown, by sales sector, of average electricity prices achieved by generators in the Polish market for the periods indicated.

Sales by sectors	Year ended 31 December		
	2012	2011	2010
	(PLN/MWh)		
Trading enterprises/Incumbent trading enterprises . . . . .	202.4	197.1	187.8
End-customers, of which:			
sale agreements . . . . .	254.2	252.8	241.0
comprehensive agreements . . . . .	231.2	211.0	253.3
Energy exchange, of which: . . . . .	203.8	199.4	204.8
SPOT market . . . . .	198.9	215.4	207.9
Futures market . . . . .	204.1	198.2	196.3
Balancing market . . . . .	191.2	207.3	207.4
Total (power plants and CHP plants, except independent CHP plants) . . . . .	203.4	199.1	190.2
Total (including regulatory system services) . . . . .	205.3	200.9	191.8

Source: ARE.

In the period covered by the Financial Statements the key factors affecting the selling price of electricity on the Polish market included in particular the factors related to the macroeconomic condition and seasonal nature of the demand for electricity.

#### *Price of electricity purchased for resale*

Due to the fact that the volume of electricity sold by us significantly exceeds the volume of electricity we generate in our own plants, we purchase volumes of electricity from third parties to satisfy the demand of our end-customers. To this end, we buy electricity mainly on the wholesale market at market prices and from generators using RES, connected to our distribution network, largely at prices regulated by the ERO President’s decisions (“ERO President’s Price”) (see “Regulatory Matters—Energy sector regulation—Supplier of last resort”). As a result, we are exposed to fluctuations in electricity prices. On the wholesale electricity market, we purchase energy pursuant to multi-variant annual contracting strategies, devised to optimise the contract portfolio structure and facilitate trading risk management. In particular, an unfavourable relation occurred with the ERO President’s Price and the market price of electricity in the nine-month period ended 30 September 2013, as the wholesale price of electricity fell below the ERO President’s Price. In consequence, all RES systems with which we settled after that period at the ERO

## OPERATING AND FINANCIAL REVIEW

President's Price received much higher payments than those dictated by the electricity price on the wholesale market. This situation adversely affected our competitiveness and margins on the sale of electricity to end users. We contract electricity continuously, with a diversification of sources of supplies, taking advantage of the diversity of electricity products available on the market. In order to hedge against market price volatility, we vary the length of contracts and enter into both fixed price and variable price contracts based on pricing formulas taking into account several market variables, including fuel costs, CO<sub>2</sub> emission allowances and others. We enter into purchase transactions first of all on the Polish Power Exchange and with other market players on a bilateral basis, whether directly or via brokerage platforms.

The table below shows, for the specified periods, the aggregate volume of sales of electricity generated by us and the aggregate volume of electricity purchased on the market and resold, as well as the average price achieved from the sale of electricity purchased on the market for resale.

	Nine-month period ended 30 September		Year ended 31 December		
	2013	2012	2012	2011	2010
Aggregate volume of sales of electricity generated by us (GWh) . . . . .	1,439.7	1,912.4	2,392.7	3,820.9	1,951.4
Aggregate volume of electricity purchased on the market and resold (GWh) . . . . .	19,946.8	17,185.9	23,523.5	20,204.1	18,840.8
<b>Aggregate electricity sales (GWh)<sup>(1)</sup></b> . . . . .	<b>21,386.5</b>	<b>19,098.3</b>	<b>25,916.2</b>	<b>24,025.0</b>	<b>20,792.2</b>
Average price realised from electricity sales (PLN/MWh) <sup>(2)</sup> . . . . .	234.3	257.6	257.7	258.8	256.4
Average price of electricity purchased on the market for resale (PLN/MWh) <sup>(3)</sup> . . . . .	213.7	243.2	244.1	269.5	236.7

(1) The aggregate volume of electricity sold takes into account both the electricity generated by us and that purchased on the market and resold.

(2) The average price realised from electricity sales is calculated as the aggregate proceeds from the sale of electricity (both generated in-house and purchased on the market for resale) divided by the aggregate volume of electricity sold.

(3) The average prices of electricity purchased on the market for resale, calculated as the aggregate cost of electricity purchased for resale divided by the aggregate volume of electricity purchased for resale.

Source: Company (unaudited).

The small number of generating units we own allows us to preserve flexibility in the planning of our electricity sales policy and adjust to the prevailing market conditions, including the changing prices of electricity. We expect our electricity generation to remain relatively stable in the near future and to rise in the medium term due to investments in generating assets currently underway or at the planning stage (see "Our Business—Investment programme"). We do not expect, however, the planned expenditures on generating assets to fully balance the volumes of electricity sold to our customers and generated by us, therefore our dependence on market prices of electricity may materially impact our operations and financial results.

### *Seasonality and meteorological conditions*

Our operations in the generation segment as well as the results of our operations are contingent upon our hydroelectric power plants, which are strongly dependent upon meteorological/hydrological conditions, i.e. atmospheric precipitation, which influences the condition and flow of the rivers where our hydroelectric power plants are located. During years with average precipitation in Poland, our hydroelectric power plants generate electricity at the level of approximately 700 to 800 GWh annually. High precipitation in the years 2010-2011, led to a surprisingly high volume of electricity generation by our hydroelectric power plants, which amounted to 1,267.3 GWh in the year ended 31 December 2010 and 1,005.5 GWh in the year ended 31 December 2011. Precipitation in the year ended 31 December 2012 was close to the long-term average and the generation of electricity amounted to 754.5 GWh. Due to very favourable hydrological conditions in the nine-month period ended 30 September 2013, the generation of electricity in our hydro power plants exceeded the average, reaching 824.3 GWh. Weather conditions, in particular, wind conditions and precipitation, also have a material impact on the generation of electricity from renewable energy sources connected to the distribution system. The lack of stability of electricity

generation from renewable energy sources may have an adverse impact on energy balancing in the distribution network, which we are obliged to ensure pursuant to the applicable provisions of law. Additionally, a wind farm's output changes throughout the year and over the years. In an annual cycle, stronger winds are observed in early spring, autumn and winter. Summer (May – August) is less windy. From a longer-term perspective, wind conditions vary depending on global air circulation. As at 30 September 2013 we had three operational wind farms (Karcino, Bystra and Karścino) situated in a favourable location in terms of wind conditions (Pomorskie and Zachodniopomorskie provinces).

Volatile meteorological events have an adverse effect on our energy distribution facilities, causing disruptions in their operations and a drop in sales and they may also influence the value of loss suffered by ENERGA-OPERATOR. High wind speeds and temperature spikes may cause disruptions to distribution networks as well as widespread failures of the distribution infrastructure as such. Additionally, volatile weather may result in disruptions of electricity supplies to a high number of oftakers and expose us to regulatory and contractual sanctions, including payment of damages or obligations to grant discounts.

Meteorological conditions have a material impact on the consumption of electricity and heat by end-customers. In particular, volatile meteorological events, such as wind, hail and snow storms, as well as seasonal temperature variations, have a significant effect on electricity consumption. This can be observed, among other things, by comparing annual and monthly energy usage profiles, which are seasonal and volatile. Air temperature also affects electricity and heat consumption. As a rule, the lower the air temperature, the higher the demand for heat and electricity. Additionally, although to a lesser extent, during summer and mostly in urban areas, the demand for electricity may increase due to high air temperatures and the use of air conditioning equipment. For the purpose of short-term electricity demand forecasts we use forecast calculations, taking into account, among other things, meteorological factors and the profiles of end-customers from various tariff groups. Seasonality of electricity consumption is most often a characteristic of households, i.e. tariff group G and, to a lesser extent, of the industrial sector. Forecasting accuracy directly translates into our contractual position on the balancing market, which in consequence translates into the costs of operations of ENERGA-OBRÓT.

Past experience shows that primarily due to weather conditions and the market situation related to the contracting of electricity, we usually achieve better financial performance in the first half of a year than in the second.

#### Cost of fuel

The most important cost item related to our electricity and heat generation is the cost of fuel. By and large, fuel prices determine the competitiveness of individual generation technologies. Expectations as to the value of fuel prices in future periods, including that of hard coal, in relation to the prices of electricity may also affect the future valuation of our generating assets. Our generating assets operate as system power plants, RES and CHP plants. The generating assets installed in our power plants are based on diversified energy sources, such as hard coal, water, biomass and wind. As at the date of the Offering Circular, the majority of the electricity we generate comes from the combustion of hard coal.

The tables below presents the volumes and cost of fuels used by the generation segment for the periods indicated.

	Nine-month period ended 30 September			
	2013		2012	
	Volume (metric tons)	Cost (million PLN)	Volume (metric tons)	Cost (million PLN)
Coal . . . . .	1,208.3	362.9	1,138.0	364.6
Wood biomass . . . . .	146.6	66.9	159.1	73.9
Agricultural biomass . . . . .	197.2	92.3	150.2	78.7

Source: Company (unaudited).

	Year ended 31 December					
	2012		2011		2010	
	Volume (metric tons)	Cost (million PLN)	Volume (metric tons)	Cost (million PLN)	Volume (metric tons)	Cost (million PLN)
Coal . . . . .	1,429.0	457.9	1,724.7	498.7	1,600.2	430.5
Wood biomass . . . . .	187.7	94.2	148.8	59.5	131.5	35.9
Agricultural biomass . . . . .	215.7	104.5	101.0	43.4	102.3	39.4

Source: Company (unaudited).



*Hard coal*

We generated 63.4% and 68.8% of gross electricity in hard coal-fired facilities in the nine-month periods ended 30 September 2013 and 2012, respectively, and 67.9%, 71.9% and 65.8% of gross electricity in the years ended 31 December 2012, 2011 and 2010, respectively. The cost of hard coal represented 48.1% and 43.9% of our total costs of materials and energy used in the nine-month periods ended 30 September 2013 and 2012, respectively, and 45.0%, 44.1% and 42.4% in the years ended 31 December 2012, 2011 and 2010, respectively. In the periods under review, our demand for hard coal stayed at a relatively stable level.

Due to the lack of own hard coal resources, our demand for this fuel is entirely met by external suppliers. We purchase practically all of our hard coal in the Polish market under long-term agreements (usually concluded for periods of three to five years) ensuring supply stability, with only a fraction of purchases made on the spot market. The hard coal purchase prices are determined through annual negotiations, which eventually determine the volumes of hard coal purchased from individual suppliers (see “Our Business—Key suppliers—Coal”).

The following table illustrates average prices of hard coal delivered to our generating assets in the periods indicated, and a percentage increase in these prices in the periods indicated (including transport costs).

	Nine-month period ended 30 September				Year ended 31 December				
	2013		2012		2012		2011		2010
	PLN/ (metric ton)	change (%)	PLN/ (metric ton)	PLN/ (metric ton)	change (%)	PLN/ (metric ton)	change (%)	PLN/ (metric ton)	
Hard coal . . . . .	298.1	(7.5)	322.4	318.4	7.6	295.9	12.1	264.0	

Source: Company (unaudited).

*Biomass*

We generated 13.5% and 12.9% of gross electricity from biomass (wood and agricultural) in the nine-month periods ended 30 September 2013 and 2012, respectively and 13.6%, 6.6% and 6.4% of gross electricity in the years ended 31 December 2012, 2011 and 2010, respectively. The cost of biomass used by the generation segment represented 21.1% and 18.4% of our total costs of materials and energy used in the nine-month periods ended 30 September 2013 and 2012, respectively and 19.5%, 9.1% and 7.4% in the years ended 31 December 2012, 2011 and 2010, respectively.

In the periods reviewed, the consumption of biomass grew steadily as a result of the growth in the capacity of our RES facilities. The growth of consumption of agricultural biomass was higher than that of wood biomass. The year-on-year growth of agricultural biomass consumption was largely caused by the issuance of the Regulation on Certificates of Origin from RES, according to which electricity coming from biomass authorises the generators to receive green certificates of origin, provided that, without limitation, a certain minimum quantity of agricultural biomass was used in its generation. For generating units with a capacity of over 5 MW, the regulation envisages a gradual growth in the required share of agricultural biomass compared to wood biomass until 2015, when electricity generated from biomass will authorise the generators to receive green certificates of origin only if agricultural biomass was used for generating purposes (see “Regulatory Matters—Energy sector regulation—Regulation of renewable energy and cogeneration (CHP)”).

Due to the planned commissioning of a biomass-fired cogeneration unit in ENERGA Kogeneracja in 2014, we expect that our demand for biomass will continue to grow in the future.

Since 1 January 2011, the sole biomass supplier delivering this fuel to ENERGA Elektrownie Ostrołęka is the Group’s company Ekologiczne Materiały Grzewcze sp. z o.o. As at the date of the Offering Circular, it supplies biomass to Elektrownia Ostrołęka B. This company obtains biomass from its own sources and from the market and covers 100% of the Group’s aggregate demand for this fuel. Purchases of biomass are based on annual contracts entered into with manufacturers and intermediaries dealing in biomass, and in spot transactions. Purchases of raw materials for biomass production are made by Ekologiczne Materiały Grzewcze sp. z o.o. based on orders placed with more than ten local suppliers with whom we have been cooperating for several years.



The tables below contain information regarding the average price of one metric ton of wood biomass and agricultural biomass delivered to our generating assets and the percentage growth in the price of those fuels for the periods indicated.

	Nine-month period ended 30 September		
	2013 (PLN/metric ton)	change in %	2012 (PLN/metric ton)
Wood biomass . . . . .	438.3	(2.8)	451.1
Agricultural biomass . . . . .	430.9	(10.4)	480.8

Source: Company (unaudited).

	Year ended 31 December				
	2012 (PLN/metric ton)	change in %	2011 (PLN/metric ton)	change in %	2010 (PLN/metric ton)
Wood biomass . . . . .	445.9	28.7	346.5	(22.0)	444.5
Agricultural biomass . . . . .	481.8	12.7	427.4	17.7	363.2

Source: Company (unaudited).

### CO<sub>2</sub> emission allowances

Our operations concerning power and heat generation, and also our operating results, depend to a large extent on the number of free CO<sub>2</sub> emission allowances granted in a given period. The CO<sub>2</sub> emission allowances (EUA) are acquired free-of-charge under the national emissions allocation plan (NAP), but they may also be purchased on the market (see “Regulatory Matters—Environmental protection—Regulations concerning climate protection, including those related to the emissions of CO<sub>2</sub> and other substances” and “Our Business—Environmental matters—Emission of pollutants—CO<sub>2</sub> emissions”). If we exceed the limits of free CO<sub>2</sub> emission allowances, we must acquire additional ones on the open market.

Under Phase II of the EU ETS, which covered the years 2008-2012, the volume of free CO<sub>2</sub> emission allowances granted to our power plants pursuant to NAP II for that period, amounted to 15.4 million metric tons which corresponded to approximately 3.1 million metric tons annually.

The table below shows CO<sub>2</sub> emission volumes from our power plants for the periods indicated.

	Nine-month period ended 30 September		Year ended 31 December		
	2013	2012	2012	2011	2010
	(thousand metric tons)				
ENERGA Elektrownie Ostrołęka . . . . .	2,037.6	1,980.5	2,402.0	3,028.9	2,574.7
<i>Elektrociepłownia Ostrołęka A</i> . . . . .	32.9	33.4	48.7	172.6	167.5
<i>Elektrownia Ostrołęka B</i> . . . . .	2,004.7	1,947.1	2,353.3	2,856.3	2,407.3
ENERGA Kogeneracja* . . . . .	71.5	68.8	87.3	84.5	79.4
ENERGA Elektrociepłownia Kalisz . . . . .	5.2	5.6	8.3	7.4	7.9
<b>Total CO<sub>2</sub> emissions related to electricity generation . . .</b>	<b>2,114.3</b>	<b>2054.9</b>	<b>2,497.6</b>	<b>3,120.8</b>	<b>2,662.0</b>
ENERGA Elektrownie Ostrołęka . . . . .	145.4	121.7	181.7	157.8	309.0
ENERGA Kogeneracja* . . . . .	148.2	138.1	210.0	206.8	239.4
ENERGA Elektrociepłownia Kalisz . . . . .	39.1	37.0	53.0	51.5	59.5
<b>Total CO<sub>2</sub> emissions related to heat generation . . . . .</b>	<b>332.7</b>	<b>296.8</b>	<b>444.8</b>	<b>416.1</b>	<b>607.9</b>
<b>Group total CO<sub>2</sub> emissions . . . . .</b>	<b>2,447.0</b>	<b>2,351.7</b>	<b>2,942.4</b>	<b>3,537.0</b>	<b>3,269.9</b>

\* Data for ENERGA Kogeneracja reflect only the ETS-participating facilities and exclude emissions of Ciepłownia Wyszogród and Elektrociepłowni Winnica.

Source: Company.

In the nine-month periods ended 30 September 2013 and in the years ended 31 December 2012, 2011 and 2010 we recorded, on a consolidated basis, shortfalls in free CO<sub>2</sub> emission allowances, which we covered by purchasing CO<sub>2</sub> emission allowances on the market or borrowing the allowances from future emission

## OPERATING AND FINANCIAL REVIEW

allowances to cover current year emissions. CO<sub>2</sub> emission allowances are traded by us on a regular basis, on each day of the market's operation.

The table below shows the number of CO<sub>2</sub> emission allowances both granted under NAP as well as acquired by us on the secondary market in the periods indicated.

	Nine-month period ended 30 September	Year ended 31 December		
	2013*	2012**	2011	2010
	(metric tons)			
CO <sub>2</sub> emission rights granted under the National Allocation Plan . . . . .	0.0	3,080.4	3,080.4	3,080.4
CO <sub>2</sub> emission rights acquired on the secondary market . .	9.3	2,426.9	1,000.0	85.1
<b>Total of the CO<sub>2</sub> emission rights . . . . .</b>	<b>9.3</b>	<b>5,507.3</b>	<b>4,080.4</b>	<b>3,165.5</b>
Utilisation for own needs . . . . .	(2,447.0)	(2,942.4)	(3,537.0)	(3,269.9)
CO <sub>2</sub> emission rights sold . . . . .	(9.2)	(2,411.7)	(500.0)	(0.1)
<b>Excess (+)/shortage (-) of CO<sub>2</sub> emission rights during the period . . . . .</b>	<b>(2,446.9)</b>	<b>153.1</b>	<b>43.4</b>	<b>(104.4)</b>
Excess (+)/shortage (-) of CO <sub>2</sub> emission rights from previous years . . . . .	30.7	(672.5)	(215.8)	(111.4)
<b>Excess (+)/shortage (-) of CO<sub>2</sub> emission rights (as at the end of the period) . . . . .</b>	<b>(2,416.2)</b>	<b>(519.3)</b>	<b>(172.4)</b>	<b>(215.8)</b>
<i>of which generating companies . . . . .</i>	<i>(3,120.0)</i>	<i>30.4</i>	<i>(672.5)</i>	<i>(44,215.9)</i>
<i>of which ENERGA-OBRÓT . . . . .</i>	<i>703.8</i>	<i>(549.7)</i>	<i>500.1</i>	<i>0.1</i>

\* As at the date of the Offering Circular, the CO<sub>2</sub> emission allowances under the 2013 NAP have been published. As a precondition for obtaining the allowances, the applicant needs to complete the investment projects specified in the National Investment Plan and settle the allowances granted against the capital expenditures on those projects. As at the date of the Offering Circular this document has been submitted as a notification of public aid to the Directorate General for Competition of the European Commission. After the European Commission hands down its decision, the Council of Ministers will issue an ordinance listing the electricity generating units participating in the EU ETS system in the settlement period 2013-2020, together with the allowances awarded to each unit.

\*\* A five-year settlement period of CO<sub>2</sub> emission rights ended in 2012 and any purchases made in 2013 to cover 2012 losses in the table above are reflected in 2012. As at the date of the Offering Circular, no decision has yet been made as to utilising an excess of CO<sub>2</sub> emission rights generated in the years 2008-2012 in future periods.

Source: Company.

Under Phase III of EU ETS, distribution of free CO<sub>2</sub> emission allowances granted to power generators will end no later than in 2020, and their number in the interim period (years 2013-2020) will gradually decrease. On 13 July 2012, the European Commission conditionally accepted Poland's application concerning the granting of free CO<sub>2</sub> emission allowances for the years 2013-2020. The Polish heat and power plants, on the basis of the allowances granted, will be allowed to emit over 77 million metric tons of CO<sub>2</sub> in 2013. Free CO<sub>2</sub> emission allowances for our power plants granted pursuant to NAP in Phase III of EU ETS cover only a part of our anticipated demand in 2013 and in the following years. The shortfall will have to be covered by CO<sub>2</sub> emission allowances acquired on the open market.

Additionally, according to the binding provisions of law, heat generating systems will be granted free-of-charge CO<sub>2</sub> rights until 2027. We estimate that for this reason (in the years 2021-2027) our Group's systems will receive approximately 220 thousand EUA units.

We believe that the exposure to the risk of price increases of CO<sub>2</sub> emission allowances is relatively low in our case. This is due to a relatively low level of hard coal power generation and our ability to create a diversified generation portfolio.

### *Macroeconomic trends in the Polish economy and demand for electricity*

Our operations are based almost exclusively in Poland, where we generate a significant majority of our revenue. Macroeconomic trends in the Polish economy have historically had and, we expect, will continue to have some impact on our business and results of operations; in particular the Polish real GDP growth, industrial production in Poland, service sector growth and personal consumption influence the demand for

and consumption of electricity. These effects are, however, partially offset by efficiency gains due to the technological developments in Poland, as average income rises.

In recent years, despite the global economic downturn, the Polish economy performed better than most European Union economies. According to Eurostat, Poland's real GDP growth amounted to 3.9% in 2010, 4.5% in 2011, and 1.9% in 2012. In each of these years the real GDP growth was higher than the average for the EU as a whole. Furthermore, according to Eurostat, real GDP is estimated to continue to grow in Poland by 1.1% and 2.2% in 2013 and 2014, respectively, which is higher than the projected (0.1)% decrease and 1.4% growth, respectively, for the EU as a whole.

The table below presents Poland's real GDP growth and selected additional macroeconomic data for Poland for the specified periods.

	Year ended 31 December		
	2012	2011	2010
Real GDP growth*	1.9	4.5	3.9
Consumer goods and services price index**	3.7	4.3	2.6
Change in purchasing power of average gross monthly salary**	(0.2)	1.2	1.5
Unemployment rate*	10.1	9.7	9.7

Source: \*Eurostat; \*\*Central Statistical Office.

In 2010, Poland's annual electricity consumption was 156,304 GWh and it increased to 158,306 GWh in 2011, an increase by 1.3%, as compared to 2010. According to preliminary data, in 2012, electricity consumption increased to 159,299 GWh, i.e. by 0.6% compared to the preceding year. We believe that the slower growth is primarily attributable to the slowdown in Poland's economic growth (source: ARE).

We believe that the continued growth of Poland's real GDP, and of the Polish economy generally, will have a positive impact on energy consumption in Poland, which, in turn, will have a positive effect on our business and results of operations. In particular, we believe that as long as Polish economic growth continues to outpace that of the European Union, per capita electricity consumption in Poland will also continue to converge towards the average European Union per capita electricity consumption. However, a significant slowdown in the growth of Poland's GDP and of the Polish economy in general could have an adverse effect on energy consumption in Poland and, in turn, on our business and results of operations (see "Risk factors—Risks related to our business—Demand for electricity may fluctuate").

## **Trend information and material developments post-balance sheet date**

### ***Trend information***

Our business performance depends on the macroeconomic condition of Poland which is affected by trends in the European economy. With the progressing integration, the Polish economy is becoming more and more sensitive to economic cycles in the European Union and on international markets. As a rule, there is a positive correlation between the demand for electricity and economic growth, and the macroeconomic condition of the country affects our financial performance. The economic slowdown in 2013 resulted in lower demand for electricity in the National Grid in the nine-month period ended 30 September 2013, which reached a level approximately 0.4% lower than in the nine-month period ended 30 September 2012.

In the nine-month period ended 30 September 2013, as compared to the same period of the preceding year, we observed a decrease of approximately 9.6% (1.4 TWh) in the electricity sales volume to external customers on the retail market, which was offset by an increase of approximately 93.0% (3.7 TWh) in the electricity volume sold to external customers on the wholesale market by the sales segment. In the period under review, the average selling prices to the end-customers and on the wholesale market also decreased, by 3.3% and 4.7%, respectively. The decrease of prices for end-customers is a consequence of increased competition on the energy market which drives a decrease of average selling prices and minimised margins on sales of electricity to end-customers. In the nine-month period ended 30 September 2013 the distribution segment noted a similar level of supplies to end-customers as in the same period of the preceding year (with a slight 1.9% (285.5 GWh) increase); the prices of distribution services also increased by 1.9%.

Recently, the prices of green certificates have been gradually rising, exceeding PLN 180/MWh, which is directly linked to the information regarding the lower than assumed level of electricity from RES in 2013. Additionally, the ERO President returned most of the applications for certificates of origin filed by biomass co-combusting companies in 2013, and demanded the applicants to rectify them. The prices of certificates reached their maximum this year at the end of August, returning to the maximum quotation levels from January and June of this year. With the increasing prices, the volume of rights traded on the Polish Power Exchange is clearly higher.

In our view, no significant changes other than those described above occurred since 31 December 2012 in the trends concerning our production, sales, inventory, costs or selling prices.

### ***Material developments post-balance sheet date***

#### *Merger of ENERGA Hydro and EPW Karcino sp. z o.o.*

On 31 October 2013, the District Court Gdańsk-Północ registered the merger of ENERGA Hydro and EPW Karcino sp. z o.o. The merger was effected through contributing the whole property of EPW Karcino sp. z o.o. (target company) into ENERGA Hydro (the bidding company). The purpose of the merger was to streamline and optimise the Group companies' ownership structure.

#### *Employment optimisation programme for the sales segment*

On 11 October 2013, individual redundancy schemes were announced for employees of the companies from the sales segment, i.e. ENERGA—OBRÓT and ENERGA Obsługa i Sprzedaż sp. z o.o. which facilitate the termination of contracts of employment by agreement of the parties with additional benefits to be paid to employees. As at the date of this Offering Circular, according to the assumptions of both programmes, employment contracts are to be terminated with 53 employees and the estimated total cost is PLN 7 million. As at the balance sheet date of 30 September 2013, the provision in respect thereof was not recognised.

The above programmes constitute the first stage of the employment optimisation programme in the sales segment which is a part of the overall operating costs restructuring process of the segment (see “Our Business—Organisational structure—Sales—Reorganisation Efforts”)

#### *Lawsuit to repeal the Resolutions of the Extraordinary General Meeting of 3 September 2013*

On 16 October 2013 the Company was served the statement of claim filed by its shareholder, FORTA sp. z o.o., (i) to repeal the Resolution on the Share Capital Decrease as adopted against customs and habits and to the detriment of the Company and, also, intended to harm the shareholder, i.e. FORTA sp. z o.o. and (ii) to invalidate the Resolution on Preferred Shares or, alternatively, to repeal that Resolution as adopted against customs and habits and to the detriment of the Company and, also, intended to harm the shareholder, i.e. FORTA sp. z o.o. In reply to the statement of claim, the Company moved to dismiss the claim in its entirety pointing to the lack of any grounds to repeal the Resolutions of the Extraordinary General Meetings subject to the claim or to invalidate the Resolution on Preferred Shares. To the date of this Offering Circular, the date of hearing the case has not been set. For more information see: “Our Business—Legal and administrative proceedings—Proceedings initiated by FORTA sp. z o.o.” and “Risk Factors—Risk related to the Offering, capital markets and secondary trading in Shares—If a final and non-appealable judgment is issued repealing the Resolution on the Share Capital Decrease and the Resolution on Preferred Shares, the amount of the share capital of the Company, the nominal value of the Shares and the number of votes carried by each series BB share may change”. On 28 November 2013 the Company was served with a motion of FORTA sp. z o.o. which contained a statement of FORTA sp. z o.o. on withdrawal of its statement of claim in the part relating to a demand for the repeal of the Resolution on the Share Capital Decrease.

### **Description of key consolidated income statement items**

For the purposes of the following discussion of our results of operations, below we explain the key consolidated income statement items of the Consolidated Financial Statements.

**Operating income**

*Revenue.* Revenue comprises the following items: Revenue from sales of products and goods for resale (both prior to and after the exclusion of excise tax for presentation purposes), revenue from sales of services and rental income. We recognise revenue to the extent that it is probable that the economic benefits will flow to us and the revenue can be reliably measured. Revenue is recognised less value added tax (VAT), excise tax and other sales taxes or charges as well as rebates and discounts.

*Revenue from sales of products and goods for resale.* Revenue from sales of products and goods for resale comprises proceeds from sales of electricity to offtakers, both on the wholesale and retail markets, proceeds from sales of heat and proceeds from certificates of origin of energy from RES or from cogeneration plants (net of excise tax). Revenue from sales of products and goods for resale is only recognised when, in addition to the above, significant risks and rewards of the title to goods and materials have passed to the buyer and the amount of revenue can be reliably measured and the costs incurred may be assessed in a reliable manner.

*Revenue from sales of services.* Revenue from sales of services comprises mainly revenue from electricity distribution services.

*Rental income.* Rental income is mainly generated from the lease of the Group's assets (mainly network and generating assets).

*Excise tax.* Pursuant to the regulations governing excise tax, the excise tax assessment reported in our consolidated income statement is entirely related to the sale of electricity to end-customers and during the periods under review has been set at PLN 20 per 1 MWh of electricity sold (see "Regulatory Matters—Other regulations—Excise Tax Act" for more information on the excise tax due in Poland on energy products).

*Other operating income.* Other operating income comprises mostly items related to disposal of property, plant and equipment, intangible assets and investment properties, the release of provisions, other than the provisions related to financial operations or charged to operating expenses, assets received free-of-charge, including their donation, and also damages received.

**Operating expenses**

*Cost of sales.* Cost of sales comprises (i) the cost of manufacturing the products and rendering services incurred during the reporting period reflecting the costs by type adjusted for a change in the balance of products and adjusted for the cost of manufacturing products for own purposes; (ii) the value of electricity and materials sold at the purchase prices; (iii) impairment losses on property, plant and equipment, intangible assets, receivables and inventories.

*Selling and distribution expenses.* Selling and distribution expenses comprise mainly the costs related to customer service, marketing and advertising.

*General and administrative expenses.* General and administrative expenses comprise part of the costs related to management and administrative functions.

The components of cost of sales are:

- *Depreciation and amortisation expenses*—mainly the depreciation of buildings, structures and equipment, such as the network and generating assets;
- *Impairment losses on property, plant and equipment and intangible assets*—reflecting both created and reversed impairment losses;
- *Materials and energy used*—mainly the cost of fuel (principally coal and biomass), costs of energy used for coverage of network losses related to the distribution of electricity, and the use of power sector-related materials;
- *External services*—mainly the cost of transmission and transit fees related to the distribution of electricity, paid mainly to PSE and the costs of other services such as transport, construction and design services as well as advisory and IT services;

## OPERATING AND FINANCIAL REVIEW

---

- *Taxes and fees*—mainly the real property taxes related to the distribution infrastructure;
- *Employee benefits expense*—mainly basic salaries, bonuses and awards (including long-service awards), retirement allowances, benefits provided under collective bargaining agreements, remuneration-related charges and social insurance costs;
- *Valuation allowance for inventories*—both created and released provisions;
- *Valuation allowance for trade receivables*—both created and released provisions;
- *Other expenses*—mainly the costs of property insurance, promotion and advertising.

*Other operating expenses.* Other operating expenses comprise mainly items related to disposal of property, plant and equipment, intangible assets and investment properties, the creation of provisions, other than the provisions related to financial operations or charged to operating expenses, and free-of-charge subsidies or donations, including the donation of assets, including cash, as well as damages, penalties, fees and other expenses unrelated to ordinary business.

### ***Financial income***

Finance income comprises mainly interest on cash and cash equivalents, dividends received, revaluation of financial assets, including reversal of valuation allowances, foreign exchange differences, gains on the disposal of financial instruments as well as a reversal of provisions initially recognised as finance costs.

### ***Finance costs***

Finance costs comprise mainly interest on loans, borrowings and debt instruments issued, interest on discounted long-term provisions, revaluation of financial assets, including creation of valuation allowances, foreign exchange differences, losses on the disposal of financial instruments as well as provisions for liabilities created in the corresponding amount of accrued interest.

### ***Income tax***

Income tax reported in our consolidated income statement includes real taxes for a given reporting period and change of assets status due to deferred income tax and provisions for deferred income tax not settled against equity.



**Results of operations**

*Selected financial information from the consolidated income statement*

The table below sets out selected financial information derived from our consolidated income statements included in the Financial Statements as well as EBITDA and Adjusted EBITDA for the periods indicated.

	Nine-month period ended 30 September		Year ended 31 December		
	2013	2012	2012	2011	2010
	(in PLN million, unless specified otherwise)				
Revenue including excise tax	8,753.7	8,486.9	11,506.4	10,685.7	9,782.2
% of revenue*	102.5	103.0	102.9	103.1	103.3
Excise tax	(216.2)	(245.7)	(329.6)	(317.7)	(314.5)
% of revenue*	(2.5)	(3.0)	(2.9)	(3.1)	(3.3)
<b>Revenue</b>	<b>8,537.5</b>	<b>8,241.2</b>	<b>11,176.8</b>	<b>10,368.0</b>	<b>9,467.8</b>
Cost of sales	7,062.1	6,936.9	9,532.1	8,759.1	8,055.3
% of revenue*	82.7	84.2	85.3	84.5	85.1
<b>Gross profit</b>	<b>1,475.4</b>	<b>1,304.3</b>	<b>1,644.7</b>	<b>1,609.0</b>	<b>1,412.5</b>
% of revenue*	17.3	15.8	14.7	15.5	14.9
Other operating income	97.7	81.9	134.9	154.5	69.2
% of revenue*	1.1	1.0	1.2	1.5	0.7
Selling and distribution expenses	213.5	206.6	247.5	187.9	109.2
% of revenue*	2.5	2.5	2.2	1.8	1.2
General and administrative expenses	280.0	277.5	375.3	414.3	329.8
% of revenue*	3.3	3.4	3.4	4.0	3.5
Other operating expenses	146.5	103.5	250.8	298.3	226.5
% of revenue*	1.7	1.3	2.2	2.9	2.4
Finance income	129.6	65.0	79.2	207.9	82.5
% of revenue*	1.5	0.8	0.7	2.0	0.9
Finance costs	246.8	186.0	359.1	172.7	103.7
% of revenue*	2.9	2.3	3.2	1.7	1.1
Shares in profits (losses) of associates	(0.5)	(0.2)	0.2	1.1	0.7
% of revenue*	(0.0)	(0.0)	0.0	0.0	0.0
<b>Profit before tax</b>	<b>815.5</b>	<b>677.5</b>	<b>626.3</b>	<b>899.2</b>	<b>795.6</b>
Income tax	212.0	162.5	166.5	196.6	171.0
<b>Net profit on continuing operations</b>	<b>603.4</b>	<b>515.0</b>	<b>459.8</b>	<b>702.6</b>	<b>624.6</b>
% of revenue*	7.1	6.2	4.1	6.8	6.6
<b>Discontinued operations</b>					
Net loss on discontinued operations	(5.8)	—	(18.3)	—	(0.4)
Net profit on the disposal of non-current assets held for sale	—	15.2	14.9	—	—
<b>Net profit for the financial period</b>	<b>597.6</b>	<b>530.2</b>	<b>456.4</b>	<b>702.6</b>	<b>624.2</b>
% of revenue*	7.0	6.4	4.1	6.8	6.6
Attributable to:					
Equity holders of the parent company	610.8	529.6	457.0	663.9	604.3
Non-controlling interests	(13.2)	0.6	(0.6)	38.7	19.9
EBITDA <sup>(1)</sup>	1,501.4	1,332.4	1,629.2	1,519.7	1,407.6
% of revenue*	17.6	16.2	14.6	14.7	14.9
Adjusted EBITDA <sup>(1)*</sup>	1,681.0	1,471.0	1,876.1	1,610.7	1,602.6
% of revenue*	19.7	17.8	16.8	15.5	16.9

(1) We define and calculate EBITDA as operating profit/(loss) (calculated as net profit/(loss) on continuing operations for the period/year adjusted for (i) income tax, (ii) share in profits of associates, (iii) finance income and (iv) finance costs) adjusted for depreciation and amortisation (as disclosed in the income statements). We define Adjusted EBITDA as EBITDA adjusted for non-recurrent events. A calculation of the EBITDA and the Adjusted EBITDA is presented in detail in “Important Information—Financial information and operating data—Financial information not based on GAAP (Generally Accepted Accounting Principles)”. Neither EBITDA nor Adjusted EBITDA are IFRS measures and should not be treated as alternatives to IFRS measures. Moreover, neither EBITDA nor Adjusted EBITDA are uniformly defined. The method of calculating

## OPERATING AND FINANCIAL REVIEW

EBITDA and Adjusted EBITDA used by other companies may differ significantly from that used by us. In consequence, the EBITDA and Adjusted EBITDA presented in this chapter cannot, as such, be relied upon for the purpose of comparison to other companies. A reconciliation of net profit/(loss) for the period/year and EBITDA and Adjusted EBITDA, is presented in “Important Information—Financial information and operating data—Financial information not based on GAAP (Generally Accepted Accounting Principles)”.

Source: Financial Statements; \*Company (unaudited).

### *Nine-month period ended 30 September 2013 as compared to the nine-month period ended 30 September 2012*

#### **Revenue**

The table below sets forth our revenue for the periods indicated.

	Nine-month period ended 30 September	
	2013	2012
	(PLN million)	
Sales of products and goods for resale including excise tax . . . . .	5,896.1	5,766.6
% of revenue* . . . . .	69.1%	70.0%
Excise tax . . . . .	(216.2)	(245.7)
% of revenue* . . . . .	(2.5%)	(3.0%)
Sales of products and goods for resale . . . . .	5,679.8	5,520.8
% of revenue* . . . . .	66.5%	67.0%
Sales of services . . . . .	2,815.3	2,680.9
% of revenue* . . . . .	33.0%	32.5%
Rental income . . . . .	42.4	39.5
% of revenue* . . . . .	0.5%	0.5%
<b>Revenue</b> . . . . .	<b>8,537.5</b>	<b>8,241.2</b>

Source: Condensed Interim Consolidated Financial Statements; \*Company (unaudited).

Our revenue in the nine-month periods ended 30 September 2013 and 2012 amounted to PLN 8,537.5 million and PLN 8,241.2 million, respectively. The increase of revenue by PLN 296.3 million, or 3.6% in the nine-month period ended 30 September 2013 as compared to the nine-month period ended 30 September 2012 resulted mainly from the factors related to key line items included in revenue discussed below.

The contributions to our revenue in the nine-month period ended 30 September 2013 by our distribution, generation and sales segments were 32.8%, 13.1%, and 61.5%, respectively; and in the nine-month period ended 30 September 2012 were 32.9%, 14.1%, and 63.3%, respectively (see “—Reporting by segments” below).

**Sales of products and goods for resale.** In the nine-month periods ended 30 September 2013 and 2012 our revenue from sales of products and goods for resale represented 66.5% and 67.0%, respectively, of our revenue.

The sale of products and goods for resale increased by PLN 159.0 million, or 2.9%, to PLN 5,679.8 million in the nine-month period ended 30 September 2013 from PLN 5,520.8 million in the nine-month period ended 30 September 2012. This increase was primarily attributable to an increase of 83.8% in revenue from sales of electricity to external customers on the wholesale market, achieved in the sales segment, which resulted primarily from a 93% higher volume of electricity sold while the average price of electricity sold on that market decreased by nearly 4.7%. This increase was partly offset by a decrease of 12.6% in revenue from electricity sold to external customers on the retail market caused by both a 9.6% decrease in the volume of electricity sold to end-customers and a 3.3% decrease in the average price of electricity sold to those customers.

**Sales of services.** In the nine-month periods ended 30 September 2013 and 2012 our revenue represented 33.0% and 32.5%, respectively, of our revenue.

The sale of services increased by PLN 134.4 million, or 5.0%, to PLN 2,815.3 million in the nine-month period ended 30 September 2013 from PLN 2,680.9 million in the nine-month period ended 30 September 2012. This increase was primarily attributable to a 3.8% increase in revenue from distribution services to

end-customers as a result of a 1.9% increase in the average price of distribution services and a 1.9% increase in the sales volume of distribution services in the nine-month period ended 30 September 2013 as compared to the same period in the preceding year.

*Excise tax.* Our excise tax charge decreased by PLN 29.5 million, or 12.0%, to PLN 216.2 million in the nine-month period ended 30 September 2013 from PLN 245.7 million in the nine-month period ended 30 September 2012. This decrease was driven by a decrease by 12.6% of electricity revenues on the retail market, resulting both from a 9.6% decrease of the volume of electricity sold to end users and a 3.3% decrease of the average selling price of electricity for those users. The excise tax applies to sales to end-customers, rather than to the energy generated. An excise tax exemption applies only to electricity generated from renewable energy sources, upon the presentation of a document evidencing the redemption of a certificate of origin. Based on an exemption from excise tax, in the nine-month periods ended 30 September 2013 and 2012, 9.1% and 10.0% of electricity sold by us to end-customers was exempted from excise tax as energy derived from renewable energy sources. The binding excise tax rate in the nine-month periods ended 30 September 2013 and 2012, respectively, was constant and amounted to PLN 20 per 1 MWh.

*Rental income.* In the nine-month periods ended 30 September 2013 and 2012 our rental income represented 0.5% of our revenue.

Rental income increased by PLN 2.9 million, or 7.3%, to PLN 42.4 million in the nine-month period ended 30 September 2013 from PLN 39.5 million in the nine-month period ended 30 September 2012. This increase was primarily attributable to higher revenue from leased IT infrastructure and distribution assets.

### *Operating expenses*

The table below presents the structure of the operating expenses for the periods indicated.

	Nine-month period ended 30 September	
	2013	2012
	(PLN million)	
Amortisation and depreciation . . . . .	568.2	533.8
Impairment losses of property, plant and equipment and intangible assets . . . . .	123.8	122.5
Materials and energy used . . . . .	754.9	829.8
External services . . . . .	806.6	889.7
Taxes and fees . . . . .	225.6	235.6
Employee benefits expense . . . . .	697.9	741.7
Valuation allowance for inventories . . . . .	0.1	(7.6)
Valuation allowance for trade receivables . . . . .	45.2	47.8
Other expenses . . . . .	51.9	37.4
Change in inventories, prepayments and accruals . . . . .	(42.2)	(23.4)
Cost of producing services for own needs . . . . .	(68.6)	(124.3)
Cost of merchandise and raw materials sold . . . . .	4,392.2	4,138.0
<b>Total operating expenses . . . . .</b>	<b>7,555.6</b>	<b>7,421.0</b>
<i>of which:</i>		
Cost of sales . . . . .	7,062.1	6,936.9
Selling and distribution expenses . . . . .	213.5	206.6
General and administrative expenses . . . . .	280.0	277.5

Source: Company (unaudited).

### *Cost of sales*

The cost of sales increased by PLN 125.2 million, or 1.8%, to PLN 7,062.1 million in the nine-month period ended 30 September 2013 from PLN 6,936.9 million in the nine-month period ended 30 September 2012. The increase in the cost of sales resulted mainly from the factors discussed below.

## OPERATING AND FINANCIAL REVIEW

---

The contributions to our cost of sales in the nine-month period ended 30 September 2013 by our distribution, generation and sales segments were 26.1%, 13.6%, and 70.4%, respectively; and in the nine-month period ended 30 September 2012 were 26.8%, 15.2%, and 71.1%, respectively.

### *Amortisation and depreciation*

Amortisation and depreciation increased by PLN 34.4 million, or 6.4%, to PLN 568.2 million in the nine-month period ended 30 September 2013 from PLN 533.8 million in the nine-month period ended 30 September 2012. This increase was primarily attributable to an increase in the value of non-current assets, which resulted mainly from the successively commissioned investments in the development and modernisation of a distribution network, and of the pumped storage plant in Żydowo. As a percentage of revenue, depreciation and amortisation represented 6.7% and 6.5% in the nine-month periods ended 30 September 2013 and 2012, respectively.

### *Impairment losses of property, plant and equipment and intangible assets*

In the nine-month period ended 30 September 2013, recognised impairment losses of property, plant and equipment and intangible assets amounted to PLN 123.8 million and comprised mainly an impairment loss of PLN 123.4 million on the property, plant and equipment of Elektrownia Ostrołęka B. The impairment loss was a result of an impairment test conducted as at 31 March 2013. For a description of the impairment test, see Note 11 to the Condensed Interim Consolidated Financial Statement.

In the nine-month period ended 30 September 2012 the value of recognised impairment losses on property, plant and equipment, including advances in respect thereof, was PLN 122.9 million while released write-offs were PLN 0.4 million. Recognised impairment losses resulted primarily from the suspension of the Ostrołęka C project.

### *Materials and energy used*

The cost of materials and energy used decreased by PLN 74.9 million, or 9.0%, to PLN 754.9 million in the nine-month period ended 30 September 2013 from PLN 829.8 million in the nine-month period ended 30 September 2012. This decrease was primarily attributable to spinning-off a significant part of the investment commitments from ENERGA-OPERATOR to other Group companies, as a result of which the materials used for the purpose of producing fixed assets were added to the value of the relevant assets, rather than disclosed as the costs of producing services for own needs, as in the same period of the preceding year. This resulted in a decrease in the cost of energy sector materials (being a component of the cost of materials and energy used) by PLN 30.8 million, or 89.7%, in the nine-month period ended 30 September 2013 as compared to the nine-month period ended 30 September 2012. Furthermore, in the nine-month period ended 30 September 2013, a larger portion of materials was used for investment projects increasing the value of property, plant and equipment than for repair and maintenance, this decreased the cost of materials and energy used by PLN 63.9 million. As a percentage of revenue, the cost of materials and energy used decreased to 8.8% in the nine-month period ended 30 September 2013 from 10.1% in the nine-month period ended 30 September 2012. This decrease resulted from an increase in the revenue with a concurrent decrease in the costs of materials and energy used.

### *External services*

The cost of external services decreased by PLN 83.1 million, or 9.3%, to PLN 806.6 million in the nine-month period ended 30 September 2013 from PLN 889.7 million in the nine-month period ended 30 September 2012. This decrease was primarily attributable to a 14.5% decrease in transmission and transit charges incurred by the distribution segment, which resulted mainly from a decrease of 71.0% in the average transit fee rate in the TSO (Transmission System Operator) tariff. As a percentage of revenue, the cost of external services decreased to 9.4% in the nine-month period ended 30 September 2013 from 10.8% in the nine-month period ended 30 September 2012.

### *Taxes and fees*

Taxes and fees decreased by PLN 10.0 million, or 4.2%, to PLN 225.6 million in the nine-month period ended 30 September 2013 from PLN 235.6 million in the nine-month period ended 30 September 2012.

This decrease was primarily attributable to a decrease in the cost of redemption of CO<sub>2</sub> emission allowances in the nine-month period ended 30 September 2013 as compared to the nine-month period ended 30 September 2012, which was partly offset by an increase of the property tax charge resulting mainly from investments in the development of our distribution network in the nine-month period ended 30 September 2013. As a percentage of revenue, taxes and fees increased to 2.6% in the nine-month period ended 30 September 2013 from 2.9% in the nine-month period ended 30 September 2012.

#### *Employee benefits expense*

The employee benefits expense decreased by PLN 43.8 million, or 5.9%, to PLN 697.9 million in the nine-month period ended 30 September 2013 from PLN 741.7 million in the nine-month period ended 30 September 2012. This decrease was primarily attributable to a decrease in the payroll expense as a result of the voluntary redundancy programmes schemes implemented in the Group (in the nine-month period ended 30 September 2013, the programmes were pursued in 21 Group's companies and in the same period of the preceding year—in 11 Group companies). For a description of these programmes see "Our Business—Employment". In addition, as at 30 September 2013, the discount rate used for the calculation of actuarial reserves was revised (from 3.8% as at 31 December 2012 to 4.64% as at 30 September 2013), which resulted in a decrease in the employee benefits expense by PLN 13.6 million in the nine-month period ended 30 September 2013. As a percentage of revenue, the employee benefits expense decreased to 8.2% in the nine-month period ended 30 September 2013 from 9.0% in the nine-month period ended 30 September 2012.

#### *Other expenses*

Other expenses increased by PLN 14.5 million, or 38.8%, to PLN 51.9 million in the nine-month period ended 30 September 2013 from PLN 37.4 million in the nine-month period ended 30 September 2012. This increase was primarily attributable to a 13.9% increase in promotion and advertising costs in the nine-month period ended 30 September 2013 as compared to the nine-month period ended 30 September 2012, mainly as a result of higher expenses on the development of proprietary CSR programmes and marketing research. As a percentage of revenue, other expenses remained relatively stable and amounted to 0.6% and 0.5% of our sales revenue in the nine-month periods ended 30 September 2013 and 2012, respectively.

#### *Cost of merchandise and raw materials sold*

The cost of merchandise and raw materials sold comprises mainly the value of electricity purchased for resale to the customers of ENERGA-OBRÓT SA. The cost of merchandise and raw materials sold increased by PLN 254.2 million, or 6.1%, to PLN 4,392.2 million in the nine-month period ended 30 September 2013 from PLN 4,138.0 million in the nine-month period ended 30 September 2012. This increase was primarily attributable to an increase of 12.0% in the volume of electricity sold in the nine-month period ended 30 September 2013 as compared to the nine-month period ended 30 September 2012. As a percentage of revenue, the cost of merchandise and raw materials sold decreased to 51.4% in the nine-month period ended 30 September 2013 from 50.2% in the nine-month period ended 30 September 2012.

#### *Selling and distribution expenses*

Selling and distribution expenses increased by PLN 6.9 million, or 3.3%, to PLN 213.5 million in the nine-month period ended 30 September 2013 from PLN 206.6 million in the nine-month period ended 30 September 2012. This increase resulted primarily from an increase in the costs of intermediation services by PLN 4.8 million in connection with increased sales generated by the agency network. As a percentage of revenue, Selling and distribution expenses were relatively stable and amounted to 2.5% of our revenue in the nine-month periods ended 30 September 2013 and 2012.

#### *General and administrative expenses*

General and administrative expenses were relatively stable in the nine-month period ended 30 September 2013 as compared to the nine-month period ended 30 September 2012 and amounted to PLN 280.0 million and PLN 277.5 million, respectively, representing 3.3% and 3.4% of our revenue in the respective periods.

**Other operating income**

Other operating income increased by PLN 15.8 million, or 19.3% to PLN 97.7 million in the nine-month period ended 30 September 2013 from PLN 81.9 million in the nine-month period ended 30 September 2012. This increase was primarily attributable to recognising a profit of PLN 17.9 million on the acquisition of generating companies from DONG Energy Wind Power A/S by ENERGA Hydro on 28 June 2013. For a description of this acquisition see “Our Business—Acquisitions” and “Our Business—Material agreements—Share purchase agreements—Agreement on the purchase of shares in certain Dong Energy Wind Power A/S subsidiaries”). As a percentage of revenue, other operating income remained relatively stable and amounted to 1.1% and 1.0% of our revenue in the nine-month periods ended 30 September 2013 and 2012, respectively.

**Other operating expenses**

Other operating expenses increased by PLN 43.0 million, or 41.5%, to PLN 146.5 million in the nine-month period ended 30 September 2013 from PLN 103.5 million in the nine-month period ended 30 September 2012. This increase was primarily attributable to an increase of PLN 50.5 million, or 80.9%, in the costs of creating provisions and restructuring severance payments, mainly as a result of recognised provisions for restructuring, which were higher in the nine-month period ended 30 September 2013 as compared to the nine-month period ended 30 September 2012. As a percentage of revenue, other operating expenses increased to 1.7% in the nine-month period ended 30 September 2013 from 1.3% in the nine-month period ended 30 September 2012.

**Finance income**

The table below presents our finance income for the periods indicated.

	Nine-month period ended 30 September	
	2013	2012
	(PLN million)	
<b>Income on financial instruments, including:</b> . . . . .	98.6	63.0
Interest income . . . . .	84.2	61.9
Dividend income . . . . .	0.1	0.1
Revaluation of financial assets (including reversal of valuation allowances for financial assets) . . . . .	12.0	1.0
Foreign exchange gains . . . . .	1.2	0.0
Profit on sales of investments . . . . .	1.1	—
<b>Other financial income:</b> . . . . .	<b>31.0</b>	<b>2.0</b>
<b>Total</b> . . . . .	<b>129.6</b>	<b>65.0</b>

Source: Company (unaudited).

Finance income increased by PLN 64.6 million, or 99.4% to PLN 129.6 million in the nine-month period ended 30 September 2013 from PLN 65.0 million in the nine-month period ended 30 September 2012. This increase was primarily attributable to releasing the provision for litigation with PSE of PLN 27.4 million in 2013 (recognised as other financial income), an increase of PLN 22.3 million in interest income on cash and cash equivalents and receivables, reversing an impairment loss of PLN 12.0 million against shares in Oświetlenie Uliczne i Drogowe in relation to the completion of price negotiations regarding their disposal, and an increase by PLN 1.2 million of foreign exchange differences.



**Finance costs**

The table below presents our finance costs for the periods indicated.

	Nine-month period ended 30 September	
	2013	2012
	(PLN million)	
<b>Costs of financial instruments, including:</b> . . . . .	<b>195.9</b>	<b>154.9</b>
Interest expenses on financial instruments . . . . .	180.7	118.6
Revaluation of financial assets (including the creation of valuation allowances) . . . . .	13.7	16.5
Foreign exchange losses . . . . .	0.4	1.1
Loss on the disposal of investments . . . . .	1.1	18.6
<b>Other finance costs, including:</b> . . . . .	<b>50.8</b>	<b>31.1</b>
Other interest expense . . . . .	22.9	27.8
Other . . . . .	27.9	3.3
<b>Total</b> . . . . .	<b>246.8</b>	<b>186.0</b>

Source: Company (unaudited).

Finance costs increased by PLN 60.8 million, or 32.7%, to PLN 246.8 million in the nine-month period ended 30 September 2013 from PLN 186 million in the nine-month period ended 30 September 2012. This increase was primarily attributable to an increase of PLN 62.1 million in interest expense on our indebtedness, which resulted mainly from the issuance of bonds (in October 2012 we issued PLN 1,000.0 million of bonds under the Domestic Bonds Programme and in March 2013 we issued EUR 500.0 million Eurobonds under the EMTN programme; see “Our business—Material agreements—Financing agreements—Bond issues”) as well as an increase of PLN 24.7 million in transaction costs associated with the completed acquisitions (including advisory costs and tax on civil law transactions). This increase was partly offset by a decrease of PLN 17.5 million in losses on the disposal of investments and a decrease of PLN 2.8 million in costs of the revaluation of financial assets, which were related to the improved performance of the ENERGA Trading fund as well as a decrease of PLN 4.6 million in interest expense in respect of the valuation of actuarial provisions.

**Profit before tax**

As a result of the factors described above, profit before tax increased by PLN 138.0 million, or 20.4% to PLN 815.5 million in the nine-month period ended 30 September 2013 from PLN 677.5 million in the nine-month period ended 30 September 2012.

**Income tax**

Our income tax increased by PLN 49.5 million, or 30.5%, to PLN 212.0 million in the nine-month period ended 30 September 2013 from PLN 162.5 million in the nine-month period ended 30 September 2012. This increase was primarily attributable to an increase in the current tax liability of PLN 69.5 million primarily due to the higher taxable income. The increase in the current tax liability was partially offset by a decrease in deferred tax liability of PLN 20.0 million. The effective tax rate was 26.0% and 24.0% for the nine-month periods ended 30 September 2013 and 2012, respectively. The increase in the effective tax rate was primarily attributable to a more conservative approach to the recognition of the deferred tax assets at ENERGA.

**Net profit for the period**

For the reasons discussed above, net profit for the year increased by PLN 67.4 million, or 12.7%, to PLN 597.6 million in the nine-month period ended 30 September 2013 from PLN 530.2 million in the nine-month period ended 30 September 2012.

**EBITDA**

EBITDA increased by PLN 169.0 million or 12.7%, to PLN 1,501.4 million in the nine-month period ended 30 September 2013 from PLN 1,332.4 million in the nine-month period ended 30 September 2012.

## OPERATING AND FINANCIAL REVIEW

EBITDA from the distribution segment increased by PLN 99.2 million or 9.6% to PLN 1,136.1 million in the nine-month period ended 30 September 2013 from PLN 1,036.9 million in the nine-month period ended 30 September 2012. This increase was primarily attributable to an increase of 3.8% in revenue from the sale of electricity distribution services to end-customers, resulting from an increase in the average price of distribution services by 1.9% resulting from an increase in the tariff for electricity distribution services approved by the ERO President and an increase in the volume of distributed electricity by 1.9%.

EBITDA from the generation segment increased by PLN 83.8 million to PLN 198.6 million in the nine-month period ended 30 September 2013 from PLN 114.8 million in the nine-month period ended 30 September 2012. This increase was primarily attributable to a 0.5% decrease in the cost of hard coal used in the nine-month period ended 30 September 2013 as compared to the nine-month period ended 30 September 2012, mainly as a result of a 6.3% decline in the average price of hard coal. In addition, the increase of EBITDA in the generation segment was influenced by the acquisition of wind assets. The impact of the acquired assets amounted to PLN 3.7 million from the transaction date to 30 September 2013.

EBITDA from the sales segment decreased by PLN 13.2 million or 6.6% to PLN 188.0 million in the nine-month period ended 30 September 2013 from PLN 201.2 million in the nine-month period ended 30 September 2012. This decrease was primarily attributable to a change in the electricity sale structure caused by a decrease of 9.6% in the volumes of electricity sold to retail customers and an increase of 61.8% in the volumes sold to wholesale customers. Additionally, the average selling price of electricity decreased by 3.3% for retail customers and by 7.7% for wholesale customers. A factor contributing to these decreases was the lower tariff for group G customers passed in July 2013 by the ERO President, and strong market competition which required rebates and loyalty incentives. The EBITDA decrease in the sales segment was partly offset by lower revaluation write-offs in respect of receivables and lower costs of provisions for the redemption of certificates of origin.

As a percentage of revenue, EBITDA for the nine-month periods ended 30 September 2013 and 2012 was 17.6% and 16.2%, respectively.

### *Year ended 31 December 2012 as compared to the year ended 31 December 2011 and the year ended 31 December 2011 as compared to the year ended 31 December 2010*

#### **Revenue**

The below table sets forth our revenue for the periods indicated.

	<b>Year ended 31 December</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
	<b>(PLN million)</b>		
Sales of products and goods for resale including excise tax . . . . .	7,764.4	7,274.9	6,698.7
<i>% of revenue</i> * . . . . .	69.5	70.2	70.8
Excise tax . . . . .	(329.6)	(317.7)	(314.5)
<i>% of revenue</i> * . . . . .	(2.9)	(3.1)	(3.3)
Sales of products and goods for resale . . . . .	7,434.8	6,957.2	6,384.2
<i>% of revenue</i> * . . . . .	66.5	67.1	67.4
Sales of services . . . . .	3,688.5	3,358.8	3,021.0
<i>% of revenue</i> * . . . . .	33.0	32.4	31.9
Rental income . . . . .	53.5	52.0	62.6
<i>% of revenue</i> * . . . . .	0.5	0.5	0.7
<b>Revenue</b> . . . . .	<b>11,176.8</b>	<b>10,368.0</b>	<b>9,467.8</b>

Source: Consolidated Financial Statements; \* Company.

Our revenue in the years ended 31 December 2012, 2011 and 2010 amounted to PLN 11,176.8 million, PLN 10,368.0 million and PLN 9,467.8 million, respectively. The increase in revenue of PLN 808.8 million, or 7.8%, in the year ended 31 December 2012 as compared to the year ended 31 December 2011 and the increase in revenue of PLN 900.2 million, or 9.5%, in the year ended 31 December 2011 as compared to the year ended 31 December 2010, resulted primarily from the factors discussed below.

The contributions to our revenue by our distribution, generation and sales segments for the year ended 31 December 2012 were 33.0%, 13.8%, and 64.2%, respectively; for the year ended 31 December 2011 were 32.7%, 17.6%, and 65.6%, respectively; and for the year ended 31 December 2010 were 34.0%, 17.0%, and 59.6%, respectively (see “—Reporting by segments” below).

*Sales of products and goods for resale.* In the years ended 31 December 2012, 2011 and 2010 our sales of products and goods for resale represented 66.5%, 67.1% and 67.4%, respectively, of our revenue.

The sale of products and goods for resale increased by PLN 477.6 million, or 6.9%, to PLN 7,434.8 million in the year ended 31 December 2012 from PLN 6,957.2 million in the year ended 31 December 2011. This increase was attributable to an increase of 8.0% in revenue from the sales of electricity to external end-customers, achieved in the sales segment which resulted mainly from a higher volume of electricity sold by 5.9% and an increase of 2.0% in the average electricity price in the year ended 31 December 2012 as compared to the year ended 31 December 2011.

The sale of products and goods for resale increased by PLN 573.0 million, or 9.0%, to PLN 6,957.2 million in the year ended 31 December 2011 from PLN 6,384.2 million in the year ended 31 December 2010. This increase was attributable to an increase of 6.8% in revenue from sales of electricity to external customers, achieved in the sales segment which resulted mainly from a higher volume of electricity sold by 4.2% and an increase in the average electricity price of 2.5% in year ended 31 December 2011 as compared to the year ended 31 December 2010. In addition to this, revenue from sales of electricity to external customers achieved in the sales segment on the wholesale market were higher by PLN 550.4 million, or 133.6% in the year ended 31 December 2011 as compared to the year ended 31 December 2010, which resulted from a 109.2% increase in electricity sales volume and an increase of 11.7% in the average selling price. This increase was partly offset by a decrease in revenue in the generation segment, caused by a decrease of 21.1% in the revenue from the sale of certificates in the year ended 31 December 2011 in comparison to the year ended 31 December 2010.

*Sales of services.* In the years ended 31 December 2012, 2011 and 2010 our sales of services represented 33.0%, 32.4% and 31.9%, respectively, of our revenue.

The sale of services increased by PLN 329.7 million, or 9.8%, to PLN 3,688.5 million in the year ended 31 December 2012 from PLN 3,358.8 million in the year ended 31 December 2011. This increase was attributable to an increase of 10.6% in revenue from distribution services to end-customers as a result of an increase of 2.3% in the volume of distributed electricity and an increase of 8.1% in the average price of distribution services in the year ended 31 December 2012 as compared to the year ended 31 December 2011.

The sale of services increased by PLN 337.8 million, or 11.2%, to PLN 3,358.8 million in the year ended 31 December 2011 from PLN 3,021.0 million in the year ended 31 December 2010. This increase was primarily attributable to a 6.6% increase in revenue from distribution services to end-customers as a result of a 1.6% increase in the volume of distributed electricity and a 5.0% increase in the average price of distribution services in the year ended 31 December 2011 as compared to the year ended 31 December 2010.

*Excise tax.* Our excise tax charges were relatively stable in the years ended 31 December 2012, 2011 and 2010 and amounted to PLN 329.6 million, PLN 317.7 million and PLN 314.5 million, respectively. The binding excise tax rate in the years ended 31 December 2012, 2011 and 2010 remained fixed at PLN 20 per 1 MWh. Based on an exemption from excise tax, 9.8%, 8.6% and 6.2% of electricity sold by us to end-customers were exempted from excise tax as energy derived from renewable energy sources in the years ended 31 December 2012, 2011 and 2010, respectively.

*Rental income.* In the years ended 31 December 2012, 2011 and 2010 our rental income represented 0.5%, 0.5% and 0.7%, respectively, of our revenue.

Rental income increased by PLN 1.5 million, or 2.9%, to PLN 53.5 million in the year ended 31 December 2012 from PLN 52.0 million in the year ended 31 December 2011. This increase was primarily attributable to an increase in rental revenue from generating assets.

Rental income decreased by PLN 10.6 million, or 16.9%, to PLN 52.0 million in the year ended 31 December 2011 from PLN 62.6 million in the year ended 31 December 2010. This decrease was

## OPERATING AND FINANCIAL REVIEW

primarily attributable to a decrease in rental revenue from generating assets, which resulted mainly from the unavailability of the pumped storage station Żydowo during its comprehensive modernisation. According to an agreement for on-demand generation concluded on 28 August 2009 between ENERGA Hydro and PSE (see “Our Business—Material agreements—Ad hoc generation agreement of 28 August 2009 between ENERGA Hydro and PSE), ENERGA Hydro receives certain remuneration from PSE, classified as rental revenue. The commencement of the modernisation of the main assets (hydro turbine sets) in August 2010 resulted in lower revenue from the remuneration received by ENERGA Hydro from PSE by 32.0% in the year ended 31 December 2011 as compared to the year ended 31 December 2010. The modernisation is to be completed in 2013.

### *Operating expenses*

The table below presents the structure of the operating expenses for the periods indicated.

	Year ended 31 December		
	2012	2011	2010
	(PLN million)		
Amortisation and depreciation . . . . .	723.2	656.8	591.4
Impairment losses of property, plant and equipment and intangible assets	124.0	0.9	56.7
Materials and energy used . . . . .	1,016.5	1,131.2	1,015.4
External services . . . . .	1,218.6	1,199.4	1,110.4
Taxes and fees . . . . .	277.7	260.2	244.3
Employee benefits expense . . . . .	999.7	1,097.0	1,051.3
Valuation allowance for inventories . . . . .	(6.5)	7.0	0.5
Valuation allowance for trade receivables . . . . .	66.1	36.1	27.8
Other expenses . . . . .	83.8	75.1	81.0
Change in inventories, prepayments and accruals . . . . .	(10.7)	(20.5)	(54.3)
Cost of producing services for own needs . . . . .	(152.9)	(244.3)	(117.3)
Cost of merchandise and raw materials sold . . . . .	5,815.3	5,162.3	4,487.0
<b>Total operating expenses . . . . .</b>	<b>10,154.9</b>	<b>9,361.3</b>	<b>8,494.3</b>
<i>of which:</i>			
Cost of sales . . . . .	9,532.1	8,759.1	8,055.3
Selling and distribution expenses . . . . .	247.5	187.9	109.2
General and administrative expenses . . . . .	375.3	414.3	329.8

Source: Consolidated Financial Statements.

### *Cost of sales*

The cost of sales increased by PLN 773.0 million, or 8.8%, to PLN 9,532.1 million in the year ended 31 December 2012 from PLN 8,759.1 million in the year ended 31 December 2011. The cost of sales for the year ended 31 December 2011 represented an increase of PLN 703.8 million, or 8.7%, from the PLN 8,055.3 million recorded for the year ended 31 December 2010. The factors for the year-on-year increases are explained below.

The contributions to our cost of sales for the year ended 31 December 2012 by our distribution, generation and sales segments were 27.1%, 14.8%, and 71.3%, respectively. For the year ended 31 December 2011, they were 30.1%, 15.5%, and 74.9%, respectively; and for the year ended 31 December 2010 were 37.6%, 12.7%, and 66.7%, respectively.

### *Amortisation and depreciation*

Amortisation and depreciation increased by PLN 66.4 million, or 10.1%, to PLN 723.2 million in the year ended 31 December 2012 from PLN 656.8 million in the year ended 31 December 2011. This increase was primarily attributable to an increase in the value of non-current assets, which resulted mainly from the successively commissioned investments in the development and modernisation of the distribution network.

Amortisation and depreciation increased by PLN 65.4 million, or 11.1%, to PLN 656.8 million in the year ended 31 December 2011 from PLN 591.4 million in the year ended 31 December 2010. This increase was

primarily attributable to an increase in the value of non-current assets, which resulted mainly from the successively commissioned investments in the development and modernisation of the distribution network.

As a percentage of the revenue, amortisation and depreciation expenses represented 6.5%, 6.3% and 6.2% in the years ended 31 December 2012, 2011 and 2010, respectively.

#### *Impairment losses of property, plant and equipment and intangible assets*

In the year ended 31 December 2012, the impairment losses of property, plant and equipment and intangible assets amounted to PLN 124.0 million and mainly comprised the cost of creating write-offs against the property, plant and equipment of the Ostrołęka C project in the amount of PLN 119.9 million, resulting from a decision to suspend the project.

In the year ended 31 December 2011, the impairment losses of property, plant and equipment and intangible assets amounted to PLN 0.9 million and mainly comprised the cost of creating write-offs against the property, plant and equipment of a Group company due to its low profitability.

In the year ended 31 December 2010, the impairment losses of property, plant and equipment and intangible assets amounted to PLN 56.7 million and mainly comprised the cost of establishing write-offs against the property, plant and equipment of the CHP Ostrołęka A in the amount of PLN 47.2 million, created as a result of losing the principal heat offtaker which built its own CHP unit.

#### *Materials and energy used*

The cost of materials and energy used decreased by PLN 114.7 million, or 10.1%, to PLN 1,016.5 million in the year ended 31 December 2012 from PLN 1,131.2 million in the year ended 31 December 2011. This decrease was primarily attributable to a decrease in usage of power sector-related materials, as a result of the transfer in May 2012 of numerous investment projects from ENERGA-OPERATOR to other Group companies (since then, the cost of materials used in the development of property, plant and equipment is posted directly to assets, whereas previously these were posted as the costs of producing goods and services for own purposes), in consequence, the cost of materials and energy used decreased by PLN 67.6 million in the year ended 31 December 2012 as compared to the year ended 31 December 2011. Additionally, in the year ended 31 December 2012 most of the materials used were designated for investment projects (their use was added to the value of property, plant and equipment rather than expensed, which resulted in a decrease in the cost of materials and energy used by PLN 95.3 million). This decrease was partially offset by an increase in the cost of fuels by PLN 49.3 million, or 8.2%, in the year ended 31 December 2012 as compared to the year ended 31 December 2011, which resulted mainly from a higher share of biomass in the total fuel quantity, and higher average fuel prices. As a percentage of the revenue, the cost of materials and energy used decreased to 9.1% in the year ended 31 December 2012 from 10.9% in the year ended 31 December 2011. The decrease was caused mainly by revenue increasing concurrently with the decreasing cost of materials and energy used.

The cost of materials and energy used increased by PLN 115.8 million, or 11.4%, to PLN 1,131.2 million in the year ended 31 December 2011 from PLN 1,015.4 million in the year ended 31 December 2010. This increase was primarily attributable to an increase in the cost of fuel by PLN 85.5 million or 16.7% (mainly the cost of the usage of coal, which resulted from its increased use and higher price). Higher coal usage was recorded primarily in ENERGA Elektrownie Ostrołęka in relation to an increase of 12.6% in the volume of electricity generated which resulted from shorter overhaul stoppages and higher utilisation. Additionally, in relation to outlays on the distribution network, the cost of materials used incurred by ENERGA-OPERATOR increased by PLN 36.8 million in the year ended 31 December 2011 as compared to the year ended 31 December 2010. This increase was partially offset by a decrease of PLN 31.5 million or 8.7% in the cost of energy purchased to compensate for network losses. As a percentage of revenue, the cost of materials and energy used increased to 10.9% in the year ended 31 December 2011 from 10.7% in the year ended 31 December 2010.

#### *External services*

The cost of external services increased by PLN 19.2 million, or 1.6%, to PLN 1,218.6 million in the year ended 31 December 2012 from PLN 1,199.4 million in the year ended 31 December 2011. This increase was primarily attributable to an increase of 49.2% in the cost of legal services and an increase of 128.6% in



property maintenance cost in the year ended 31 December 2012 as compared to the year ended 31 December 2011. As a percentage of the revenue, the cost of external services decreased to 10.9% in the year ended 31 December 2012 from 11.6% in the year ended 31 December 2011.

The cost of external services increased by PLN 89.0 million, or 8.0%, to PLN 1,199.4 million in the year ended 31 December 2011 from PLN 1,110.4 million in the year ended 31 December 2010. This increase was primarily attributable to a 2.6% increase in transmission and transit charges paid mainly to PSE, which resulted largely from an increase of 53.2% in the cost of advisory services (mainly in relation to the preparation of investment projects) and higher cost of lease and rental services as well as IT services. As a percentage of revenue, the cost of external services decreased to 11.6% in the year ended 31 December 2011 from 11.7% in the year ended 31 December 2010.

### *Taxes and fees*

Taxes and fees increased by PLN 17.5 million, or 6.7%, to PLN 277.7 million in the year ended 31 December 2012 from PLN 260.2 million in the year ended 31 December 2011. This increase was primarily attributable to an increase in property tax charges, which resulted mainly from higher tax rates and real property purchases due to the development and modernisation of the distribution infrastructure. As a percentage of revenue, taxes and fees represented 2.5% in the years ended 31 December 2012 and 2011.

Taxes and fees increased by PLN 15.9 million, or 6.5%, to PLN 260.2 million in the year ended 31 December 2011 from PLN 244.3 million in the year ended 31 December 2010. This increase was primarily attributable to an increase in property tax charges, which resulted mainly from higher tax rates and real property purchases due to the development and modernisation of the distribution infrastructure. As a percentage of revenue, taxes and fees decreased to 2.5% in the year ended 31 December 2011 from 2.6% in the year ended 31 December 2010.

### *Employee benefits expense*

The employee benefits expense decreased by PLN 97.3 million, or 8.9%, to PLN 999.7 million in the year ended 31 December 2012 from PLN 1,097.0 million in the year ended 31 December 2011. This decrease was primarily attributable to a 15.0% decrease in payroll costs driven by voluntary redundancy programmes and schemes in effect in eleven Group companies in the year ended 31 December 2012. As a percentage of revenue, the employee benefits expense decreased to 8.9% in the year ended 31 December 2012 from 10.6% in the year ended 31 December 2011.

The employee benefits expense increased by PLN 45.7 million, or 4.3%, to PLN 1,097.0 million in the year ended 31 December 2011 from PLN 1,051.3 million in the year ended 31 December 2010. This increase was primarily attributable to a collective bargaining agreement signed in 2011 that provided for a payroll fund increase of PLN 46.1 million in total. As a percentage of revenue, the employee benefits expense decreased to 10.6% in the year ended 31 December 2011 from 11.1% in the year ended 31 December 2010.

### *Other expenses*

Other expenses increased by PLN 8.7 million, or 11.6%, to PLN 83.8 million in the year ended 31 December 2012 from PLN 75.1 million in the year ended 31 December 2011. This increase was primarily attributable to an increase of PLN 9.0 million in promotion and advertising costs. As a percentage of revenue, other expenses amounted to 0.7% in the years ended 31 December 2012 and 2011.

Other expenses decreased by PLN 5.9 million, or 7.3%, to PLN 75.1 million in the year ended 31 December 2011 from PLN 81.0 million in the year ended 31 December 2010. This decrease was primarily attributable to presentation changes in the cost of transmission and transit fees in ENERGA-OPERATOR (as of the year ended 31 December 2011 the transit and transmission fees are disclosed as external services). As a percentage of revenue, other expenses decreased to 0.7% in the year ended 31 December 2011 from 0.9% in the year ended 31 December 2010.



*Cost of merchandise and raw materials sold*

The cost of merchandise and raw materials sold increased by PLN 653.0 million, or 12.6%, to PLN 5,815.3 million in the year ended 31 December 2012 from PLN 5,162.3 million in the year ended 31 December 2011. This increase was primarily attributable to increased electricity revenue resulting from a 7.9% increase in the volume of electricity sold in the year ended 31 December 2012 as compared to the year ended 31 December 2011. As a percentage of revenue, the cost of merchandise and raw materials sold increased to 52.0% in the year ended 31 December 2012 from 49.8% in the year ended 31 December 2011.

The cost of merchandise and raw materials sold increased by PLN 675.3 million, or 15.1%, to PLN 5,162.3 million in the year ended 31 December 2011 from PLN 4,487.0 million in the year ended 31 December 2010. This increase was primarily attributable to increased electricity revenue resulting from a 15.4% increase in the volume of electricity sold in the year ended 31 December 2011 as compared to the year ended 31 December 2010. As a percentage of revenue, the cost of merchandise and raw materials sold increased to 49.8% in the year ended 31 December 2011 from 47.4% in the year ended 31 December 2010.

*Selling and distribution expenses*

Selling and distribution expenses increased by PLN 59.6 million, or 31.7%, to PLN 247.5 million in the year ended 31 December 2012 from PLN 187.9 million in the year ended 31 December 2011. This increase was primarily attributable to an increase of 175.3% in payroll costs in ENERGA-OBRÓT as a result of higher costs of employee benefits due to the taking over by ENERGA-OBRÓT of the processes and employees related to customer service from ENERGA Obsługa i Sprzedaż, in which these costs had been classified as costs of providing services. In addition, the Selling and distribution expenses of ENERGA-OPERATOR increased by 11.6% in the year ended 31 December 2012 as compared to the year ended 31 December 2011, as a result of transferring some of the employees of ENERGA-OPERATOR to ENERGA-OPERATOR Techniczna Obsługa Odbiorców engaging in customer service.

Selling and distribution expenses increased by PLN 78.7 million, or 72.1%, to PLN 187.9 million in the year ended 31 December 2011 from PLN 109.2 million in the year ended 31 December 2010. This increase was primarily attributable to reclassifying the costs of service provided by ENERGA Obsługa i Sprzedaż to ENERGA-OPERATOR. In the year ended 31 December 2011 these costs were classified as Selling and distribution expenses, and in the year ended 31 December 2010 as a cost of sale. As a percentage of the revenue, Selling and distribution expenses remained relatively stable and amounted to 2.2%, 1.8% and 1.2% in the years ended 31 December 2012, 2011 and 2010, respectively.

*General and administrative expenses*

General and administrative expenses decreased by PLN 39.0 million, or 9.4%, to PLN 375.3 million in the year ended 31 December 2012 from PLN 414.3 million in the year ended 31 December 2011. This decrease was primarily attributable to a 33.3% decrease in the payroll costs of ENERGA-OPERATOR, which resulted from the reorganisation (such as spinning-off the maintenance and investment functions), the implementation of an individual redundancy programme in ENERGA-OPERATOR and the decrease of employee benefits expense related to lower payroll costs.

General and administrative expenses increased by PLN 84.5 million, or 25.6%, to PLN 414.3 million in the year ended 31 December 2011 from PLN 329.8 million in the year ended 31 December 2010. This increase was primarily attributable to an increase in the employee benefits expense in relation to increasing actuarial provisions by 11.9% in the year ended 31 December 2011 as compared to the year ended 31 December 2010. As a percentage of the revenue, general and administrative expenses remained relatively stable and amounted to 3.4%, 4.0% and 3.5% in the years ended 31 December 2012, 2011 and 2010, respectively.

*Other operating income*

Other operating income decreased by PLN 19.6 million, or 12.7%, to PLN 134.9 million in the year ended 31 December 2012 from PLN 154.5 million in the year ended 31 December 2011. This decrease was primarily attributable to recognising a release of PLN 62.7 million provision in the operating income for

the year ended 31 December 2011, reflecting an amount adjudged from PSE (details regarding the proceedings brought to court by PSE Operator (currently PSE) against ENERGA-OPERATOR are discussed in “Our Business—Legal and administrative proceedings—Court proceedings initiated by PSE Operator against ENERGA-OPERATOR and by ENERGA-OPERATOR against PKN ORLEN”). This decrease was partially offset by an increase in revenue by PLN 16.9 million as a result of releasing certain provisions, mainly those related to court cases concerning the location of network infrastructure elements on private properties, and an increase in revenue by PLN 19.7 million resulting from penalties and damages received, mainly in relation to damaging of networks due to fortuitous events.

Other operating income increased by PLN 85.3 million, or 123.3%, to PLN 154.5 million in the year ended 31 December 2011 from PLN 69.2 million in the year ended 31 December 2010. This increase was primarily attributable to an adjudged amount received from PSE (PLN 62.7 million) and to an increase in revenue of PLN 30.0 million as a result of releasing certain provisions, mainly those related to court cases concerning the location of network infrastructure elements on private properties. This increase was partially offset by a decrease of revenue from the sale of CO<sub>2</sub> emission rights (in the year ended 31 December 2010 we sold an excess of those rights, whereas in the year ended 31 December 2011 no such transactions took place).

### *Other operating expenses*

Other operating expenses decreased by PLN 47.5 million, or 15.9%, to PLN 250.8 million in the year ended 31 December 2012 from PLN 298.3 million in the year ended 31 December 2011. This decrease was primarily attributable to a decrease of PLN 69.1 million in the costs of restructuring severance allowances in relation to a lower number of employees who opted for the voluntary redundancy schemes or programmes in the year ended 31 December 2012 as compared to the year ended 31 December 2011, and a decrease of PLN 22.6 million in damages paid in 2011 to PKN Orlen S.A. in relation to litigation concerning payments for transmission services, and a decrease of PLN 7.2 million in losses on the disposal of property, plant and equipment. This decrease was partially offset by the cost of a provision against litigation with PSE for PLN 62.5 million.

Other operating expenses increased by PLN 71.8 million, or 31.7%, to PLN 298.3 million in the year ended 31 December 2011 from PLN 226.5 million in the year ended 31 December 2010. This increase was primarily attributable to an increase of PLN 14.7 million in losses on the disposal of property, plant and equipment, an increase of PLN 12.8 million in costs of damages in relation to the payment of damages to PKN Orlen due to litigation concerning payments for transmission services, and an increase of PLN 10.6 million in establishing provisions, mainly in relation to provisions for court disputes related to infrastructure situated on third party land. Additionally, in the year ended 31 December 2011 the cost of rectifying the cost of the effects of fortuitous events increased by PLN 9.4 million, mainly as a result of the fact that in the year ended 31 December 2010 these losses were to a greater degree rectified by the efforts of the companies concerned.

As a percentage of revenue, other operating expenses remained relatively stable and amounted to 2.2%, 2.9% and 2.4% in the years ended 31 December 2012, 2011 and 2010, respectively.

**Finance income**

The table below presents our finance income for the periods indicated.

	Year ended 31 December		
	2012	2011	2010
	(PLN million)		
<b>Income on financial instruments, including:</b>	<b>75.3</b>	<b>199.8</b>	<b>81.8</b>
Interest income	74.8	160.4	73.2
Dividend income	0.1	0.8	0.4
Revaluation of financial assets (including reversal of valuation allowances for financial assets)	0.2	1.7	7.9
Foreign exchange gains	0.0	1.2	0.2
Profit on sales of investments	0.2	35.7	—
<b>Other financial income:</b>	<b>3.9</b>	<b>8.1</b>	<b>0.7</b>
<b>Total</b>	<b>79.2</b>	<b>207.9</b>	<b>82.5</b>

Source: Consolidated Financial Statements.

Finance income decreased by PLN 128.7 million, or 61.9%, to PLN 79.2 million in the year ended 31 December 2012 from PLN 207.9 million in the year ended 31 December 2011. This decrease was primarily attributable to a decrease in interest income of PLN 85.6 million mainly as a result of reflecting in the finance income of the year ended 31 December 2011 the amount of PLN 60.4 million adjudged from PSE, and a decrease in profits on the sale of investments of PLN 35.5 million resulting mainly from income in the year ended 31 December 2011 from a profit on sale of shares in ANWIL S.A. of PLN 35.4 million.

Finance income increased by PLN 125.4 million, or 152.0%, to PLN 207.9 million in the year ended 31 December 2011 from PLN 82.5 million in the year ended 31 December 2010. This increase was primarily attributable to an increase of PLN 87.2 million in interest income, mainly as a result of reflecting in the finance income for the year ended 31 December 2011 the amount of PLN 60.4 million adjudged from PSE, and an increase of PLN 35.7 million in income on a disposal of investments mainly related to reflecting a profit on sale of shares in ANWIL S.A. of PLN 35.4 million in the finance income for the year ended 31 December 2011. This increase was partially offset by a decrease of PLN 6.2 million in income on a revaluation of financial assets (in the year ended 31 December 2010 the majority of write-offs against interest on receivables were released and a PLN 3.0 million write-off against shares in Toruńska Energetyka Cergia was reversed due to its sale).

**Finance costs**

The table below presents our finance costs for the periods indicated.

	Year ended 31 December		
	2012	2011	2010
	(PLN million)		
<b>Costs of financial instruments, including:</b>	<b>247.8</b>	<b>111.2</b>	<b>41.7</b>
Interest expenses on financial instruments	179.6	102.5	41.2
Revaluation of financial assets (including the creation of valuation allowances)	47.7	4.3	0.0
Foreign exchange losses	1.4	0.1	0.5
Loss on the disposal of investments	19.1	4.3	—
<b>Other finance costs, including:</b>	<b>111.3</b>	<b>61.6</b>	<b>62.0</b>
Other interest expense	45.5	53.3	53.7
Other	65.8	8.3	8.3
<b>Total</b>	<b>359.1</b>	<b>172.7</b>	<b>103.7</b>

Source: Consolidated Financial Statements.

Finance costs increased by PLN 186.4 million, or 107.9%, to PLN 359.1 million in the year ended 31 December 2012 from PLN 172.7 million in the year ended 31 December 2011. This increase was primarily attributable to an increase of PLN 77.1 million in interest expense on financial instruments in

relation to a higher average indebtedness of the Group in the year ended 31 December 2012 as compared to the year ended 31 December 2011, subsequent to the issuance of bonds under the Domestic Bonds Programme (PLN 1,000.0 million) in October 2012, drawing another tranche of the EBRD 2010 facility (PLN 150.0 million), a facility drawdown entered with NORDEA Bank Polska for investments in ENERGA Kogeneracja and ENERGA Hydro (PLN 164.7 million) and the drawdown of a loan from Pekao S.A. for an investment programme in ENERGA Elektrownie Ostrołęka (PLN 33.0 million). Additionally, the increase in finance costs was affected by the creation of a provision against the reimbursement of interest adjudged in 2011 from PSE (PLN 60.4 million) and an increase of PLN 43.4 million of the cost of the revaluation of financial assets (mainly related to new write-offs against shares in the associated companies Stoen sp. z o.o. and Oświetlenie Uliczne i Drogowe sp. z o.o. in relation to the decision to divest them). Additionally, losses on the disposal of investments increased by PLN 14.8 million in the year ended 31 December 2012 as compared to the year ended 31 December 2011, mainly in relation to a loss on forward contracts for CO<sub>2</sub> emission allowances, which was a one-off transaction.

Finance costs increased by PLN 69.0 million, or 66.5%, to PLN 172.7 million in the year ended 31 December 2011 from PLN 103.7 million in the year ended 31 December 2010. This increase was primarily attributable to an increase of PLN 61.3 million in interest expense on financial instruments in relation to a higher average indebtedness of the Group in the year ended 31 December 2011 as compared to the year ended 31 December 2010, subsequent to launching in 2011 of another tranche under the EIB 2009 facility (PLN 420.0 million), EBRD 2010 facility (PLN 350.0 million) and NIB 2010 facility (PLN 100.0 million).

### ***Profit before tax***

As a result of the factors described above, profit before tax decreased by PLN 272.9 million, or 30.3% to PLN 626.3 million in the year ended 31 December 2012 from PLN 899.2 million in the year ended 31 December 2011.

As a result of the factors described above, profit before tax increased by PLN 103.6 million, or 13.0%, to PLN 899.2 million in the year ended 31 December 2011 from PLN 795.6 million in the year ended 31 December 2010.

### ***Income tax***

Our income tax decreased by PLN 30.1 million, or 15.3%, to PLN 166.5 million in the year ended 31 December 2012 from PLN 196.6 million in the year ended 31 December 2011. This decrease was primarily attributable to a decrease in the current tax liability of PLN 34.5 million in relation to the lower taxable income in the year ended 31 December 2012 as compared to the year ended 31 December 2011, a decrease of PLN 14.8 million in the tax charge relating to a revised amount of adjustments to income tax amounts for previous years. The decrease was partially offset by an increase of PLN 19.4 million in the charge related to deferred income tax resulting mainly from a lower increase in the deferred tax asset in the year ended 31 December 2012 as compared to the year ended 31 December 2011. The effective tax rates were 26.6% and 21.9% in the years ended 31 December 2012 and 31 December 2011, respectively. The higher effective tax rate was primarily attributable to a more conservative approach to the recognition of deferred tax assets at ENERGA.

Our income tax increased by PLN 25.6 million, or 15.0%, to PLN 196.6 million in the year ended 31 December 2011 from PLN 171.0 million in the year ended 31 December 2010. This increase was primarily attributable to an increase in the current tax of PLN 41.8 million in relation to the lower taxable income in the year ended 31 December 2011 as compared to the year ended 31 December 2010, an increase in the tax charge relating to a revised amount of adjustments to income tax amounts for previous years of PLN 7.7 million. This increase was partially offset by a decrease in the charge related to deferred income tax in the amount of PLN 24.0 million resulting mainly from a higher increase in the deferred tax asset in the year ended 31 December 2011 as compared to the year ended 31 December 2010. The effective income tax remained at relatively stable level and the rates were 21.9% and 21.5% in the years ended 31 December 2011 and 31 December 2010, respectively.

***Net profit for the financial year***

For the reasons discussed above, our net profit for the year decreased by PLN 246.2 million, or 35.0%, to PLN 456.4 million in the year ended 31 December 2012 from PLN 702.6 million in the year ended 31 December 2011.

For the reasons discussed above, our net profit for the year increased by PLN 78.4 million, or 12.6%, to PLN 702.6 million in the year ended 31 December 2011 from PLN 624.2 million in the year ended 31 December 2010.

***EBITDA***

EBITDA increased by PLN 109.5 million or 7.2% to PLN 1,629.2 million in the year ended 31 December 2012 from PLN 1,519.7 million in the year ended 31 December 2011.

EBITDA from the distribution segment increased by PLN 301.9 million or 33.0% to PLN 1,218.0 million in the year ended 31 December 2012 from PLN 916.1 million in the year ended 31 December 2011. This increase was primarily attributable to an increase of 10.6% in revenue from distribution services to end-customers as a result of an increase of 2.3% in the volume of electricity distributed in the year ended 31 December 2012 as compared to the year ended 31 December 2011, mainly in tariff groups A and B. The average price of distribution services increased by 8.1% in the year ended 31 December 2012 as compared to the year ended 31 December 2011, which resulted from higher tariffs for distribution services. This increase was partly offset by recognising the release of a PLN 62.7 million provision reflecting an amount adjudged from PSE in the other operating income for the year ended 31 December 2011 of (see “Our Business—Legal and administrative proceedings—Court proceedings initiated by PSE Operator against ENERGA-OPERATOR and by ENERGA-OPERATOR against PKN ORLEN”).

EBITDA from the generation segment decreased by PLN 340.3 million or 68.3% to PLN 158.2 million in the year ended 31 December 2012 from PLN 498.5 million in the year ended 31 December 2011. This decrease was primarily attributable to the cost of impairment loss on property, plant and equipment related to the Ostrołęka C project amounting to PLN 119.9 million, as a result of a decision to suspend the project. Additionally, revenue from the generation segment decreased by 15.2%, mainly due to a decrease of 22.5% in the revenue from the sale of electricity generated by system power plants and a decrease by 24.4% of revenue from the sale of electricity generated by hydro power plants, as well as a decrease by 25.4% in revenue from the sale of certificates of origin. Additionally the cost of fuels increased by PLN 49.3 million or 8.2% in the year ended 31 December 2012 as compared to the year ended 31 December 2011, which resulted from an increase in the average fuel price, mainly due to a higher share of biomass in the total fuel quantity.

EBITDA from the sales segment increased by PLN 97.0 million or 57.9% to PLN 264.5 million in the year ended 31 December 2012 from PLN 167.5 million in the year ended 31 December 2011. This increase was primarily attributable to an increase of 6.2% in revenue from the sale of electricity mainly to end-customers (by 8.0%), which resulted from an increase of 5.9% in the sales volume and an increase of 0.2% in the average electricity selling price. In the same period the cost of energy purchased for sale decreased due to a decrease by 6.8% in the average price of electricity on the market.

EBITDA increased by PLN 112.1 million or 8.0% to PLN 1,519.7 million in the year ended 31 December 2011 from PLN 1,407.6 million in the year ended 31 December 2010.

EBITDA from the distribution segment increased by PLN 262.5 million or 40.2% to PLN 916.1 million in the year ended 31 December 2011 from PLN 653.6 million in the year ended 31 December 2010. This increase was primarily attributable to an increase in revenue from distribution services to end-customers by 6.6% as a result of an increase in the volume of distributed electricity of 1.6% and an increase in the average price of distribution services of 5.0% in the year ended 31 December 2011 as compared to the year ended 31 December 2010, which resulted from higher tariffs for distribution services approved by the ERO President.

EBITDA from the generation segment decreased by PLN 92.5 million or 15.7% to PLN 498.5 million in the year ended 31 December 2011 from PLN 591.0 million in the year ended 31 December 2010. This decrease was primarily attributable to a decrease of 16.6% in revenue from the sale of electricity generated from renewable energy sources in the year ended 31 December 2011 as compared to the year ended



31 December 2010, which resulted from a decrease of 21.1% in the sales volume due to slightly less favourable hydrological conditions.

EBITDA from the sales segment decreased by PLN 75.2 million or 31.0% to PLN 167.5 million in the year ended 31 December 2011 from PLN 242.7 million in the year ended 31 December 2010. This decrease was primarily attributable to an increase in the cost of purchases of electricity of 22.1% resulting both from higher volume of electricity purchased of 17.9% and the average purchase price increase of 3.5% in the year ended 31 December 2011 in comparison to the year ended 31 December 2010. Additionally, the sales segment saw an increase of approximately 77% in impairment losses on overdue receivables, provisions for litigation costs, expenses for disputes and collection proceedings. This decrease was partly offset by an increase of 17.1% in revenue from the sale of electricity (of 6.8% on the retail market and 76.4% on the wholesale market). The increased revenue on the retail market, which represented in the years ended 31 December 2011 and 31 December 2010, respectively, 77.8% and 85.2% of the electricity revenue, resulted from higher volume of electricity sold to tariff groups A (by 12.1%) and B (by 16.6%), mainly as a result of winning new clients. The recorded increase in sales on the wholesale market is a result of an increase of 68.9% in the sales volume and an increase of 4.4% in the average selling price on that market. The increase in volume of electricity sold on the wholesale market in recent years is generated by, among other things, reselling surplus electricity resulting from a lower demand from retail clients, and increased sale to foreign clients. Additionally, improved transparency of the market related to the mandatory exchange trading, as well as more dynamic activities of the other market participants allowed our Group to intensify additional optimisation efforts.

As a percentage of the revenue EBITDA for the years ended 31 December 2012, 2011 and 2010 was 14.6%, 14.7% and 14.9%, respectively.

### **Reporting by segments**

The external and internal reporting of the Group is based on business segments. Organisation and management of the Group are based on the division into segments, reflecting the categories of goods and services offered.

We define the following business segments: distribution of electricity, generation, sales, services and other.

The electricity distribution segment includes the distribution of electricity by a distribution system operator—ENERGA-OPERATOR, and other activities directly or indirectly related to the distribution business conducted by the subsidiaries of ENERGA-OPERATOR.

The generation segment covers mainly the generation of electricity from renewable energy sources (hydroelectric power plants and, since 28 June 2013—wind farms) and from conventional sources (system power plants and CHPs). Additionally, this segment comprises investments in renewable energy sources and system power plants, as well as the maintenance and refurbishment business directly related to the generation of electricity in conventional sources, and the distribution of heat.

The electricity sales segment comprises all activities related to trading in electricity and customer service provided by ENERGA-OBRÓT, ENERGA Obsługa i Sprzedaż and ENERGA Slovakia s.r.o. Additionally, the sales segment includes ENERGA Oświetlenie sp. z o.o., a company providing lighting of roads, streets and other open spaces.

The services segment includes the functions of accounting, HR, payroll, IT, investment management, procurement and the production and trading in biofuels.

The segment “other” comprises the operation of hotel and training facilities and transport services. The Company (as the parent entity) is also classified in the “other” segment.

### ***Changes in the presentation***

In the Condensed Interim Consolidated Financial Statements, the Company changed the presentation of income and expenses related to the sale of electricity distribution services to end-customers in the sales segment. In the Consolidated Financial Statements the Company disclosed these income and costs in the sales segment separately while in the Condensed Interim Consolidated Financial Statements they are netted. In relation to that change, in order to ensure the comparability of financial information for the



segments between the Condensed Interim Consolidated Financial Statements and the Consolidated Financial Statements, revenues of the distribution segment from the sale of electricity distribution services to the sales segment for the years ended 31 December 2012, 2011 and 2010 presented in this Offering Circular are reported as sales to external customers and the value of eliminations on inter-segment sales is adjusted accordingly.

In the Condensed Interim Consolidated Financial Statements, the Company changed the segmental allocation of Zakład Energetyczny Płock—Centrum Handlowe sp. z o.o. and Zakład Energetyczny Toruń—ENERGOHANDEL sp. z o.o. In the Consolidated Financial Statements these companies were allocated to the services segment while in the Condensed Interim Consolidated Financial Statements they are allocated to the distribution segment. In relation to this change, the financial data presented in this Offering Circular for the years ended 31 December 2012, 2011 and 2010 reflects the new allocation of these companies in accordance with the Condensed Interim Consolidated Financial Statements.

The Company disclosed separately the segments of renewable energy sources, system power plants and CHPs in the Consolidated Financial Statements while in the Condensed Interim Consolidated Financial Statements they are presented as one—generation—segment. Therefore, the financial data of the generation segment for the years 2012 through 2010 presented in the Offering Circular represents the summarized financial data of former segments of renewable energy sources, system power plants and CHPs, without eliminations of inter-segment transactions.

The financial information in the tables below for the years ended 31 December 2012, 2011 and 2010 regarding our business segments is presented in accordance with the presentation manner adopted for the Condensed Interim Consolidated Financial Statements as discussed above.

***Nine-month period ended 30 September 2013 as compared to the nine-month period ended 30 September 2012***

The table below shows the allocation of selected financial data to individual business segments for the nine-month period ended 30 September 2013 and 2012. The data for individual segments have been adjusted for intra-group transactions between Group companies conducting business in the same segment. The elimination of intra-group transactions between Group companies conducting business in different segments is presented in the “Consolidation eliminations and adjustments” column.

Nine-month period ended 30 September 2013

	Distribution of electricity	Sales	Generation			Services	Other	Total	Consolidation eliminations and adjustments	Consolidated total
			CHP <sup>(1)</sup>	RES <sup>(1)</sup>	System <sup>(1)</sup>					
(PLN million)										
Revenue										
Sales to external clients . . . . .	2,761.4	4,919.9	97.2	221.6*	516.8*	3.4	17.2	8,537.5	—	8,537.5
Inter-segment sale . . . . .	37.7	328.9	18.6	165.3*	131.0*	258.5	52.7	992.7	(992.7)	—
<b>Total segment revenues</b> . . . . .	<b>2,799.1</b>	<b>5,248.8</b>	<b>115.8</b>	<b>387.0*</b>	<b>647.8*</b>	<b>261.9</b>	<b>69.9</b>	<b>9,530.2</b>	<b>(992.7)</b>	<b>8,537.5</b>
Profit/(loss) from continuing operations before tax and finance income/ costs . . . . .	656.4	168.4	3.5	283.6*	(162.1)*	15.0	(60.3)	904.5	28.7	933.1
Net finance income/expenses . . . . .	(74.3)	27.0	(0.4)	(17.2)*	(3.0)*	(0.1)	607.1	539.0	(656.2)	(117.1)
Share of profit/(loss) of associate . . . . .	—	—	—	—*	—*	—	—	—	(0.5)	(0.5)
<b>Profit before tax</b> . . . . .	<b>582.1</b>	<b>195.5</b>	<b>3.0</b>	<b>266.3*</b>	<b>(165.1)*</b>	<b>14.9</b>	<b>546.8</b>	<b>1,443.5</b>	<b>(628.0)</b>	<b>815.5</b>
Income tax . . . . .	131.6	37.0	0.5	51.9*	(32.6)*	3.8	5.5	197.6	14.4	212.0
Loss on discontinued operations and disposal of assets classified as held for sale . . . . .	—	—	—	—*	—*	—	(5.8)	(5.8)	—	(5.8)
<b>Net profit/(loss) for the period</b> . . . . .	<b>450.5</b>	<b>158.5</b>	<b>2.5*</b>	<b>214.5*</b>	<b>(132.5)*</b>	<b>11.1</b>	<b>535.5</b>	<b>1,240.1</b>	<b>(642.4)</b>	<b>597.6</b>
EBITDA <sup>(2)</sup> . . . . .	1,136.1	188.0	12.6*	313.3*	(126.2)*	26.4	(54.1)	1,496.1	5.2	1,501.4
Adjusted EBITDA <sup>(2)*</sup> . . . . .	<u>1,208.8*</u>	<u>188.4*</u>	<u>12.9*</u>	<u>313.4*</u>	<u>(2.8)*</u>	<u>27.0*</u>	<u>(54.1)*</u>	<u>1,693.7*</u>	<u>(12.7)*</u>	<u>1,681.0*</u>

(1) The Company disclosed separately the segments of RES, system power plants and CHPs in the Consolidated Financial Statements while in the Condensed Interim Consolidated Financial Statements they are presented as one-generation-segment. Therefore, the financial information for subsegments of the generation segment is provided for presentation purposes but it is not derived from the Condensed Interim Consolidated Financial Statements.

(2) We define and calculate EBITDA as operating profit/(loss) (calculated as net profit/(loss) on continuing operations for the period/year adjusted for (i) income tax, (ii) share in profits of associates, (iii) finance income and (iv) finance costs) adjusted for depreciation and amortisation (as disclosed in the income statements). We define Adjusted EBITDA as EBITDA adjusted for non-recurrent events. A calculation of the EBITDA and the Adjusted EBITDA is presented in detail in “Important Information—Financial information and operating data—Financial information not based on GAAP (Generally Accepted Accounting Principles)”. Neither EBITDA nor Adjusted EBITDA are IFRS measures and should not be treated as alternatives to IFRS measures. Moreover, neither EBITDA nor Adjusted EBITDA are uniformly defined. The method of calculating EBITDA and Adjusted EBITDA used by other companies may differ significantly from that used by us. In consequence, the EBITDA and Adjusted EBITDA presented in this chapter cannot, as such, be relied upon for the purpose of comparison to other companies. A reconciliation of net profit/(loss) for the period/year and EBITDA and Adjusted EBITDA, is presented in “Important Information—Financial information and operating data—Financial information not based on GAAP (Generally Accepted Accounting Principles)”.

Source: Condensed Interim Consolidated Financial Statements; \*Company (unaudited).

Nine-month period ended 30 September 2012

	Distribution of electricity	Sales	Generation			Services	Other	Total	Consolidation eliminations and adjustments	Consolidated total
			CHP <sup>(1)</sup>	RES <sup>(1)</sup>	System <sup>(1)</sup>					
(PLN million)										
Revenue										
Sales to external clients . . . . .	2,670.3	4,780.2	85.6*	165.1*	503.9*	10.3	25.8	8,241.2	—	8,241.2
Inter-segment sale . . . . .	37.2	434.1	20.2*	116.0*	286.1*	260.2	47.7	1,201.5	(1,201.5)	—
<b>Total segment revenues</b> . . . . .	<b>2,707.6</b>	<b>5,214.3</b>	<b>105.8*</b>	<b>281.1*</b>	<b>790.0*</b>	<b>270.5</b>	<b>73.4</b>	<b>9,442.7</b>	<b>(1,201.5)</b>	<b>8,241.2</b>
Profit/(loss) from continuing operations before tax and finance income/ costs . . . . .	588.6	183.1	(2.9)*	192.3*	(150.0)*	3.6	(54.8)	760.0	38.6	798.6
Net finance income/expenses . . . . .	(110.6)	8.4	(1.8)*	6.6*	(6.7)*	0.6	817.1	713.7	(834.6)	(120.9)
Share of profit/(loss) of associate . . . . .	—	—	—*	—*	—*	—	—	—	(0.2)	(0.2)
<b>Profit before tax</b> . . . . .	<b>478.0</b>	<b>191.5</b>	<b>(4.6)*</b>	<b>199.0*</b>	<b>(156.6)*</b>	<b>4.2</b>	<b>762.3</b>	<b>1,473.7</b>	<b>(796.2)</b>	<b>677.5</b>
Income tax . . . . .	91.9	37.6	0.3*	39.3*	(4.7)*	1.5	(8.0)	157.9	4.7	162.5
Loss on discontinued operations and disposal of assets classified as held for sale . . . . .	—	—	—*	—*	—*	—	15.2	15.2	—	15.2
<b>Net profit/(loss) for the period</b> . . . . .	<b>386.1</b>	<b>154.0</b>	<b>(4.9)*</b>	<b>159.7*</b>	<b>(151.9)*</b>	<b>2.7</b>	<b>785.5</b>	<b>1,331.1</b>	<b>(800.9)</b>	<b>530.2</b>
EBITDA <sup>(2)</sup> . . . . .	1,036.9	201.2	3.3*	218.3*	(106.9)*	11.5	(47.4)	1,316.9	15.5	1,332.4
Adjusted EBITDA <sup>(2)</sup> . . . . .	1,041.5*	212.0*	3.8*	218.9*	15.4*	11.5*	(47.4)*	1,455.5*	15.5*	1,471.0*

(1) The Company disclosed separately the segments of RES, system power plants and CHPs in the Consolidated Financial Statements while in the Condensed Interim Consolidated Financial Statements they are presented as one-generation-segment. Therefore, the financial information for subsegments of the generation segment is provided for presentation purposes but it is not derived from the Condensed Interim Consolidated Financial Statements.

(2) We define and calculate EBITDA as operating profit/(loss) (calculated as net profit/(loss) on continuing operations for the period/year adjusted for (i) income tax, (ii) share in profits of associates, (iii) finance income and (iv) finance costs) adjusted for depreciation and amortisation (as disclosed in the income statements). We define Adjusted EBITDA as EBITDA adjusted for non-recurrent events. A calculation of the EBITDA and the Adjusted EBITDA is presented in detail in “Important Information—Financial information and operating data—Financial information not based on GAAP (Generally Accepted Accounting Principles)”. Neither EBITDA nor Adjusted EBITDA are IFRS measures and should not be treated as alternatives to IFRS measures. Moreover, neither EBITDA nor Adjusted EBITDA are uniformly defined. The method of calculating EBITDA and Adjusted EBITDA used by other companies may differ significantly from that used by us. In consequence, the EBITDA and Adjusted EBITDA presented in this chapter cannot, as such, be relied upon for the purpose of comparison to other companies. A reconciliation of net profit/(loss) for the period/year and EBITDA and Adjusted EBITDA, is presented in “Important Information—Financial information and operating data—Financial information not based on GAAP (Generally Accepted Accounting Principles)”.

Source: Condensed Interim Consolidated Financial Statements; \*Company (unaudited).

### *Distribution*

The contribution to our EBITDA for the nine-month periods ended 30 September 2013 and 2012 by the distribution segment were 75.7% and 77.8%, respectively.

Revenue from the electricity distribution segment increased by PLN 91.5 million, or 3.4%, to PLN 2,799.1 million in the nine-month period ended 30 September 2013 from PLN 2,707.6 million in the nine-month period ended 30 September 2012. This increase was primarily attributable to an increase in revenue from distribution services to end-customers of 3.8% as a result of an increase of 1.9% in the average price of distribution services, in relation to a higher tariff for distribution services approved by the ERO President. Sales volume of distribution services increased by 1.9% in the nine-month period ended 30 September 2013 as compared to the same period of the preceding year (the highest increase of the sales volume was noted in tariff group A—an increase of 4.9% and in tariff Group B—an increase of 2.4%, with a concurrent decrease in the volume in tariff group G—a decrease of 0.8%). Additionally, the increase in revenue from the electricity distribution segment was driven by an increase of 11% in revenue from connection fees in the nine-month period ended 30 September 2013, as compared to the same period of the previous year.

### *Generation*

The contributions to our EBITDA for the nine-month periods ended 30 September 2013 and 2012 by the generation segment were 13.2% and 8.6%, respectively.

Revenue from the generation segment decreased by PLN 42.4 million, or 3.7%, to PLN 1,115.8 million in the nine-month period ended 30 September 2013 from PLN 1,158.2 million in the nine-month period ended 30 September 2012. This decrease was primarily attributable to a decrease of 65.1% in revenue from the sale of electricity generated in system power plants resulting from a decrease in the volume of electricity resale. This resulted from the following factors: in the nine-month period ended 30 September 2013 prices on the wholesale market were lower than in the same period of 2012, and the relations between annual contracts, spot contracts and the prices on the balancing market which were unfavourable. These factors prevented any additional beneficial effects of must-run generation which result from ENERGA Elektrownie Ostrołęka's policy of repurchasing previously concluded contracts (with ENERGA-OBRÓT) and resale of this electricity on the balancing market. Additionally, the revenue from the generation segment for the nine-month period ended 30 September 2013, as compared to the same period of the previous year, was adversely affected by lower market prices of green certificates which form a basis for the recognition of revenue from the certificates obtained. The decrease in revenue from sale of electricity generated in system power plants was partly offset by an increase in revenue from the sale of heat of 3.0% (caused by an increase in the average selling price of heat of 6.0%, partly set off by a decrease in sales of 2.9%) and the increase in revenue from the sale of electricity was primarily attributable to an increase in production volumes of 15.7%, mainly due to higher generation volumes from renewable energy sources, which resulted from more favourable hydrological conditions and the acquired wind farms, partially offset by the average selling price which was lower by 11.0% in the nine-month period ended 30 September 2013 as compared to the nine-month period ended 30 September 2012.

### *Sales*

The contributions to our EBITDA for the nine-month periods ended 30 September 2013 and 2012 by the sales segment were 12.5% and 15.1%, respectively.

Revenue from the sales segment in the nine-month periods ended 30 September 2013 and 2012 remained relatively stable and amounted to PLN 5,248.8 million and PLN 5,214.3 million, respectively, primarily due to the fact that the increase of 49.4% in revenue from the sale of electricity on the wholesale market (resulting mainly from a 61.8% increase in volume of electricity sold with average electricity prices on the wholesale market falling by approximately 7.7%) being offset by a decrease of 12.6% in revenue from the sale of electricity on the retail market, which resulted from a 9.6% decrease in the volume of sales to retail customers and a 3.3% decrease in the average electricity selling price to these customers. The most significant deviations were noted in tariff groups A and B, where revenue decreased by 27.0% and 21.0%, respectively, due to a sales volume lower by 19.6% and 17.5%, respectively, resulting mainly from customer loss of 12.1% in tariff group A and 4.6% in tariff group B and lower average selling prices of electricity in

these tariff groups by 9.2% and 4.3%, respectively. Additionally, the decrease of revenue in the sales segment was driven by a decrease in sales of electricity in tariff group C of 5.3%, which was caused primarily by a decrease of 1.3% in the sales volume and a decrease of 4.0% in the selling price of electricity in this tariff group. In the nine-month period ended 30 September 2013 as compared to the nine-month period ended 30 September 2012 sales to the tariff group G remained relatively stable. A decrease in electricity sales on the retail market in the nine-month period ended 30 September 2013 as compared to the nine-month period ended 30 September 2012 was mainly caused by increased competition on the energy market which translated into a decrease in the average selling price and reduced sales margins on electricity.

The increase in electricity sales volume on the wholesale market was achieved by, among other things, selling surplus electricity resulting from lower demand from retail clients and increased sales to foreign customers. The latter factor results from the fact that transmission systems operators provide increased export capacities that can be used to generate additional profits on interconnections, and from the fact that since the beginning of 2013 we have been supplying electricity to end-customers in Slovakia.

#### *Services*

Revenue from the services segment decreased by PLN 8.6 million, or 3.2%, to PLN 261.9 million in the nine-month period ended 30 September 2013 from PLN 270.5 million in the nine-month period ended 30 September 2012. This decrease was primarily attributable to a decrease in revenue from the sale of construction and engineering services as a result of spinning-off the energy business from ENERGA Informatyka i Technologie to the distribution segment. This decrease was partly offset by an increase of 2.9% in revenue from the sale of biomass as a result of the higher utilisation of biomass as a fuel by the generation segment.

#### *Other*

Revenue from other activities decreased by PLN 3.5 million, or 4.8%, to PLN 69.9 million in the nine-month period ended 30 September 2013 from PLN 73.4 million in the nine-month period ended 30 September 2012. This decrease was primarily attributable to a decrease in revenue from the sale of merchandise (mainly lower sales of vehicles).





OPERATING AND FINANCIAL REVIEW

Year ended 31 December 2011

	Distribution of electricity <sup>(1)(2)</sup>	Sales <sup>(1)</sup>	Generation			Services <sup>(2)</sup>	Other	Total	Consolidation eliminations and adjustments	Consolidated total
			CHP	RES	System					
	(PLN million)									
Revenue										
Sales to external clients . . . . .	3,330.3*	6,100.5*	122.3	187.8	578.7	15.5*	32.8	10,368.0	—	10,368.0
Inter-segment sale . . . . .	59.1*	703.9*	27.2	270.3	639.6	259.3*	87.6	2,047.1*	(2,047.1)*	—
<b>Total segment revenues . . . . .</b>	<b>3,389.4*</b>	<b>6,804.4*</b>	<b>149.5</b>	<b>458.2</b>	<b>1,218.3</b>	<b>274.8*</b>	<b>120.4</b>	<b>12,415.1*</b>	<b>(2,047.1)*</b>	<b>10,368.0</b>
Profit/(loss) from continuing operations before tax and finance income/costs . . . . .	377.8*	139.8	3.9	337.6	62.8	(5.3)*	(50.0)	866.6*	(3.7)*	862.9
Net finance income/expenses . . . . .	(33.7)*	26.1	2.0	11.5	3.3	3.8*	796.2	809.3	(774.1)	35.2
Share of profit/(loss) of associate . . . . .	—	—	—	—	—	—	—	—	1.1	1.1
<b>Profit before tax . . . . .</b>	<b>344.1*</b>	<b>165.9</b>	<b>5.9</b>	<b>349.0</b>	<b>66.1</b>	<b>(1.5)*</b>	<b>746.2</b>	<b>1,675.9*</b>	<b>(776.7)*</b>	<b>899.2</b>
Income tax . . . . .	78.8*	35.5	1.4	61.0	13.0	0.2*	5.2	195.0*	1.4*	196.6
Loss on discontinued operations and disposal of assets classified as held for sale . . . . .	—	—	—	—	—	—	—	—	—	—
<b>Net profit/(loss) for the period . . . . .</b>	<b>265.3*</b>	<b>130.4</b>	<b>4.5</b>	<b>288.0</b>	<b>53.2</b>	<b>(1.6)*</b>	<b>741.1</b>	<b>1,480.8*</b>	<b>(778.2)*</b>	<b>702.6</b>
EBITDA <sup>(3)</sup> . . . . .	916.1*	167.5	10.4	372.1	116.0	(0.5)*	(41.3)	1,540.3*	(20.6)*	1,519.7
Adjusted EBITDA <sup>(3)</sup> . . . . .	954.1*	207.4*	14.1*	375.1*	120.4*	(0.4)*	(39.2)*	1,631.3*	(20.6)*	1,610.7*

- (1) In the Condensed Interim Consolidated Financial Statements the Company changed the presentation of income and expenses related to the sale of electricity distribution services to end-customers in the sales segment. In the Consolidated Financial Statements we disclosed these costs and income in the sales segment separately, in the table they are netted. In relation to this change, the tables for the year ended 31 December 2011 presents the distribution segment revenue from the sale of electricity distribution services to the sales segment as sale to external clients, and the value of eliminations on inter-segment sales has been adjusted.
- (2) In the Condensed Interim Consolidated Financial Statements, the Company changed the segmental allocation of Zakład Energetyczny Płock—Centrum Handlowe sp. z o.o. and Zakład Energetyczny Toruń—ENERGOHANDEL sp. z o.o. In the Consolidated Financial Statements these companies were allocated to the services segment while in the Condensed Interim Consolidated Financial Statements they are allocated to the distribution segment. In relation to this change, the table for the year ended 31 December 2011 reflects the new allocation of these companies in accordance with the Condensed Interim Consolidated Financial Statements.
- (3) We define and calculate EBITDA for operating segments as operating profit/(loss) of a given operating segment (calculated as net profit/(loss) on continuing operations of the operating segment for the period/year adjusted for (i) income tax of the operating segment, (ii) share in profits of associates in the operating segment, (iii) finance income of the operating segment and (iv) finance costs in the operating segment) adjusted for depreciation and amortisation in the operating segment (as disclosed in the income statements). We define and calculate Adjusted EBITDA of operating segments as EBITDA of those operating segments adjusted for non-recurring events of those operating events. A calculation of the EBITDA and the Adjusted EBITDA is presented in detail in "Important Information—Financial information and operating data—Financial information not based on GAAP (Generally Accepted Accounting Principles)". Neither EBITDA nor Adjusted EBITDA are IFRS measures and should not be treated as alternatives to IFRS measures. Moreover, neither EBITDA nor Adjusted EBITDA are uniformly defined. The method of calculating EBITDA and Adjusted EBITDA used by other companies may differ significantly from that used by us. In consequence, the EBITDA and Adjusted EBITDA presented in this chapter cannot, as such, be relied upon for the purpose of comparison to EBITDA and Adjusted EBITDA of other companies. See "Important Information—Financial information and operating data—Financial information not based on GAAP (Generally Accepted Accounting Principles)".

Source: Consolidated Financial Statements; \*Company (unaudited).

OPERATING AND FINANCIAL REVIEW

Year ended 31 December 2010

	Distribution of electricity	Sales <sup>(1)</sup>	Generation			Services <sup>(1)</sup>	Other	Total	Consolidation eliminations and adjustments	Consolidated total
			CHP	RES	System					
(PLN million)										
Revenue										
Sales to external clients . . . . .	3,151.0*	5,117.0*	138.6	321.7	685.5	19.7*	34.3	9,467.8	—	9,467.8
Inter-segment sale . . . . .	71.5*	529.0	28.4**	258.6	174.4	160.9*	104.7	1,327.5*	(1,327.5)*	0.0
<b>Total segment revenues . . . . .</b>	<b>3,222.5*</b>	<b>5,646.0</b>	<b>167.0*</b>	<b>580.2</b>	<b>859.9</b>	<b>180.6*</b>	<b>138.9</b>	<b>10,795.2*</b>	<b>(1,327.5)*</b>	<b>9,467.8</b>
Profit/(loss) from continuing operations before tax and finance income/costs . . . . .	159.4*	218.4	2.4	446.7	41.8	(1.5)*	(20.0)	847.3	(31.1)	816.2
Net finance income/expenses . . . . .	(74.5)*	32.1	1.9	13.5	(3.6)	0.5*	384.9	354.7	(375.9)	(21.2)
Share of profit/(loss) of associate . . . . .	—	—	—	—	—	—	—	—	0.7	0.7
<b>Profit before tax . . . . .</b>	<b>84.8*</b>	<b>250.5</b>	<b>4.3</b>	<b>460.2</b>	<b>38.2</b>	<b>(0.9)*</b>	<b>364.9</b>	<b>1,202.0</b>	<b>(406.4)</b>	<b>795.6</b>
Income tax . . . . .	21.0*	51.2	6.5	87.9	6.5	(0.1)*	(2.8)	170.2	0.8	171.0
Loss on discontinued operations and disposal of assets classified as held for sale . . . . .	—	—	—	—	—	—	(0.4)	(0.4)	—	(0.4)
<b>Net profit/(loss) for the financial year . . . . .</b>	<b>63.8*</b>	<b>199.3</b>	<b>(2.2)</b>	<b>372.4</b>	<b>31.7</b>	<b>(0.9)*</b>	<b>367.3</b>	<b>1,031.4</b>	<b>(407.2)</b>	<b>624.2</b>
EBITDA <sup>(3)*</sup> . . . . .	653.6*	242.7	10.2	483.6	97.2	2.5*	(0.8)	1,488.9	(81.3)	1,407.6
Adjusted EBITDA <sup>(3)*</sup> . . . . .	750.9*	245.1*	19.5*	491.3*	175.5*	2.5*	(0.8)*	1,684.0*	(81.4)*	1,602.6*

- (1) In the Condensed Interim Consolidated Financial Statements the Company changed the presentation of income and expenses related to the sale of electricity distribution services to end-customers in the sales segment. In the Consolidated Financial Statements we disclosed these costs and income in the sales segment separately, in the table they are netted. In relation to this change, the tables for the year ended 31 December 2010 presents the distribution segment revenue from the sale of electricity distribution services to the sales segment as sale to external clients, and the value of eliminations on inter-segment sales has been adjusted.
- (2) In the Condensed Interim Consolidated Financial Statements, the Company changed the segmental allocation of Zakład Energetyczny Płock—Centrum Handlowe sp. z o.o. and Zakład Energetyczny Toruń—ENERGOHANDEL sp. z o.o. In the Consolidated Financial Statements these companies were allocated to the services segment while in the Condensed Interim Consolidated Financial Statements they are allocated to the distribution segment. In relation to this change, the table for the year ended 31 December 2010 reflects the new allocation of these companies in accordance with the Condensed Interim Consolidated Financial Statements.
- (3) We define and calculate EBITDA for operating segments as operating profit/(loss) of a given operating segment (calculated as net profit/(loss) on continuing operations of the operating segment for the period/year adjusted for (i) income tax of the operating segment, (ii) share in profits of associates in the operating segment, (iii) finance income of the operating segment and (iv) finance costs in the operating segment) adjusted for depreciation and amortisation in the operating segment (as disclosed in the income statements). We define and calculate Adjusted EBITDA of operating segments as EBITDA of those operating segments adjusted for non-recurring events of those operating events. A calculation of the EBITDA and the Adjusted EBITDA is presented in detail in "Important Information—Financial information and operating data—Financial information not based on GAAP (Generally Accepted Accounting Principles)". Neither EBITDA nor Adjusted EBITDA are IFRS measures and should not be treated as alternatives to IFRS measures. Moreover, neither EBITDA nor Adjusted EBITDA are uniformly defined. The method of calculating EBITDA and Adjusted EBITDA used by other companies may differ significantly from that used by us. In consequence, the EBITDA and Adjusted EBITDA presented in this chapter cannot, as such, be relied upon for the purpose of comparison to EBITDA and Adjusted EBITDA of other companies. See "Important Information—Financial information and operating data—Financial information not based on GAAP (Generally Accepted Accounting Principles)".

Source: Consolidated Financial Statements; \*Company (unaudited).

*Distribution*

The contributions to our EBITDA for the years ended 31 December 2012, 2011 and 2010 by the distribution segment were 74.8%, 60.3% and 46.4%, respectively.

Revenue from the distribution segment increased by PLN 294.9 million, or 8.7%, to PLN 3,684.3 million in the year ended 31 December 2012 from PLN 3,389.4 million in the year ended 31 December 2011. This increase was attributable to an increase in revenue from distribution services to end-customers of 10.6% as a result of an increase in the volume of distributed electricity of 2.3%, primarily in tariff groups A and B, and an increase of 8.1% in the average price of distribution services in the year ended 31 December 2012 as compared to the year ended 31 December 2011, which resulted from higher tariff for distribution services approved by the ERO President.

Revenue from the electricity distribution segment increased by PLN 166.9 million, or 5.2%, to PLN 3,389.4 million in the year ended 31 December 2011 from PLN 3,222.5 million in the year ended 31 December 2010. This increase was primarily attributable to an increase in revenue from distribution services to end-customers of 6.6% as a result of an increase in the volume of distributed electricity of 1.6% (whereby, the increase in tariff groups A and B was partially offset by a decrease in sales volume in tariff groups C and G), and an increase of 5.0% in the average price of distribution services in the year ended 31 December 2011 as compared to the year ended 31 December 2010, which resulted from higher tariff for distribution services approved by the ERO President.

*Generation*

The contributions to our EBITDA for the years ended 31 December 2012, 2011 and 2010 by the generation segment were 9.7%, 32.8% and 42.0%, respectively.

Revenue from the generation segment decreased by PLN 278.3 million, or 15.2%, to PLN 1,547.7 million in the year ended 31 December 2012 from PLN 1,826.0 million in the year ended 31 December 2011.

This decrease was primarily attributable to a 22.5% decrease in revenue from sales of electricity generated in system power plants, primarily due to lower volumes of electricity resale. This resulted from the following factors: in the year ended 31 December 2012 in comparison to the year ended 31 December 2011 the prices on the wholesale market were lower, and the relations between annual contracts, spot contracts and the prices on the balancing market were unfavourable. These factors prevented any additional beneficial effects of must-run generation which result from ENERGA Elektrownie Ostrołęka's policy of repurchasing previously concluded contracts (with ENERGA-OBRÓT) and resale of this electricity on the balancing market (in the nine-month period ended 30 September 2012 this policy was being partially executed). Additionally, the decrease of revenue in the generation segment was driven by a decrease of 24.4% in revenue from the sale of electricity from renewable energy sources, which resulted from a decrease of 25.4% in the sales volume, mainly due to less favourable hydrological conditions in the year ended 31 December 2012 as compared to the year ended 31 December 2011. Following the decrease in the sales volumes of electricity from renewable energy sources, the revenue from sales of certificates of origin also decreased. This decrease was partly offset by an increase of 7.4% in revenue from the sale of heat generated by CHPs in the year ended 31 December 2012 as compared to the year ended 31 December 2011 as a result of the volume of heat sold being higher by 1.8% and the average selling price of heat being higher by 5.5%, as a result of higher tariff.

Revenue from the generation segment increased by PLN 218.9 million, or 13.6%, to PLN 1,826.0 million in the year ended 31 December 2011 from PLN 1,607.1 million in the year ended 31 December 2010.

This increase was primarily attributable to an increase of 54.0% in revenue from sales of electricity generated in system power plants, primarily due to higher volumes of electricity resale. This related to the following factors: in the year ended 31 December 2011 as compared to the year ended 31 December 2010, the prices on the wholesale market were higher, and the relations between annual contracts, spot contracts and the prices on the balancing market were favourable. These factors enabled additional beneficial effects of must-run generation which result from ENERGA Elektrownie Ostrołęka's policy of repurchasing previously concluded contracts and resale of this electricity on the balancing market. This increase was partly offset by a decrease of 16.6% in revenue from the sale of electricity generated from renewable energy sources, which resulted from a decrease of 21.1% in the electricity sales volume, mainly due to less

favourable hydrological conditions in the year ended 31 December 2011 as compared to the year ended 31 December 2010. Following the decrease in the volumes of energy sold, the revenue from sales of certificates of origin also decreased. In addition to this, revenue from the sale of heat generated by CHPs decreased by 9.4% in the year ended 31 December 2011 as compared to the year ended 31 December 2010, which resulted from heat sales volume being lower by 13.5%, mainly due to meteorological conditions, which was partly offset by an increase of 4.8% in the average selling price of heat.

### *Sales*

The contributions to our EBITDA for the years ended 31 December 2012, 2011 and 2010 by the sales segment were 16.2%, 11.0% and 17.2%, respectively.

Revenue from the sales segment increased by PLN 374.2 million, or 5.5%, to PLN 7,178.6 million in the year ended 31 December 2012 from PLN 6,804.4 million in the year ended 31 December, 2011. This increase was attributable to an increase of 8.0% in revenue from the sale of electricity to end-customers. In the business clients group (tariff groups A, B and C) sales increased by 9.7%, mainly due to the connection of new offtakers, principally in tariff groups A and B, both as a result of higher electricity volumes (by 9.1%) and an increase in the average electricity price (0.6%). An increase in revenue of 4.8% was also noted in tariff group G, as a result of an increase in the average selling price of 5.3% offset by slight decrease in sales volume (by 0.5%). Revenue from sales of electricity on the wholesale market in the year ended 31 December 2012 as compared to the year ended 31 December 2011 remained on a similar level, with an increase in the volume of electricity sales of 6.0%, offset by a decrease in the average selling price of electricity on the wholesale market of 5.9%. The increase of electricity sales volume was achieved, among other things, by reselling surplus electricity, optimisation efforts and increasing sales to foreign clients.

Revenue from the sales segment increased by PLN 1,158.4 million, or 20.5%, to PLN 6,804.4 million in the year ended 31 December 2011 from PLN 5,646.0 million in the year ended 31 December 2010. This increase was attributable to an increase in revenue from sales of electricity to end-customers, which resulted mainly from a higher volume of electricity sold of 4.2% (in the tariff groups other than tariff group G, revenue increased by 6.8%, mainly due to the connection of new offtakers, principally in tariff groups A and B, which was partially offset by a 2.0% decrease in sales in tariff group G with a concurrent increase in the number of customers in that group) and an increase of 2.5% in the average electricity price in year ended 31 December 2011 as compared to the year ended 31 December 2010, resulting from an increase of 7.0% in the average electricity price for offtakers in tariff group G and an average increase of 0.8% in other tariff groups. Revenue from sales of electricity on the wholesale market increased by PLN 651.0 million, or 76.4% in the year ended 31 December 2011 as compared to the year ended 31 December 2010, which resulted from a 68.9% increase in sales volume and an increase of 4.4% in the average selling price on that market. We achieved the increased volume of electricity sold mainly by taking additional actions supporting sales on the wholesale market such as looking for opportunities to open positions on the wholesale market and to close them with profit as well as arbitrage between the Polish market and foreign markets such as Germany and Slovakia.

### *Services*

Revenue from the services segment increased by PLN 101.3 million, or 36.9%, to PLN 376.1 million in the year ended 31 December 2012 from PLN 274.8 million in the year ended 31 December 2011. This increase was attributable to an increase of 90.0% in revenue from the sale of biomass to ENERGA Elektrownie Ostrołęka, as a result of an increase of 61.2% in the utilisation of biomass as a fuel in the generation segment.

Revenue from the services segment increased by PLN 94.2 million, or 52.2%, to PLN 274.8 million in the year ended 31 December 2011 from PLN 180.6 million in the year ended 31 December 2010. This increase was attributable to an increase of 148.6% in revenue from the sale of biomass to ENERGA Elektrownie Ostrołęka, as a result of an increase of 6.9% in the utilisation of biomass as a fuel in the generation segment.

*Other*

Revenue from other activities decreased by PLN 11.5 million, or 9.6%, to PLN 108.9 million in the year ended 31 December 2012 from PLN 120.4 million in the year ended 31 December 2011. This decrease was chiefly attributable to a consolidation of the IT functions in ENERGA Informatyka i Technologie, reported in the services segment.

Revenue from other activities decreased by PLN 18.5 million, or 13.3%, to PLN 120.4 million in the year ended 31 December 2011 from PLN 138.9 million in the year ended 31 December 2010. This decrease was primarily attributable to a consolidation of the IT functions in ENERGA Informatyka i Technologie, reported in the services segment.

**Liquidity and capital resources***Liquidity*

Our principal sources of liquidity are cash generated primarily from our operating activities, but also dividends and other distributions from our subsidiaries as well as external financing. As at 30 September 2013, cash and cash equivalents amounted to PLN 2,306.8 million, and the total amount of financing at our disposal under the financing agreements to which we are party amounted to approximately PLN 2,878.0 million.

According to our strategy, we cover and plan to cover our demand for working capital principally from internally generated funds and potential short-term shortfalls from working capital loans contracted with Polish banking entities. Demand for working capital from other Group companies is secured on the basis of an agreement between individual Group companies, us and a bank. Under that agreement, the Group companies may draw loans directly from banks, on the terms set out in general agreements signed by us with certain commercial banks. The level of our net working capital, calculated as an excess of the current assets (a total of trade receivables and inventory) over short-term liabilities (trade liabilities) was PLN 843.3 million as at 30 September 2013 and PLN 1,187.8 million, PLN 1,207.5 million and PLN 1,017.0 million, respectively as at 31 December 2012, 2011 and 2010, respectively.

The following table presents selected working capital parameters for the periods indicated.

	Nine-month period ended 30 September	Year ended 31 December		
	2013	2012	2011	2010
		(%/days)		
Trade receivables as percentage of revenue . . . . .	14.9%	13.6%	14.6%	15.2%
Inventory as percentage of revenue . . . . .	3.4%	3.4%	3.8%	3.3%
Inventory as percentage of cost of sales . . . . .	4.1%	4.0%	4.5%	3.9%
Trade liabilities as percentage of cost of sales . . . . .	10.2%	7.4%	8.0%	9.1%
Net working capital as percentage of revenue . . . . .	9.9%	10.6%	11.6%	10.7%
Days Sales Outstanding <sup>(1)</sup> . . . . .	54	50	53	56
Days Payables Outstanding <sup>(2)</sup> . . . . .	37	27	29	33

(1) Trade receivables as at the end of the period/revenue \* 365.

(2) Trade liabilities as at the end of the period/revenue \* 365.

Source: Company (unaudited).

The following table presents selected liquidity ratios for the Group as at the date indicated.

	As at 30 September	As at 31 December		
	2013	2012	2011	2010
Current ratio <sup>(1)</sup> . . . . .	2.08*	1.76	1.78	1.75
Quick ratio <sup>(2)</sup> . . . . .	1.78*	1.50	1.48	1.49

(1) The current ratio is calculated as current assets to current liabilities.

(2) The quick ratio is calculated as cash and cash equivalents plus trade receivables to trade liabilities.

\* The higher level of liquidity ratios as at 30 September 2013, as compared to 31 December 2012, resulted from the fact that in the nine-month period ended 30 September 2013, the value of short-term liabilities decreased by more than the value of current assets. The decrease in the value of short-term liabilities was related primarily to the lower level of short-term provisions and investment commitments and the lower outstanding debt under working capital loans. On the side of the current assets, the level of inventories and trade receivables decreased, which was partly offset by an increase in the balance of cash and cash equivalents (mainly due to the inflow of cash from the issue of Eurobonds under the EMTN Programme).

Source: Company (unaudited).



### *Capital resources*

Our primary needs for liquidity are to finance our operations, capital expenditures and the repayment of liabilities as they fall due. We finance them from our cash, cash equivalents and other sources of liquidity, including loans and Borrowings and the proceeds from bonds issued.

In 2009 the Company together with Union Investment Towarzystwo Funduszy Inwestycyjnych S.A. established ENERGA Trading SFIO fund, dedicated exclusively to the Group companies, as a tool for the management of surplus funds. The fund is classified as a money market fund. The current investment policy, based on treasury securities, mortgage bonds and commercial bonds with an appropriate investment rating, allows us to treat the fund as an alternative to bank deposits. The high liquidity of the investment means that a participant does not have to specify the exact time frame of the investment and may decide on this in the course of investment, without any negative effect on the return on its portfolio. The liquidity of the fund's assets enables payments and withdrawals on each valuation day, without additional charges. The fund allows the making of unit transfer order, i.e. paying liabilities to another fund participant in the form of a transfer of participation units between registers without the need for the units to be redeemed. The product also includes a procedure for unit redemption, thanks to which the proceeds from the redemption of units are credited to the participant's account on the next business day, before 12:00 hrs. Participation units are recognized as cash equivalents. As at 30 September 2013, the value of participation units amounted to PLN 669.6 million.

As at the date of the Offering Circular, our principal source of liquidity is the cash from operating activity. In the nine-month periods ended 30 September 2013 and 2012 our net cash from operating activities was PLN 1,489.6 million and PLN 852.3 million, respectively. In the years ended 31 December 2012, 2011 and 2010, the net cash flow from operating activities amounted to PLN 1,334.7 million, PLN 1,481.9 million and PLN 1,179.2 million, respectively. Our ability to generate cash flow from our operations will depend on our future operating performance, which in turn depends, to a large extent, on general economic, competitive and other factors, many of which are beyond our control.

Additionally, we mainly use the following external sources of debt financing: (i) loans and Borrowings, including those granted by financial institutions, (ii) bonds issues, and (iii) financial lease, however, due to their value they do not qualify as a material source of financing of our activity.

In the period covered by the Financial Statements we significantly increased the level of our financial liabilities from PLN 1,086.7 million as at 31 December 2010 to PLN 1,954.2 million, PLN 3,508.8 million and PLN 5,309.3 million as at 31 December 2011 and 2012 and 30 September 2013, respectively. The increase mainly related to financing obtained for our investment programme in the distribution segment and acquisitions in the RES segment, which mainly included a PLN 1,050.0 million facility from the European Investment Bank obtained in 2009, a PLN 800.0 million facility from the EBRD obtained in 2010 and a PLN 200.0 million facility from Nordic Investment Bank obtained in 2010. In addition to the banking facilities, in 2012 we issued domestic bonds amounting to PLN 1,000.0 million and in 2013 we issued Eurobonds amounting to EUR 500.0 million.

As at 30 September 2013, we utilised PLN 2,170.2 million or 43.3% of the principal of all available credit facilities as at that day (i.e. PLN 5,014.2 million).

Information regarding our expected capital requirements in the future is provided in “—Capital expenditures” below and in “Our Business—Investment programme”. The risks associated with external sources of financing are described in “Risk Factors—Risks related to our business—The cost of debt servicing and Breach of our obligations arising from certain financing agreements may have a material adverse effect on our Group”.

Our financial condition and liquidity is and will continue to be affected by a number of factors, such as (i) our ability to generate cash flows on operating activity; (ii) the level of our outstanding indebtedness, and the interest we are obligated to pay on such indebtedness, which affects our finance costs; (iii) prevailing interest rates affecting our debt service requirements; (iv) our ability to obtain new financing from banks and on a domestic and international capital markets; (v) the level of our acquisitions activity; and (vi) the needs related to capital expenditures and development projects.

There are no restrictions on the use of our capital resources that have materially affected or could materially affect (directly or indirectly) our operations.



The table below summarises information regarding the Group's financing structure as at 30 September 2013.

	As at 30 September 2013	
	(PLN million)	(% of equity and liabilities)*
Equity . . . . .	7,865.6	47.5
Non-current liabilities . . . . .	6,615.1	39.9
Current liabilities . . . . .	2,012.5	12.2
Liabilities directly related to assets classified as available for sale . . . . .	67.4	0.4
<b>Total equity and liabilities . . . . .</b>	<b>16,560.5</b>	<b>100.0</b>

Source: Interim Condensed Consolidated Financial Statements; \* Company (unaudited data).

**Cash flows**

The table below summarises net cash flows from operating activities, investing activities and financing activities for the periods indicated.

	Nine-month period ended 30 September		Year ended 31 December		
	2013	2012	2012	2011	2010
	(PLN million)				
Net cash from operating activities . . . . .	1,489.6	852.3	1,334.7	1,481.9	1,179.2
Net cash used in investing activities . . . . .	(2,297.7)	(1,248.0)	(1,803.1)	(2,003.7)	(1,003.3)
Net cash from financing activities . . . . .	1,120.5	(64.6)	742.3	616.5	620.6
<b>Net increase/(decrease) in cash and cash equivalents . . . . .</b>	<b>312.4</b>	<b>(460.3)</b>	<b>273.8</b>	<b>94.7</b>	<b>796.5</b>
Cash and cash equivalents at the beginning of the period . . . . .	2,029.4	1,755.5	1,755.5	1,660.8	864.4
Cash and cash equivalents at the end of the period . . . . .	2,341.8	1,295.2	2,029.4	1,755.5	1,660.8

Source: Financial Statements.

Details regarding the key sources of external financing are provided in “—Indebtedness” below.

## OPERATING AND FINANCIAL REVIEW

### Net cash flows from operating activities

The table below summarises net cash flows from operating activities for the periods indicated.

	Nine-month period ended 30 September		Year ended 31 December		
	2013	2012	2012	2011	2010
	(PLN million)				
<b>Cash flows from operating activities</b>					
<i>Profit before tax</i>	815.5	677.5	626.3	899.2	795.6
<i>Gross profit/(loss) on discontinued activity and disposal of non-current assets held for sale</i>	(5.8)	15.2	(3.4) <sup>(1)</sup>	—	0.4 <sup>(1)</sup>
<b>Adjustments for:</b>	<b>913.4</b>	<b>418.5</b>	<b>1,026.7<sup>(1)</sup></b>	<b>786.9</b>	<b>667.8<sup>(1)</sup></b>
<i>Profits/(loss) from investments in associates and joint ventures accounted for under the equity method</i>	0.5	0.2	0.2	(1.1)	(0.7)
<i>Foreign currency gains/(losses)</i>	5.1	(0.2)	(0.2)	0.3	0.0
<i>Amortisation and depreciation</i>	568.2	533.8	723.2	656.8	591.4
<i>Net interest and dividends</i>	134.0	90.5	130.7	73.7	39.2
<i>(Profit)/loss on investing activities</i>	136.5	136.3	172.4	(2.1)	64.8
<i>Change in receivables</i>	217.9	45.5	25.1	(72.7)	(360.0)
<i>Change in inventories</i>	80.0	32.1	19.1	(83.8)	(26.3)
<i>Change in payables excluding loans and borrowings</i>	62.1	(205.9)	(168.8)	(57.4)	351.4
<i>Change in prepayments and accruals</i>	(109.6)	(115.6)	5.9	4.1	(25.5)
<i>Change in provisions</i>	(220.0)	(53.9)	87.5	225.0	29.8
<i>Other</i>	38.6	(44.2)	31.6 <sup>(1)</sup>	44.1	3.7 <sup>(1)</sup>
<b>Income tax paid</b>	<b>(233.5)</b>	<b>(258.9)</b>	<b>(315.0)</b>	<b>(204.2)</b>	<b>(284.6)</b>
<b>Net cash from operating activities</b>	<b>1,489.6</b>	<b>852.3</b>	<b>1,334.7</b>	<b>1,481.9</b>	<b>1,179.2</b>

(1) Values adjusted as a result of separately disclosing the “Gross profit/(loss) on discontinued activity and disposal of non-current assets available for sale”

Source: Financial Statements; Company (unaudited)

### Nine-month periods ended 30 September 2013 and 2012

In the nine-month periods ended 30 September 2013 and 2012 we reported net cash flows from operating activities in the amount of PLN 1,489.6 million and PLN 852.3 million, respectively.

In the nine-month period ended 30 September 2013 the net cash flows from operating activities amounted to PLN 1,489.6 million. The profit before tax for the year was PLN 815.5 million. The key adjustments were: (i) adding amortisation and depreciation in the amount of PLN 568.2 million, a change in receivables of PLN 217.9 million (resulting from a decrease in trade receivables), losses on investment activities of PLN 136.5 million (related mainly to write-offs against the property, plant and equipment of Elektrownia Ostrołęka B) net interest and dividends of PLN 134.0 million, a change in inventories in the amount of PLN 80.0 million (resulting from a lower balance of certificates of origin and materials), and other adjustments amounting to PLN 38.6 million (resulting from actuarial gains on certain benefits programmes disclosed as other comprehensive income), and (ii) deducting an income tax in amount of PLN 233.5 million, a change in provisions in the amount of PLN 220.0 million (resulting from a decrease in provisions for the obligatory redemption of certificates of origin and utilisation of provisions against litigations), change in prepayments and accruals in the amount of PLN 109.6 million (resulting from a higher amount of prepaid costs related to real property taxes).

In the nine-month period ended 30 September 2012 the net cash flows from operating activities amounted to PLN 852.3 million. The profit before tax for the year was PLN 677.5 million. The key adjustments were: (i) adding amortisation and depreciation in the amount of PLN 533.8 million, losses on investing activities in the amount of PLN 136.3 million (related mainly to write-offs against the property, plant and equipment related to the construction project of an approximately 1,000 MW power station Elektrownia Ostrołęka C, following the decision to put the project on hold), net interest and dividends of PLN 90.5 million, a change in receivables of PLN 45.5 million (relating to a decrease in trade receivables) and a change in inventories

of PLN 32.1 million (related to lower levels of certificates of origin, partly offset by an increase in goods, work in progress and semi-finished products); (ii) deducting a change in income tax paid of PLN 258.9 million, change of payables in the amount of PLN 205.9 million (resulting mainly from a decrease in trade liabilities and tax and social insurance liabilities), change in prepayments and accruals in the amount of PLN 115.6 million (resulting from a higher amount of prepaid costs related to real property taxes) and a change in provisions in the amount of PLN 53.9 million (related to a decrease of provisions against mandatory redemption of certificates of origin, partly set off by an increase of actuarial provisions) and other adjustments of PLN 44.2 million (resulting from actuarial profits related to certain benefit plans disclosed in other comprehensive income).

*Years ended 31 December 2012, 2011 and 2010*

In the years ended 31 December 2012, 2011 and 2010 we reported net cash flows from operating activities in the amount of PLN 1,334.7 million, PLN 1,481.9 million and PLN 1,179.2 million, respectively.

In the year ended 31 December 2012 the net cash flows from operating activities amounted to PLN 1,334.7 million. The profit before tax for that year was PLN 626.3 million. The key adjustments were: (i) adding amortisation and depreciation in the amount of PLN 723.2 million, loss on investing activities in the amount of PLN 172.4 million (caused by write-offs against property, plant and equipment related to the Ostrołęka C project (concerning the construction of a power plant with approximately 1,000 MW capacity) as a result of a decision to suspend the project, net interest and dividend in the amount of PLN 130.7 million, a change in provisions in the amount of PLN 87.5 million (caused by increased long-service awards, to a significant degree related to a decrease in the discount rate), other adjustments totalling PLN 28.2 million (related to the amount of actuarial income on the benefits programmes disclosed as other comprehensive income), a change in receivables in the amount of PLN 25.1 million (related to lower VAT receivables), a change in inventories by PLN 19.1 million (related to the lower level of certificates of origin), and (ii) deducting income tax paid in the amount of PLN 315.0 million and a change in payables excluding loans and borrowings in the amount of PLN 168.8 million (related to lower tax, payroll and non-financial liabilities).

In the year ended 31 December 2011 the net cash flows from operating activities amounted to PLN 1,481.9 million. The profit before tax for that year was PLN 899.2 million. The key adjustments were: (i) adding amortisation and depreciation in the amount of PLN 656.8 million, a change in provisions in the amount of PLN 225.0 million (caused by increased actuarial reserves as a result of revised actuarial assumptions, and an increase of reserves from the mandatory redemption of certificates of origin), net interest and dividend in the amount of PLN 73.7 million, other adjustments in the amount of PLN 44.1 million (resulting from the amount of actuarial income on benefits programmes disclosed as other comprehensive income), and (ii) deducting income tax paid in the amount of PLN 204.2 million, a change in inventories in the amount of PLN 83.8 million (related to a higher level of certificates of origin), a change in receivables in the amount of PLN 72.7 million (related to an increase in trade receivables caused by higher electricity sales), a change in liabilities excluding loans and Borrowings in the amount of PLN 57.4 million (related to a decrease in liabilities related to purchases of certificates of origin for redemption).

In the year ended 31 December 2010 the net cash flows from operating activities amounted to PLN 1,179.2 million. The profit before tax for that year was PLN 795.6 million. The key adjustments were: (i) adding amortisation and depreciation in the amount of PLN 591.4 million, a change in payables excluding loans and Borrowings in the amount of PLN 351.4 million (related to increased trade receivables, liabilities related to purchase of certificates of origins for the purpose of redemption, advances received and payroll liabilities), loss on investing activities in the amount of PLN 64.8 million (related to impairment losses on the property, plant and equipment of Ostrołęka A), net interest and dividends in the amount of PLN 39.2 million, a change in provisions in the amount of PLN 29.8 million (related to the establishment of restructuring reserves, in particular with respect to severance pay to employees under voluntary redundancy programmes and schemes), and (ii) deducting a change in receivables in the amount of PLN 360.0 million (related to an increase in trade receivables related to increasing revenue, and an increase of VAT receivables), income tax paid in the amount of PLN 284.6 million, a change in provisions in the amount of PLN 25.5 million (related to a higher level of prepaid costs) and a change in inventories

## OPERATING AND FINANCIAL REVIEW

in the amount of PLN 26.3 million (related to an increase in the level of certificates of origin and a decrease in the level of materials).

### *Net cash flows from investing activities*

The table below summarises net cash flows from investing activities for the periods indicated.

	Nine-month period ended 30 September		31 Year ended December		
	2013	2012	2012	2011	2010
	(PLN million)				
<b>Cash flows from investing activities</b>					
Disposal of property, plant and equipment and intangible assets . . . . .	18.3	16.6	18.4	13.0	31.8
Purchase of property, plant and equipment and intangible assets . . . . .	(1,116.6)	(1,257.8)	(1,817.2)	(1,469.4)	(1,072.2)
Disposal of shares in associates . . . . .	—	8.1	8.1		
Disposal of other financial assets . . . . .	31.0	11.4	16.3	58.3	36.4
Acquisition of other investments . . . . .	(20.4)	(26.0)	(26.8)	(0.3)	(0.5)
Purchase of real estate . . . . .	—	—		(4.1)	
Disposal of a subsidiary . . . . .	1.5	—			
Purchase of shares in associates accounted for under the equity method . . . . .	—	—		(2.8)	
Acquisition of subsidiary, net of cash acquired . . . . .	(1,212.3)	(0.5)	(2.8)	(601.1)	(5.5)
Dividends received . . . . .	0.1	0.1	0.1	1.6	1.3
Interest received . . . . .	0.8	0.3	0.8	0.9	4.2
Other . . . . .	—	—			1.2
<b>Net cash used in investing activities . . . . .</b>	<b><u>(2,297.7)</u></b>	<b><u>(1,248.0)</u></b>	<b><u>(1,803.1)</u></b>	<b><u>(2,003.7)</u></b>	<b><u>(1,003.3)</u></b>

Source: Financial Statements.

Due to the reporting systems adopted in the Group, the information on cash flows concerning individual investment projects does not account for eliminations of intra-group transactions.

### *Nine-month periods ended 30 September 2013 and 2012*

In the nine-month period ended 30 September 2013 and 2012 we reported net cash outflows from investing activities of PLN 2,297.7 million and PLN 1,248.0 million, respectively.

The net cash outflows from investing activities in the nine-month period ended 30 September 2013 were related mainly to the expenses related to the acquisition of shares in Iberdrola Renewables Polska sp. z o.o. (currently: EPW Energia sp. z o.o.) (PLN 819.4 million), the acquisition of Polish assets from DONG Energy Wind Power A/S (PLN 355.2 million) and the acquisition of Ciepło Kaliskie sp. z o.o. (PLN 46.2 million). The expenses related to these transactions were reduced by cash acquired in the transactions (in total PLN 34.2 million). Additionally, the net outflow of cash on investment activities was affected by acquisitions of property, plant and equipment and intangible assets of PLN 1,116.6 million, mainly in relation to (i) expenditures in the distribution segment which amounted to PLN 842.3 million and included primarily (a) the development of the network in relation to the connection of new oftakers (PLN 435.1 million), (b) distribution network modernisation in order to improve the reliability of supplies (PLN 236.8 million), (c) expansion and modernisation of the network in relation to the connection of RES (PLN 39.2 million), (d) smart metering and other elements related to the implementation of intelligent networks (PLN 81.5 million), and (ii) expenditures in the generation segment amounting to PLN 166.4 million which comprised primarily: (a) the construction of a new heat source for the city of Ostrołęka by adding a heat unit to Ostrołęka B (PLN 38.1 million), (b) construction and start-up of a new electricity and heat unit with a capacity of 25 MW in Elbląg (PLN 37.7 million); (c) modernisation of ESP Żydowo (PLN 18.3 million); (d) construction of a water dam and hydroelectric power plant on the Vistula river with a capacity of approximately 70 MW (Vistula Project) (PLN 10.3 million); (e) preparation of a construction project for a CCGT unit of approximately 500 MW in Grudziądz (PLN 4.6 million);

(f) preparation of a construction project for a CCGT unit of approximately 500 MW in Gdańsk (PLN 2.8 million). The cash outflows from investing activities in nine-month period ended 30 September 2013 were partly offset by cash inflows from term deposits (PLN 31.0 million) and inflows from disposals of property, plant and equipment and intangible assets, mainly network assets (PLN 18.3 million).

The net cash outflows from investing activities in the nine-month period ended 30 September 2012 were related mainly to the acquisition of property, plant and equipment and intangible assets for PLN 1,257.8 million, mainly in relation to (i) capital expenditures in the distribution segment which amounted to PLN 891.7 million and included primarily the development of the network in relation to the connection of new offtakers (PLN 449.0 million), distribution network modernisation in order to improve the reliability of supplies (PLN 327.8 million), smart metering and other elements related to the implementation of intelligent networks (PLN 33.0 million), expansion and modernisation of the network in relation to the connection of RES (PLN 17.8 million) and (ii) capital expenditures in the generation segment amounting to PLN 222.3 million which included primarily the preparation for the construction of a new coal-fired unit with a capacity of 1000 MW in Ostrołęka (PLN 68.6 million), construction and start-up of a new biomass-fired electricity and heat unit with a capacity of 25 MW in Elbląg (PLN 69.2 million), modernisation of ESP Żydowo (PLN 10.9 million), construction of a water dam and hydroelectric power plant on the Vistula river with a capacity of approximately 70 MW (Vistula Project) (PLN 8.6 million), preparation of a construction project for a CCGT unit of approximately 500 MW in Grudziądz (PLN 6.2 million), preparation of a construction project for a CCGT unit of approximately 500 MW in Gdańsk (PLN 19.1 million) and construction of a new heat source for the city of Ostrołęka by adding a heat unit to Ostrołęka B (PLN 2.0 million). The cash outflows from investing activities in the nine-month period ended 30 September 2012 were partly offset by an inflow of cash on a disposal of property, plant and equipment and intangible assets (PLN 16.6 million), disposal of other finance assets (PLN 11.4 million) and a disposal of shares in an associate entity (PLN 8.1 million).

*Years ended 31 December 2012, 2011 and 2010*

In the years ended 31 December 2012, 2011 and 2010 our net cash outflows from investing activities were PLN 1,803.1 million, PLN 2,003.7 million and PLN 1,003.3 million, respectively.

The net cash outflows from investing activities in the year ended 31 December 2012, were related mainly to the acquisition of property, plant and equipment and intangible assets for PLN 1,817.2 million, mainly in relation to (i) capital expenditures in the distribution segment amounting to PLN 1,363.6 million primarily in relation to the development of the network in relation to the connection of new offtakers (PLN 652.7 million), distribution network modernisation in order to improve the reliability of supplies (PLN 480.6 million), smart metering and other elements related to the implementation of intelligent networks (PLN 55.2 million), expansion and modernisation of the network in relation to the connection of RES (PLN 28.4 million) and (ii) capital expenditures in the generation segment amounting to PLN 414.7 million including primarily the preparation for the construction of a new coal-fired unit with a capacity of 1000 MW in Ostrołęka (PLN 109.7 million) (the project was put on hold in September 2012), construction and start-up of a new biomass-fired electricity and heat unit with a capacity of 25 MW in Elbląg (PLN 103.0 million), modernisation of ESP Żydowo (PLN 34.5 million), construction of a new heat source for the city of Ostrołęka by adding a heat unit to Ostrołęka B (PLN 29.8 million), preparation of a construction project for a CCGT unit of approximately 500 MW in Gdańsk (PLN 19.6 million), construction of a water dam and hydroelectric power plant on the Vistula river with a capacity of approximately 70 MW (Vistula Project) (PLN 9.3 million), preparation of a construction project for a CCGT unit of approximately (500 MW in Grudziądz—PLN 9.3 million). Additionally, in the year ended 31 December, 2012 we noted a cash outflow on term deposits (PLN 26.8 million). The cash outflows from investing activities in the year ended 31 December 2012 were partly offset by cash inflows from disposals of the property, plant and equipment and intangible assets, mainly network assets (PLN 18.4 million), and an inflow of cash on a disposal of shares in Towarowa Giełda Energii S.A. (PLN 11.2 million) and a disposal of shares in an associate Przedsiębiorstwo Produkcji Strunobetonowych Żerdzi Wirowanych WIRBET S.A. (PLN 8.1 million).

The net cash outflows from investing activities in the year ended 31 December 2011 were related mainly to the acquisition of property, plant and equipment and intangible assets for PLN 1,469.4 million, mainly in relation to (i) capital expenditures in the distribution segment amounting to PLN 1,209.8 million related



primarily to the development of the network in relation to the connection of new offtakers (PLN 509.9 million), distribution network modernisation in order to improve the reliability of supplies (PLN 480.7 million), expansion and modernisation of the network in relation to the connection of RES (PLN 32.1 million), smart metering and other elements related to the implementation of intelligent networks (PLN 18.3 million), and (ii) capital expenditures in the generation segment amounting to PLN 200.7 million, including primarily the preparation for the construction of a new coal-fired unit with a capacity of 1000 MW in Ostrołęka (PLN 71.7 million), an external biomass feeding system in Elektrownia Ostrołęka B (PLN 33.4 million), construction and start-up of a new biomass-fired electricity and heat unit with a capacity of 25 MW in Elbląg (PLN 29.3 million), construction of a water dam and hydroelectric power plant on the Vistula river with a capacity of approximately 70 MW (Vistula Project) (PLN 7.8 million), preparation of a construction project for a CCGT unit of approximately 500 MW in Grudziądz (PLN 7.4 million), preparation of a construction project for a CCGT unit of approximately 500 MW in Gdańsk (PLN 4.2 million), construction of a new heat source for the city of Ostrołęka by adding a heat unit to Ostrołęka B (PLN 0.7 million). Additionally, in the year ended 31 December 2011 we incurred expenses on acquisitions of subsidiaries in the amount of PLN 601.1 million, which was mainly related to an acquisition of shares in ENERGA-OPERATOR and ENERGA Elektrownie Ostrołęka from the State Treasury. The cash outflows from investing activities in the year ended 31 December 2011 were partly offset by an inflow of cash from disposals of other finance assets in the amount of PLN 58.3 million, mainly in relation to a sale of shares and interests in Biogaz Inwestor sp. z o.o. and Anwil S.A. and an inflow of cash from disposals of property, plant and equipment and intangible assets, mainly network assets (PLN 13.0 million).

The net cash outflows from investment activities in the year ended 31 December 2010 were related mainly to the acquisition of property, plant and equipment and intangible assets in the amount of PLN 1,072.2 million, mainly in relation to (i) capital expenditures in the distribution segment amounting to PLN 997.9 million (including primarily the development of the network in relation to the connection of new offtakers (PLN 497.1 million), distribution network modernisation in order to improve the reliability of supplies (PLN 286.8 million), expansion and modernisation of the network in relation to the connection of RES (PLN 15.8 million), smart metering and other elements related to the implementation of intelligent networks (PLN 3.4 million), and (ii) expenditures in the generation segment amounting to PLN 179.1 million related primarily to the preparation of a construction project for a hard coal fired unit of 1,000 MW in Ostrołęka (PLN 52.7 million), the modernisation of ESP Żydowo (PLN 27.2 million), preparation of a construction project for a CCGT unit of approximately 500 MW in Grudziądz (PLN 5.7 million), construction and start-up of a new biomass-fired electricity and heat unit with a capacity of 25 MW in Elbląg (PLN 2.3 million), construction of a water dam and hydroelectric power plant on the Vistula river with a capacity of approximately 70 MW (Vistula Project) (PLN 2.2 million), which were adjusted by a change of investment commitments (PLN 96.2 million). The cash outflows on investment activity in the year ended 31 December 2010 were partly offset by cash inflows related to the sale of other finance assets in the amount of PLN 36.4 million, mainly in relation to a sale of shares in Toruńska Energetyka Cergia S.A. and the sale of property, plant and equipment and intangible assets, mainly network assets (PLN 31.8 million).



*Net cash flows from financing activities*

The table below summarises net cash flows from financing activities for the periods indicated.

	Nine-month period ended 30 September		Year ended 31 December		
	2013	2012	2012	2011	2010
	(PLN million)				
<b>Cash flows from financing activities</b>					
Proceeds from bonds issued . . . . .	2,088.7	—	1,066.0		
Payments of financial lease liabilities . . . . .	(6.6)	(1.0)	(1.4)	(8.7)	(9.0)
Proceeds from loans and borrowings . . . . .	4.6	717.9	738.9	948.4	1,048.8
Repayment of loans and borrowings . . . . .	(328.1)	(19.3)	(258.3)	(30.4)	(259.9)
Dividends paid . . . . .	(497.2)	(653.8)	(653.9)	(189.4)	(114.6)
Interest paid . . . . .	(139.5)	(108.2)	(148.9)	(99.5)	(39.5)
Other . . . . .	(1.4)	(0.2)	(0.1)	(3.9)	(5.3)
<b>Net cash from financing activities . . . . .</b>	<b>1,120.5</b>	<b>(64.6)</b>	<b>742.3</b>	<b>616.5</b>	<b>620.6</b>

Source: Financial Statements.

*Nine-month periods ended 30 September 2013 and 2012*

In the nine-month periods ended 30 September 2013 and 2012 we reported a net cash inflow from financing activities in the amount of PLN 1,120.5 million and PLN 64.6 million, respectively.

The net cash inflow from financing activities in the nine-month period ended 30 September 2013 was related to cash inflows from an issuance of notes under the EMTN Programme in the amount of PLN 2,088.7 million, equivalent to EUR 500.0 million. This cash inflow from financing activities in the nine-month period ended 30 September 2013 was partly offset mainly by an outflow of cash on (i) dividends paid by the Group for the year ended 31 December, 2012 in the amount of PLN 497.2 million; (ii) the repayment of credit facilities in the amount of PLN 328.1 million mainly including partial repayment of the EBRD 2010 Facility (PLN 87.5 million), EIB 2009 facility (PLN 38.6 million), the investment loans from NORDEA Bank Polska (PLN 37.5 million), NIB 2010 Facility (PLN 10.8 million), designated for investments in ENERGA Kogeneracja and ENERGA Hydro, the loan from NFOŚiGW (PLN 4.0 million), and working capital loans, and (iii) interest paid in the amount of PLN 139.5 million, including interest paid in relation to the bonds under the Domestic Bonds Programme (PLN 44.4 million), interest on EIB 2009 Facility (PLN 31.3 million), EBRD 2010 Facility (PLN 31.0 million), NIB 2010 Facility (PLN 7.3 million) as well as interest related to investment loans from NORDEA (PLN 7.3 million) designated for investments in ENERGA Kogeneracja and ENERGA Hydro.

The net cash outflow from financing activities in the nine-month period ended 30 September 2012 was mainly related to (i) dividends paid by the Group for the year ended 31 December, 2011 in the amount of PLN 653.8 million; (ii) interest paid in the amount of PLN 108.2 million, including interest paid on the EIB 2009 Facility (PLN 44.8 million), EBRD 2010 Facility (PLN 39.6 million) and NIB 2010 Facility (PLN 9.8 million). The net cash outflow from financing activities in the nine-month period ended 30 September 2012 was partly offset by an inflow of cash on the drawing of loans and facilities in the amount of PLN 717.9 million (mainly due to drawing a new tranche of the EBRD 2010 Facility (PLN 150.0 million), inflow from investment loans granted by NORDEA Bank Polska designated for investments in ENERGA Kogeneracja and ENERGA Hydro (PLN 108.6 million), inflow from a loan granted by Pekao S.A. in relation to an investment programme in ENERGA Elektrownie Ostrołęka (PLN 33.0 million) and inflows from working capital loans contracted.

*Years ended 31 December 2012, 2011 and 2010*

In the years ended December 2012, 2011 and 2010 we reported a net cash inflow from financing activities in the amount of PLN 742.3 million, PLN 616.5 million and PLN 620.6 million, respectively.

The net cash inflow from financing activities in the year ended 31 December 2012 was mainly related to inflows from the issuance of bonds under the Domestic Bonds Programme in the amount of PLN 1,000.0 million, the drawing of facilities in the amount of PLN 738.9 million (mainly in relation to an

inflow from investment loans granted by NORDEA Bank Polska (PLN 164.7 million), drawing another tranche under the EBRD 2010 Facility (PLN 150.0 million), a facility granted by Pekao related to an investment programme in ENERGA Elektrownie Ostrołęka (PLN 33.0 million) and inflow from working capital loans), and issuance of bonds acquired by PKO BP S.A. designated for investments in ENERGA Elektrownie Ostrołęka (PLN 66.0 million). The net cash inflow from financing activities in the year ended 31 December 2012 was partly offset by an outflow of cash in relation to (i) repayments of loans and facilities in the amount of PLN 258.3 million (mainly including the repayment of working capital loans drawn in the year ended 31 December 2012 (PLN 226.4 million), partial repayment of the EIB 2009 facility (PLN 12.9 million) and a loan from NFOŚiGW (PLN 8.0 million), (ii) dividends paid by the Group for the year ended 31 December 2012 (PLN 653.9 million) and (iii) interest paid in the amount of PLN 148.9 million (including interest on EIB 2009 Facility (PLN 59.3 million), EBRD 2010 Facility (PLN 53.2 million), NIB 2010 Facility (PLN 13.0 million), working capital loans (PLN 11.3 million), and investment loans granted by NORDEA Bank Polska (PLN 7.9 million) designated for investments in ENERGA Kogeneracja and ENERGA Hydro.

The net cash inflows from financing activities in the year ended 31 December 2011 were mainly related to financing contracted for our investment programme in the electricity distribution segment in the amount of PLN 870.0 million (in relation to new tranches drawn under the EIB 2009 Facility (PLN 420.0 million), the EBRD 2010 Facility (PLN 350.0 million), NIB 2010 Facility (PLN 100.0 million) and, as well as an investment loan granted by NORDEA Bank Polska S.A. (PLN 70.0 million) designated for investments in ENERGA Hydro. The cash inflows from financing activities in the year ended 31 December 2011 were partly offset by cash outflows relating to (i) repayments of loans and facilities in the total amount of PLN 30.4 million, mainly including a partial repayment of a loan granted by NFOŚiGW (PLN 8.0 million), (ii) dividends paid by the Group for the year ended 31 December, 2010 in the amount of PLN 189.4 million and (iii) interest paid in the amount of PLN 99.5 million, including interest on the EIB 2009 Facility (PLN 48.4 million), EBRD 2010 Facility (PLN 24.4 million) and NIB 2010 Facility (PLN 8.9 million).

The net cash flows from financing activities in the year ended 31 December 2010 were mainly related to financing contracted for our investment programme in the electricity distribution segment in the amount of PLN 1,030 million, (the drawing of tranches under the EIB 2009 Facility (PLN 630.0 million), EBRD 2010 Facility (PLN 300.0 million) and NIB 2010 Facility (PLN 100.0 million). The cash inflows from financing activities in the year ended 31 December, 2011 were partly offset by cash outflows relating to (i) repayments of loans and facilities in the total amount of PLN 259.9 million (mainly a repayment of working capital loans), (ii) dividends paid by the Group for the year ended 31 December 2009 in the amount of PLN 114.6 million and (iii) interest paid in the amount of PLN 39.5 million (mainly with respect to the EIB 2009 Facility (PLN 23.4 million) and the NIB 2010 Facility (PLN 2.0 million)).

### **Indebtedness**

#### ***Financial indebtedness***

We mainly rely on numerous bank loans (including overdrafts) and Borrowings. We have also issued bonds on the domestic and international markets. In the nine-month period ended 30 September 2013 and in the years 2010-2012 the majority of our external debt financing was contracted for the purposes of financing our investment programme in the distribution segment, comprising mainly network development in relation to the connection of new off-takers, distribution network modernisation in order to improve the reliability of supply, expansion and modernisation of the network in relation to the connection of RES and smart metering and other elements related to the implementation of intelligent networks (see “—Capital Expenditures”, below).

The table below summarises selected information concerning our short- and long-term indebtedness under loans, borrowings, bonds and financial lease, as at the date indicated.

	<b>30 September 2013</b>
	<b>(PLN million)</b>
Short-term financial indebtedness (including the current portion of long-term debt) . . . . .	339.2
Long-term indebtedness . . . . .	4,970.1
<b>Total</b> . . . . .	<b>5,309.3</b>

Source: Company (unaudited).

Our loan agreements, indentures and terms of bond issuances include numerous conditions and commitments, both general and financial in nature that we need to satisfy, such as obligations to maintain the required levels of certain monitored ratios reflecting our indebtedness. Our material financing agreements are described in “Our Business—Material agreements—Financing agreements”.

The table below presents our net indebtedness (calculated as a total of interest-bearing loans and Borrowings, bonds issued and lease liabilities less cash and cash equivalents) and the leverage ratio (calculated as a ratio of net indebtedness to equity increased by net indebtedness) as at the dates indicated.

	<b>As at 30 September 2013*</b>	<b>As at 31 December 2012</b>	<b>As at 31 December 2011</b>	<b>As at 31 December 2010</b>
	<b>(PLN million)</b>			
Interest-bearing loans and Borrowings . . . . .	2,095.7	2,415.8	1,949.2	1,074.7
Bonds issued . . . . .	3,206.0	1,079.2	—	1.7
Financial lease liabilities* . . . . .	7.6	13.8	5.0	10.3
Cash and cash equivalents . . . . .	(2,306.8)	(2,069.1)	(1,777.3)	(1,683.6)
Net indebtedness* . . . . .	3,002.5	1,439.7	176.9	(596.9)
<b>Equity</b> . . . . .	<b>7,865.6</b>	<b>7,718.5</b>	<b>7,885.5</b>	<b>7,913.6</b>
Equity increased by net indebtedness* . . . . .	10,868.1	9,158.2	8,062.4	7,316.7
<b>Leverage ratio*</b> . . . . .	<b>0.28</b>	<b>0.16</b>	<b>0.02</b>	<b>(0.08)</b>

Source: Financial Statements; \*Company (unaudited).

The following table illustrates the maturity of our financial indebtedness under loans and Bonds (principal amounts of maturing indebtedness) as at 30 September 2013.

<b>Year</b>	<b>Indebtedness in PLN million</b>	
	<b>Loans and borrowings</b>	<b>Bonds</b>
2013 . . . . .	74.5	0.0
2014 . . . . .	297.9	11.1
2015 . . . . .	373.1	11.1
2016 . . . . .	228.9	11.1
2017 . . . . .	228.8	11.1
2018 . . . . .	228.8	11.2
2019 . . . . .	145.5	1,010.4
2020 . . . . .	144.8	2,108.2
2021 . . . . .	144.6	0.0
2022 . . . . .	97.5	0.0
2023 . . . . .	85.7	0.0
2024 . . . . .	85.7	0.0
2025 . . . . .	34.3	0.0

Source: Company (unaudited).

**Contractual liabilities**

The table below summarises, as at 30 September 2013, our contractual liabilities by maturity date based on undiscounted amounts payable (principal and interest, if any).

	Total	Less than 3 months	3 months to 1 year	1 year to 5 years	more than 5 years
			(PLN million)		
Interest-bearing loans and borrowings . . . . .	2,095.7	274.2	9.3	1,040.1	772.2
Bonds . . . . .	3,206.0	13.8	37.1	29.5	3,125.5
Trade liabilities . . . . .	718.0	717.8	0.2	—	—
Other indebtedness . . . . .	65.0	62.4	—	2.6	—
<b>Total contractual liabilities . . . . .</b>	<b>6,084.7</b>	<b>1,068.2</b>	<b>46.5</b>	<b>1,072.3</b>	<b>3,897.7</b>

Source: Company (unaudited).

**Capital expenditures**

In the period covered by the Financial Statements, most of our capital expenditures were associated with electricity distribution, which inherently involves high capital expenditures. Due to the reporting systems adopted in the Group, the information on capital expenditures concerning individual investment projects does not account for eliminations of intra-group transactions.

In the nine-month period ended 30 September 2013 our total capital expenditures amounted to PLN 2,103.6 million and were mainly related to (i) expenditures in the distribution segment in the amount of PLN 842.3 million which included inter alia (a) network development in relation to the connection of new offtakers (PLN 435.1 million), (b) distribution network modernisation in order to improve the reliability of supplies (PLN 236.8 million), (c) expansion and modernisation of the network in relation to the connection of RES (PLN 39.2 million), (d) smart metering and other elements related to the implementation of intelligent networks (PLN 81.5 million); (ii) capital expenditures in the generation segment in the amount of PLN 166.4 million which included, among other things, (a) the construction of a new heat source for the city of Ostrołęka by adding a heat unit to Elektrownia B (PLN 38.1 million), (b) the construction and start-up of a new electricity and heat unit with a capacity of 25 MW in Elbląg (PLN 37.7 million), (c) modernisation of ESP Żydowo (PLN 18.3 million), (d) preparation for the construction of a water dam and hydroelectric power plant on the Vistula river with a capacity of approximately 70 MW (Vistula Project) (PLN 10.3 million), (e) preparation of a construction project for a CCGT unit of approximately 500 MW in Grudziądz (PLN 4.6 million), (f) preparation of a construction project for a CCGT unit of approximately 500 MW in Gdańsk (PLN 2.8 million) and (iii) acquisitions in the amount of PLN 1,051.7 million, which included (a) the acquisition of the Polish assets of DONG Energy Wind Power A/S (PLN 345.8 million), (b) acquisition of assets from Iberdrola Renovables Energia S.A.U. and the European Bank for Reconstruction and Development (PLN 667.5 million) and (c) the acquisition of Ciepło Kaliskie sp. z o.o. (PLN 38.4 million).

In the year ended 31 December 2012 our total capital expenditures amounted to PLN 1,848.8 million and were mainly related to (i) expenditures in the distribution segment in the amount of PLN 1,363.6 million which included inter alia (a) network development in relation to the connection of new offtakers (PLN 652.7 million), (b) distribution network modernisation in order to improve the reliability of supplies (PLN 480.6 million), (c) expansion and modernisation of the network in relation to the connection of RES (PLN 28.4 million), (d) smart metering and other elements related to the implementation of intelligent networks (PLN 55.2 million); and (ii) expenditures in the generation segment in the amount of PLN 414.7 million which included, among other things, (a) the construction and start-up of a new electricity and heat unit with a capacity of 25 MW in Elbląg (PLN 103.0 million), (b) preparation for the construction of a new coal-fired unit with a capacity of 1000 MW in Ostrołęka (PLN 109.7 million) (project suspended in September 2012), (c) modernisation of ESP Żydowo (PLN 34.5 million), (d) construction of a new heat source for the city of Ostrołęka by adding a heat unit to Elektrownia B (PLN 29.8 million), (e) preparation for the construction of a water dam and hydroelectric power plant on the Vistula river with a capacity of approximately 70 MW (Vistula Project) (PLN 9.3 million), (f) preparation of a construction project for a CCGT unit of approximately 500 MW in Grudziądz (PLN 9.3 million), (g) preparation of a construction project for a CCGT unit of approximately 500 MW in Gdańsk (PLN 19.6 million).

In the year ended 31 December 2011 our total capital expenditures amounted to PLN 1,445.5 million and were mainly related to (i) expenditures in the distribution segment in the amount of PLN 1,209.8 million which included inter alia (a) network development in relation to the connection of new offtakers (PLN 509.9 million), (b) distribution network modernisation in order to improve the reliability of supplies (PLN 480.7 million), (c) expansion and modernisation of the network in relation to the connection of RES (PLN 32.1 million), (d) smart metering and other elements related to the implementation of intelligent networks (PLN 18.3 million); and (ii) expenditures in the generation segment in the amount of PLN 200.7 million which included inter alia (a) the construction and start-up of a new electricity and heat unit with a capacity of 25 MW in Elbląg (PLN 29.3 million), (b) preparation for the construction of a new coal-fired unit with a capacity of 1000 MW in Ostrołęka (PLN 71.7 million), (c) external biomass feeding system in Elektrownia Ostrołęka B (PLN 33.4 million), (d) construction of a new heat source for the city of Ostrołęka by adding a heat unit to Elektrownia B (PLN 0.7 million), (e) preparation for the construction of a water dam and hydroelectric power plant on the Vistula river with a capacity of approximately 70 MW (Vistula Project) (PLN 7.8 million), (f) preparation of a construction project for a CCGT unit of approximately 500 MW in Grudziądz (PLN 7.4 million), (g) preparation of a construction project for a CCGT unit of approximately 500 MW in Gdańsk (PLN 4.2 million).

In the year ended 31 December 2010 our total capital expenditures amounted to PLN 1,162.7 million and were mainly related to (i) expenditures in the distribution segment in the amount of PLN 997.9 million which included inter alia (a) network development in relation to the connection of new offtakers (PLN 497.1 million), (b) distribution network modernisation in order to improve the reliability of supplies (PLN 286.8 million), (c) expansion and modernisation of the network in relation to the connection of RES (PLN 15.8 million), (d) smart metering and other elements related to the implementation of intelligent networks (PLN 3.4 million); and (ii) expenditures in the generation segment in the amount of PLN 179.1 million which included inter alia (a) the preparation of a construction project for a hard-coal fired unit of 1,000 MW in Ostrołęka (PLN 52.7 million), (b) modernisation of ESP Żydowo (PLN 27.2 million), (c) preparation of a construction project for a CCGT unit of approximately 500 MW in Grudziądz (PLN 5.7 million), (d) the construction and start-up of a new electricity and heat unit with a capacity of 25 MW in Elbląg (PLN 2.3 million), (e) preparation for the construction of a water dam and hydroelectric power plant on the Vistula river with a capacity of approximately 70 MW (Vistula Project) (PLN 2.2 million).

The table below summarises capital expenditures in the relevant periods with a breakdown into particular business segments as at the dates indicated.

	Nine-month period ended 30 September				Year ended 31 December <sup>(1)*</sup>					
	2013		2012		2012		2011		2010	
	(PLN million)	(%)*	(PLN million)	(%)*	(PLN million)	(%)	(PLN million)	(%)	(PLN million)	(%)
Distribution of electricity . . .	842.3	40.0	891.7	74.8	1,363.6	73.8	1,209.8	83.7	997.9	85.8
Sale . . . . .	20.5	1.0	17.5	1.5	30.4	1.6	30.2	2.1	20.9	1.8
Generation <sup>(2)</sup> . . . . .	1,218.0	58.0	222.3	18.6	414.7	22.4	200.7	13.9	179.1	15.4
Services . . . . .	11.5	0.5	36.5	3.1	51.6	2.8	14.9	1.0	6.6	0.6
Other . . . . .	19.8	0.9	23.1	1.9	39.0	2.1	67.7	4.7	41.1	3.5
<b>Consolidation eliminations and adjustments . . . . .</b>	<b>(8.6)</b>	<b>(0.5)</b>	<b>1.4</b>	<b>0.1</b>	<b>(50.4)</b>	<b>(2.7)</b>	<b>(77.7)</b>	<b>(5.4)</b>	<b>(82.9)</b>	<b>(7.1)</b>
<b>Total . . . . .</b>	<b>2,103.6</b>	<b>100.0</b>	<b>1,192.5</b>	<b>100.0</b>	<b>1,848.8</b>	<b>100.0</b>	<b>1,445.5</b>	<b>100.0</b>	<b>1,162.7</b>	<b>100.0</b>

(1) The Company changed the presentation of the segments in the Condensed Interim Consolidated Financial Statements (see: “Operating and Financial Review—Reporting by segments” and “Important Information—Financial information and operating data—Changes in the presentation” above). With reference to these changes, in order to ensure the comparability of financial information for the segments between the Condensed Interim Consolidated Financial Statements and the Consolidated Financial Statements, the relevant items are presented in accordance with the manner adopted for the Condensed Interim Consolidated Financial Statements.

(2) Data for the generation segment in 2012-2010 do not reflect eliminations of intra-group transactions between the previous segments of RES, System Power Plants and CHP. The expenditures in the generation segment for the nine-month period ended 30 September 2013 include the expenditures related to acquisitions of property, plant and equipment acquired in mergers with a total value of PLN 1,051.7 million.

Source: Condensed Interim Consolidated Financial Statements; \*Company (unaudited).



## OPERATING AND FINANCIAL REVIEW

---

Our principal investments that are currently in progress are described below.

### *Distribution*

*Network development in order to connect new off-takers.* The value of expenditures incurred in the nine-month period ended 30 September 2013 was PLN 435.1 million, the total amount of capital expenditures planned for 2013 is PLN 554.0 million.

*Modernisation of the distribution network in order to improve the reliability of supplies.* The value of expenditures incurred in the nine-month period ended 30 September 2013 was PLN 236.8 million, the total amount of capital expenditures planned for 2013 is PLN 485.0 million.

*Network development and modernisation related to the connection of RES.* The value of expenditures incurred in the nine-month period ended 30 September 2013 was PLN 39.2 million, the total amount of capital expenditures planned for 2013 is PLN 112.0 million.

*Implementation of smart metering and other elements of intelligent networks.* The value of expenditures incurred in the nine-month period ended 30 September 2013 was PLN 81.5 million, the total amount of capital expenditures planned for 2013 is PLN 141.0 million.

### *Generation*

*Construction and operation of a biomass-fired cogeneration unit in Elbląg, with an installed capacity of 25 MWe and 30MWt.* The project has been underway since the first half of 2010 and the unit is planned to be commissioned in 2014. One of the key drivers for the project was to ensure the supply of electricity and heat to the Elbląg area, diversify the energy sources within the Group and increase the share of electricity produced from RES. As at the date of the Offering Circular, ENERGA Kogeneracja has applied for the reconciliation of subsidies to the capital expenditures for the project, which may significantly improve the anticipated project economics.

The table below presents the amount of capital expenditures for the investment project as at the date indicated.

	<u>As at 30 September 2013</u>
Internal financing (%) . . . . .	40%
External financing (%) . . . . .	60%
Assumed project budget (PLN million) . . . . .	210.0
Realised budget (PLN million) . . . . .	172.4

*Source: Company (unaudited).*

*Modernisation of a pumped-storage power plant in Żydowo.* The project has been conducted since the beginning of 2011, while the design and preparation have been underway since 2009. The last of the three modernised turbine sets was accepted and commissioned on 2 October 2013. The objectives of the modernisation were (i) to adjust the plant to the requirements imposed by PSE, (ii) to increase the plant's spare capacity in case of a sudden spike in the demand of the KSE; and (iii) to extend the life and improve the efficiency of the turbine set at the plant.

The table below presents the amount of capital expenditures for the project as at the date indicated.

	<u>As at 30 September 2013</u>
Internal financing (%) . . . . .	14%
External financing (%) . . . . .	86%
Assumed project budget (PLN million) . . . . .	116.6
Realised budget (PLN million) . . . . .	117.0

*Source: Company (unaudited).*



*Providing a new heat source for the city of Ostrołęka by installing a thermal unit in Elektrownia Ostrołęka B.* The planning and design for a new heat unit to supply heat for the city of Ostrołęka commenced at the turn of 2010 and 2011. The construction started in mid-2012. The project is planned to be completed at the end of the first quarter of 2014. The implementation of the project will enable us to maintain the heat market in Ostrołęka and to supply heat to Ostrołęka at the level of approximately 1.450 TJ per year, following the decommissioning of the inefficient Ostrołęka A CHP.

The table below presents the amount of capital expenditures for the investment project as at the date indicated.

	<u>As at 30 September 2013</u>
Internal financing (%) . . . . .	36%
External financing (%) . . . . .	64%
Assumed project budget (PLN million) . . . . .	175.0
Realised budget (PLN million) . . . . .	68.6

*Source: Company (unaudited).*

All of these investments are conducted in Poland.

Our investment commitments as at 30 September 2013 are described in Note No. 17 to the Condensed Interim Consolidated Financial Statements. As at the date of this Offering Circular we have no other material investment commitments.

A description of our investment programme is provided in “Our Business—Investment programme”.

We intend to finance our future capital expenditures, including the investments described above, using an optimal financing structure, involving own funds generated by our operating activities, and leverage. Information regarding the total amount of financing available for us to use under the financing agreements to which we are party as at the date of this Offering Circular is provided in “—Liquidity and capital resources—Liquidity” above. The amount of the financing available as at the date of this Offering Circular includes, among others, the funds that we can use under the EIB 2013 Facility (PLN 1,000.0 million) and the EBRD 2013 Facility (PLN 800.00 million) (see “Our Business—Material Agreements—Financing of the investment programme of ENERGA OPERATOR”). The funds available under the above facilities will be used to finance the investment programme of ENERGA-OPERATOR related to the development and modernisation of the distribution network by the end of 2015. As for other investment projects, their current progress or their value do not give rise to the need of raising any dedicated financing, therefore, as at the date of this Offering Circular, we estimate that we can finance them both with our own funds earned from operating activities, proceeds of the first Eurobond issue under the EMTN Programme effected on 19 March 2013 (see “Our Business—Material Agreements—Financing agreements—Bond issues—EMTN Programme”), as well as with funds raised under financing agreements to which we are party, in the form of the so-called “umbrella financing”, under which in addition to the working capital loans also investment financing is offered with a repayment period of up to 15 years.

### Contingent liabilities

The following table summarises our contingent liabilities as at 30 September 2013.

	<u>As at 30 September 2013</u> (PLN million)
Litigations against the Company . . . . .	147.4
Other . . . . .	13.5
<b>Total</b> . . . . .	<b>160.9</b>

*Source: Interim Condensed Consolidated Financial Statements.*

### **Qualitative and quantitative information about market risks**

Our operations expose us to a variety of risks which may be categorised as risks related to financial instruments and market risks. The main categories of risks related to financial instruments include: the commodity price risk, the risk of fluctuations in electricity prices on the wholesale market, liquidity risk and credit risk. The main market risks include the interest rate risk and foreign currency exchange risk. Any of these risks could harm our business, financial condition and results of operations.

#### ***Commodity price risk***

Our operations are exposed to risk factors associated with fluctuations in cash flows and earnings due to changes in the prices of the commodities used in our operations. This area of risk relates mainly to the risk of volatility in trading prices of certificates of origin and CO<sub>2</sub> allowances. The most significant risk concerns fluctuations of purchase prices of electricity and certificates of origin on the wholesale market for long-, medium- and short-term contracts on the Polish market and financial instruments on foreign markets, such as futures/forwards for electricity, CO<sub>2</sub> allowances and selected fuels.

In order to mitigate the risk related to price fluctuations on the wholesale market we engage in transactions hedging against sudden fluctuations. This requires the optimisation of the contracting process by concluding contracts in appropriate proportions and for various commodities. Additionally, the procurement process is spread over time so as to ensure that the average price of the Group's portfolio matches as best as possible the mean purchase price for the annual volume, set as a target on the basis of market prices. At the same time we have implemented a mechanism mitigating the trading risk both on the wholesale and retail side, by way of coordinating, optimising and synchronising the purchasing and selling processes. This process involves monitoring and reporting on contracts concluded on the wholesale and retail market, as well as analyses of the assumed and approved thresholds. In order to mitigate the risk related to trading in financial instruments we have fixed trading limits and monitor the value at risk daily. Additional information regarding the risk related to commodity prices can be found in Note 38.3 to the Consolidated Financial Statements.

#### ***Risks of electricity prices fluctuations on the wholesale market***

One of the key risk areas in our business is market risk, resulting from fluctuations in electricity purchase prices on the wholesale market with respect to long-, medium- and short-term contracts on the Polish forward market, and of the financial instruments on foreign markets, such as futures / forward contracts for electricity, CO<sub>2</sub> emissions and selected materials.

In order to mitigate the risk related to the fluctuations of purchase prices on the wholesale market, we engage in various arrangements aimed at hedging us against dramatic price changes, such as the optimisation of contracting through a diversification of purchases using various proportions and for various products. The contracting processes are spread over time in such way as will ensure that the average price of our portfolio best matches the market conditions. By optimising the Company's portfolio (contracting with end-customers and additional transactions with other energy market participants) within the permitted levels of contracting for particular periods prior to the commencement of supply and during the relevant supply period, we decrease the final price of electricity to end-customers. Our current positions and performance against thresholds preset and approved by the Management are constantly monitored by the risk management department.

In order to limit our exposure to excessive open positions on the spot market, we set limits on open positions and other limits of exposure. In our trading activity related to trading in financial instruments we have an approved value at risk (VaR) on which we rely, for the purpose of limiting the market risk, in setting and monitoring trade limits for particular products. The VaR determined by limits and actual exposures is monitored daily so that it does not exceed the threshold set by the Management. Additionally, we monitor the levels of contracts concluded according to the principles in force in the Company. We also use Profit at Risk (PaR) monitoring in order to evaluate the risk to the future financial performance of the Company.

We have also implemented a mechanism limiting the trade risk on the wholesale and retail side, by coordinating, optimising and synchronising the purchase and selling processes. As part of this process the

contracts concluded on the wholesale and retail markets are monitored and reported, along with a review of the adopted and approved thresholds.

***Liquidity risk***

Our liquidity risk relates to the risk of our inability to repay our debts as they mature. We monitor our liquidity risk using a recurring liquidity planning tool which analyses the maturity of our financial investments and financial assets and projected cash flow from operations. Since we rely partly on external financing, mainly for our capex, we have significant liabilities related to debt servicing. The maturity profile of our financial liabilities as at 30 September 2013 is presented in “—Contractual liabilities” above.

Our liquidity risk management policies are aimed at ensuring that a balance between the continuity and flexibility of our funding is maintained, through various sources of funding, such as overdrafts, bank loans, bonds and financial leases. Our financing policy as at the date of the Offering Circular requires that the maximum debt of the Group, measured by the ratio of net debt (calculated as interest-bearing loans and facilities, outstanding bonds and notes, trade liabilities and other indebtedness less cash and cash equivalents) to EBITDA (in consolidated figures) should not exceed 3.0. For the purposes of the long-term strategic investment plan for 2013-2021, we adopted an even more restrictive level of 2.5. Further information concerning the liquidity risk is provided in Note 38.5 to the Consolidated Financial Statements.

***Credit risk***

We define credit risk as the probability that a customer or counterparty fails to pay its liabilities. According to our policy, credit risk is mitigated by conducting value-based assessments of risk, monitoring the financial condition of partners and securing trade credit using any available tools such as bank guarantees, sureties, etc. The Group does not have any significant individual credit risk exposures.

We have devised appropriate procedures to minimise the risk related to insolvency of our partners. In selling to the partners with whom we have the highest turnover, that is wholesale and strategic partners, it is particularly important to examine their credit worthiness, trade limits and contractual provisions. For customers with low credibility a pre-condition for sale is to obtain a security. Also, we monitor receivables on a day-to-day basis. Further information concerning the credit risk is provided in Note 38.4 to the Consolidated Financial Statements.

***Interest rate risk***

Our exposure to the risk of changes in market interest rates relates primarily to our long-term indebtedness and potential future borrowings. We identify our exposure to fluctuations in the WIBOR rate. According to our policy, the risk of interest rates fluctuations is mitigated by ensuring that part of the indebtedness bears interest at a fixed rate. As at 30 September 2013, 39.4% of our indebtedness (principal amount) bears a fixed interest rate.

## OPERATING AND FINANCIAL REVIEW

The table below shows, as at 30 September 2013, the sensitivity of the gross financial result to reasonably possible changes in interest rates assuming that other risk factors are constant for such classes of financial instruments which are exposed to the interest rate risk.

Financial assets and liabilities	30 September 2013		Interest rate risk sensitivity analysis as at 30 September 2013	
	Carrying value	Value at risk	WIBOR	
			gross financial result (PLN million)	
			WIBOR + 100 bp PLN million	WIBOR - 100 bp
Deposits . . . . .	20.4	20.4	0.2	(0.2)
Cash and cash equivalents . . . . .	2,306.8	1,637.2	16.4	(16.4)
Preferential loans and borrowings . . . . .	959.4	959.4	(9.6)	9.6
Loans and borrowings . . . . .	1,136.3	1,136.3	(11.4)	11.4
Bond issued . . . . .	3,206.0	1,074.8	(10.7)	10.7
Current account overdraft . . . . .	—	—	—	—
<b>Change of gross profit . . . . .</b>			<b>(15.1)</b>	<b>15.1</b>

Source: Company (unaudited).

In addition to the assets and liabilities listed in the table above we identify an interest rate risk related to a Cross Currency Interest Rate Swap (CCIRS) hedge transaction (see “—Currency risk” below). As the Group has implemented hedge accounting, changes in the valuation reflecting future interest rates for EUR and PLN are reflected in other comprehensive income and not charged to the Group’s results (the charge to the Group results only reflects the difference between interest accrued at a fixed rate for PLN and EUR).

Further information concerning the interest rate risk is provided in Note 38.1 to the Consolidated Financial Statements.

### Currency risk

We are exposed to foreign currency risk in relation to the business and financial transactions we enter into. This risk arises as we make purchases and sales in currencies other than PLN. We believe that in terms of trading transactions, we are not significantly exposed to the foreign currency risk as our cash settlements are mainly executed in PLN. As at the date of the Offering Circular we recognise a risk related to fluctuations in the EUR/PLN exchange rate. Our present and future borrowings may expose us to liabilities denominated in a different currency, such as EUR denominated issuance of European Medium-Term Notes. In order to hedge the currency risk we concluded a currency swap transaction CCIRS, under which we receive cash flows at a fixed interest rate in EUR and pay cash flows at a fixed interest rate in PLN. The hedge covers foreign currency risk concerning 80.0% of the total principal amount of the issued notes. In relation to the concluded CCIRS transaction we have implemented hedge accounting (future Cash flow hedges). The Group designated the currency risk related to intra-group loans denominated in EUR as the hedged item for this deal, (the SPV ENERGA Finance AB (publ), the issuer of the Eurobonds, and the Company concluded two EUR-denominated loan agreements for a total amount of EUR 499.0 million). As a result of applying hedge accounting, the revaluation of the hedging instrument related to the currency valuation and accrued interest on the outstanding notes is reflected in the income statement. Other revaluations of the hedge instrument are reflected in other comprehensive income.

As at 30 September 2013, 39.4% of our indebtedness (principal amount) was denominated in EUR.

The table below shows, as at 30 September 2013, the sensitivity of the gross financial result to reasonably possible changes in foreign exchange rates assuming that other risk factors are constant for such classes of financial instruments which are exposed to the risk of changes in foreign exchange rates.

Finance assets and liabilities	30 September 2013		Foreign exchange risk sensitivity analysis as at 30 September 2013	
	Carrying value	Value at risk	EUR/PLN	
			gross financial result	
			EUR/PLN rate + 10%	EUR/PLN rate – 10%
		PLN million		
Trade receivables . . . . .	1,274.7	16.0	1.6	(1.6)
Cash and cash equivalents . . . . .	2,306.8	526.1	52.6	(52.6)
Hedging instruments (assets) . . . . .	50.4	1,686.5	168.7	(168.7)
Trade liabilities . . . . .	718.0	2.5	(0.3)	0.3
Outstanding bonds and notes . . . . .	3,206.0	2,131.2	(213.1)	213.1
<b>Gross change of risk . . . . .</b>			<b>9.5</b>	<b>(9.5)</b>

Source: Company (unaudited).

Further information concerning the currency risk is provided in Note 38.2 to the Consolidated Financial Statements.

### Critical accounting policies and estimates

The preparation of consolidated financial statements in conformity with IFRS requires the Management Board to make judgments, estimates and assumptions that affect the application of accounting policies and, consequently, the reported amounts and classifications of assets, liabilities (including contingent liabilities), revenue and expenses.

We define “critical accounting policies” as the policies which we believe are most important to the presentation of our financial condition and results of operations, and which require the Management Board to make what we believe are the most difficult and subjective judgments, often as a result of the need to make estimates on matters that are inherently uncertain. Based on this definition, we have identified the following critical accounting policies and estimates addressed below, which were applied in the preparation of the Financial Statements. We also have other key accounting policies, which involve the use of estimates, judgments, and assumptions that are significant to understanding our results. See Notes 6 and 9 to the Consolidated Financial Statements for further information on (a) significant professional judgments and accounting estimates and (b) a summary of significant accounting policies, which were applied in the preparation of the Consolidated Financial Statements. Although we believe that our estimates, assumptions, and judgments are reasonable, they are based upon information available at the time. Actual results may differ significantly from these estimates under different assumptions, judgments, or conditions.

The accounting policies adopted in the preparation of the Condensed Interim Consolidated Financial Statements are consistent with those applied to the Consolidated Financial Statements, except for the newly implemented cash flow hedge accounting and an early implementation of the following standards and amendments: IFRS 10 “Consolidated Financial Statements” (applicable to one-year periods commencing on 1 January 2014 or thereafter); IFRS 11 “Joint Arrangements” (applicable to one-year periods commencing on 1 January 2014 or thereafter); IFRS 12 “Disclosure of Interests in Other Entities” (applicable to one-year periods commencing on 1 January 2014 or thereafter); revisions to IFRS 27 “Separate Financial Statements” (applicable to one-year periods commencing on 1 January 2014 or thereafter); revisions to IFRS 28 “Investments in Associates and Joint Ventures” (applicable to one-year periods commencing on 1 January 2014 or thereafter); revisions to IFRS 10 “Consolidated Financial Statements”; revisions to IFRS 11 “Joint Arrangements” and IFRS 12 “Disclosure of Interests in Other Entities”—information regarding transitional regulations (applicable to one-year periods commencing on 1 January 2013 or thereafter).

Additionally, the following new standards and interpretations and revisions to standards and interpretations were applied in the preparation of the Condensed Interim Consolidated Financial Statements: revisions to IAS 1 (“Presentation of financial statements”—Presentation of components of

other comprehensive income), applicable to annual periods commencing on or after 1 July 2012; revisions to IFRS 1 (“First-time adoption of IFRS”—Government loans), applicable to the annual periods commencing on or after 1 January 2013; revisions to IFRS 1 (“First-time adoption of IFRS”—Hyperinflation and removal of fixed dates for first-time adopters), applicable to the annual periods commencing on or after 1 January 2013; revisions to IFRS 7 (“Financial instruments: Disclosures”), applicable to the annual periods commencing on or after 1 January 2013; revisions to IAS 12 (“Income tax”—Deferred tax: recovery of underlying assets), applicable to the annual periods commencing on or after 1 January 2013; IFRS 13 (“Fair value measurement”), applicable to the annual periods commencing on or after 1 January 2013; Interpretation of IFRIC 20 (“Stripping costs in the production phase of a surface mine”), applicable to the annual periods commencing on or after 1 January 2013. The implementation of these changes did not significantly affect our financial standing, performance or scope of information disclosed in the Condensed Interim Consolidated Financial Statements (see Note 7 to the Condensed Interim Consolidated Financial Statements).

### ***Revenue***

We recognise revenue in the amount that is likely to be obtained as the economic benefit of a transaction, when the amount of revenue can be reliably evaluated. Revenue is recognised net of VAT, excise tax and other sales taxes, fees, rebates and discounts.

Meter readings showing the volumes of electricity sold in retail trade and billing activity is usually based on time intervals different from reporting periods. Therefore, Group companies rely on estimates of sales for each day outside metered periods.

### ***Impairment of property, plant and equipment***

At the end of each reporting period we examine whether any premises exist for a possible impairment of our property, plant or equipment. These tests include both external factors, related to technology, the market, economic or legal environment in which we operate, as well as those in the environments which are served by our assets, and internal tests related to the physical condition of the assets and any changes of their use.

If such premises exist, we test the impairment of our property, plant and equipment. These tests involve an evaluation of the utility value of the cash generating centres to which the assets are allocated. The utility value is assessed by determining future cash flows to be generated by the relevant centre and the discount rate to be used for discounting the cash flows.

The utility value is calculated on the basis of various macroeconomic assumptions, such as forecast changes in prices of electricity, certificates and CO<sub>2</sub> emission allowances, as well as the technical, operating and financial assumptions applicable to the cash generating centre.

Pursuant to IAS 36 (“Impairment of assets”), at each reporting period the company should assess whether there is any indication that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable amount of that asset. The recoverable amount of an asset is defined as the higher of an asset’s fair value less costs to sell and its value in use. Should the recoverable amount estimated be higher than the carrying value of the asset, the asset should be revalued and the increased carrying amount attributable to a reversal should not be more than what the depreciated historical cost would have been if the impairment had not been recognised. An impairment of an asset may have a material negative impact on the Company’s financial performance (see “Risk factors—Risks related to our business—If the value of our property, plant and equipment decreases, we will be obliged make appropriate impairment write-downs”) and reversal of impairment losses may have a material positive impact on the Company’s financial performance. Occurrences of this type will be of non-cash nature.

### ***Provisions***

We establish provisions when we are obliged to do so (by law or custom) as a result of past events or occurrences, when it is expected that the satisfaction of such an obligation will result in a necessary outflow of economic benefits, and when such a liability can be credibly estimated. If the results of the change of



money value over time are significant, the provision reflects the current value of outlays expected to be necessary to satisfy the obligation.

In particular, we establish provisions for:

- employee benefits (retirement and disability payments, jubilee bonuses, special employee energy tariffs, additional deductions against the Enterprise Social Benefits Fund for former employees of the Group);
- claims and litigation;
- obligation to redeem green and red certificates and efficiency certificates;
- severance pay related to individual redundancy programmes and schemes.

*Provisions for pension benefits and other post-employment benefits*

The amount of provisions for pension benefits and other post-employment benefits is estimated using actuarial tools. We establish provisions for the following post-employment benefits:

(i) Retirement and disability payments

According to enterprise remuneration systems and the binding law, employees of Group companies are entitled to retirement and disability payments. These payments are one-off, at the time of retirement due to age or disability. The amount of a payment depends on the length of the employee's employment and his/her average remuneration. We establish provisions for future retirement payments in order to allocate the costs to the periods to which they pertain. The accrued liabilities are equal to discounted payments that will be made in the future, considering staff turnover, and they relate to the period ending with the end of the reporting period. Demographics and staff turnover data are based on historical information.

(ii) Provision for cash equivalent related to special tariffs for employees of the energy industry

Pursuant to the Energy Industry Collective Bargaining Agreement amended in 2005, the obligation to pay allowances to former employees of the energy sector in relation to a "special energy tariff" was shifted to individual companies in which the former employees had been employed. In relation to this fact, as of December 2005 we have been establishing appropriate provisions.

(iii) Provision for the Social Benefits Fund and other benefits for retirees and disability pensioners

Group companies make deductions against the Social Benefits Fund for retirees and pensioners. The liabilities towards former employees are estimated on the basis of the terms and conditions of the Bargaining Agreements in force in companies, or on the basis of other regulations. These liabilities relate to the rights acquired by the employees during their employment with the Group companies.

As at 30 September 2013 the total value of provisions for pension and other post-employment benefits was PLN 410.0 million.

*Provisions for jubilee bonuses*

According to the enterprise remuneration systems, employees of the Group companies are eligible for jubilee bonuses after reaching certain lengths of employment. The amounts of these bonuses depend on the length of the employee's employment and his/her average remuneration. The Group creates provisions for future jubilee bonuses in order to allocate costs to the periods to which they pertain. The current value of these liabilities at the end of each reporting period is calculated by an actuary. Accrued liabilities are equal to future discounted payments, adjusted for staff turnover, and they relate to periods ending with the end of the reporting periods. Demographics and staff turnover data are based on historical information.

As at 30 September 2013 the total value of provisions for jubilee bonuses was PLN 255.0 million.

*Third party claims and litigations*

Provisions for third party claims and litigations and outcomes of pending litigations are established in amounts corresponding to the realistic value of the claim, with account taken of litigation costs, if any. The

main item of these provisions are provisions for claims related to infrastructure located on third party land. These claims are a consequence of systemic changes which occurred in the 1990s but in the present legal and economic environment cause problems with transmission equipment built under the former legal regime on privately-owned properties without obtaining legal titles.

As at 30 September 2013 the total value of provisions for third party claims and litigations was PLN 96.3 million.

### *Provisions for liabilities related to gas emissions*

In the event of excessive emissions of CO<sub>2</sub> above the certificates held as at the balance sheet date, obtained under the national emissions allocation plan, we establish provisions based on the actual utilisation of the rights, based on the market price of the rights as at the valuation date.

As at 30 September 2013 the total value of provisions for liabilities related to gas emissions was PLN 0.2 million.

### *Provisions related to the obligatory redemption of certificates*

Provisions related to the obligatory redemption of certificates of origin of energy generated from renewable energy sources, energy from co-generation and the certificates of energy efficiency are reflected in:

- to the extent that they are covered by the certificates held as at the balance sheet date—in the value of the certificates at hand;
- to the extent that they are not covered by the certificates held as at the balance sheet date—in the value of contracted rights and the market value of the certificates required to satisfy the obligation on the balance sheet date, or in the value of the substitute fee.

As at 30 September 2013 the total value of provisions related to obligatory redemption of certificates was PLN 102.5 million.

### *Restructuring provision*

In the years 2010-2013 we implemented individual redundancy programmes and terms. We still maintain provisions for benefits related to the termination of the employment relationships under these programmes, based on the number of employees expected to use the programmes, and the estimated value of severance pay.

As at 30 September 2013 the total value of the restructuring reserve was PLN 87.5 million.

### *Provisions for employee matters*

We establish provisions for employee matters mainly in relation to Group companies' employees claims concerning alleged breaches of the social agreement of 19 July 2007 regarding the security of employees' rights and interests in the process of the consolidation and restructuring of the Group.

As at 30 September 2013 the total value of the provisions for employee matters was PLN 2.6 million.

### *Provision for reclamation of ash landfills*

We are obliged to reclaim our ash landfills after they are full or closed and to disassemble the wind turbines acquired in 2013, and we create provisions for this obligation in an amount reflecting the current value of estimated future costs of such reclamation and disassembly.

As at 30 September 2013 the total value of the provision for land rehabilitation and liquidation of property, plant and equipment was PLN 22.4 million.

### *Other provisions*

Other provisions mainly include those related to excise tax representing a tax obligation related to the electricity sold to end-customers, and adjustments to the corporate income tax for the preceding years.

As at 30 September 2013 the total value of the other provisions was PLN 52.6 million.

***Valuation allowance for trade receivables***

At the end of each reporting period we assess whether any receivables or groups of receivables show objective premises of permanent impairment. If a recoverable value of an asset is lower than its balance sheet value we write-off its value down to the value of the planned cash flow. The impairment losses are based on the age structure of receivables and analyses of the particular situations of individual debtors.

***Deferred tax asset***

Deferred tax assets are valued with use of the tax rates that will be applied at the time of realisation of the asset, on the basis of the tax regulations binding on the balance sheet date. A deferred tax asset is recognised based on an assumption that in the future we will generate taxable profits to set it off against. Deteriorating tax profits in the future could render such an assumption unreasonable.

**New accounting standards, interpretations and revisions to accounting standards**

For a description of the new accounting standards, interpretations and revisions to IFRS accounting standards which have been issued, but are not effective in respect of the financial year beginning 1 January 2012 and have not been adopted early by us, please refer to Note 8 to the Consolidated Financial Statements.

A description of the new standards and interpretations and changes to the IFRS standards which were published but are not binding in the fiscal year commenced 1 January 2013 and have not been implemented by us prior to their effective dates, are described in Note 5 to the Condensed Interim Consolidated Financial Statements.

MARKET OVERVIEW

Macroeconomic overview

The Polish economy is the largest in Central and Eastern Europe in terms of GDP value. Pursuant to Eurostat, the total GDP of all Central and Eastern European countries in 2012 was EUR 1,201 billion, of which 31% was contributed by Poland. According to Eurostat, Poland is also the only country in the EU whose real GDP has continued to grow each year since 2005. In 2008, Poland's real GDP increased by 5.1% versus an average increase in the entire EU of 0.4%. In 2009, Poland's real GDP increased by 1.6% versus an average decrease in the entire EU of 4.5%. In 2010 Poland's real GDP increased by 3.9%, whilst the average increase in GDP in the entire EU was only 2.0%. In 2011, Poland's real GDP increased by 4.5% versus average increase in the entire EU of 1.7%. In 2012 Poland's real GDP increased by 1.9% versus an average decrease in the entire EU of 0.4%. In 2012, Poland was ranked sixth among all EU member states in terms of year on year growth. The table below contains more detailed data concerning the growth in Poland's GDP.

Growth in real GDP in the years 2009-2012 (previous year = 100) according to Eurostat.

Country	2012	2011	2010	2009	Country	2012	2011	2010	2009
<b>EU (27 member states)</b> . . . .	<b>(0.4)</b>	<b>1.7</b>	<b>2.0</b>	<b>(4.5)</b>	Greece . . . . .	(6.4)	(7.1)	(4.9)	(3.1)
Germany . . . . .	0.7	3.3	4.0	(5.1)	Portugal . . . . .	(3.2)	(1.6)	1.9	(2.9)
France . . . . .	0.0	2.0	1.7	(3.1)	Bulgaria . . . . .	0.8	1.8	0.4	(5.5)
United Kingdom . . . . .	0.1	1.1	1.7	(5.2)	Hungary . . . . .	(1.7)	1.6	1.3	(6.8)
Italy . . . . .	(2.5)	0.4	1.7	(5.5)	Denmark . . . . .	(0.4)	1.1	1.6	(5.7)
Spain . . . . .	(1.6)	0.1	(0.2)	(3.8)	Slovakia . . . . .	1.8	3.2	4.4	(4.9)
<b>Poland</b> . . . . .	<b>1.9</b>	<b>4.5</b>	<b>3.9</b>	<b>1.6</b>	Ireland . . . . .	0.2	1.4	(0.8)	(5.5)
Sweden . . . . .	1.0	3.7	6.6	(5.0)	Slovenia . . . . .	(2.5)	0.7	1.3	(7.9)
Holland . . . . .	(1.2)	0.9	1.5	(3.7)	Estonia . . . . .	3.9	8.3	3.3	(14.1)
Belgium . . . . .	(0.1)	1.8	2.4	(2.8)	Latvia . . . . .	5.0	5.5	(0.9)	(17.7)
Czech Republic . . . . .	(1.0)	1.8	2.5	(4.5)	Lithuania . . . . .	3.7	5.9	1.5	(14.8)
Finland . . . . .	(0.8)	2.7	3.4	(8.5)	Cyprus . . . . .	(2.4)	0.5	1.3	(1.9)
Austria . . . . .	0.9	2.8	1.8	(3.8)	Luxembourg . . . . .	0.2	1.7	2.9	(4.1)
Romania . . . . .	0.7	2.2	(1.1)	(6.6)	Malta . . . . .	0.8	1.8	3.2	(2.8)

Source: Eurostat.

Growth in real GDP in the years 2008-2012 (previous year = 100) according to CSO.

Specification	2012	2011	2010	2009	2008
GDP . . . . .	1.9	4.5	3.9	1.6	5.1
Gross Value Added <sup>(1)</sup> . . . . .	1.9	4.5	3.7	1.8	5.1
<i>of which:</i>			%		
industry . . . . .	1.9	9.2	7.3	3.7	6.0
construction . . . . .	0.3	11.8	6.4	11.6	5.8
trade, motor vehicle repairs . . . . .	1.2	(2.1)	5.7	4.3	6.4
transportation and warehousing . . . . .	7.9	12.0	0.9	(3.7)	(1.5)
electricity, gas, steam and hot water generation and supply . . . . .	3.8	11.8	15.9	(1.0)	(3.9)
public administration and national defence; compulsory social security . . . . .	(0.4)	(1.7)	(1.1)	3.8	2.3
education . . . . .	(1.3)	0.3	(2.2)	1.1	0.6
health care and welfare . . . . .	2.5	5.3	6.5	4.7	2.6
professional, scientific and technical activities . . . . .	1.1	2.9	(1.8)	5.0	8.2
administration and ancillary activities . . . . .	8.5	15.0	8.9	10.6	11.4

(1) In Poland, gross value added is determined primarily by industry, trade, transport and communication services.

Source: CSO.

According to CSO figures, the growth in Poland's GDP in 2012 was mainly due to a 1.2% growth in industrial production, 7.9% growth in transportation and warehousing and 1.5% growth in trade and motor vehicle repairs.

GDP in the years 2008-2012 (in current prices).

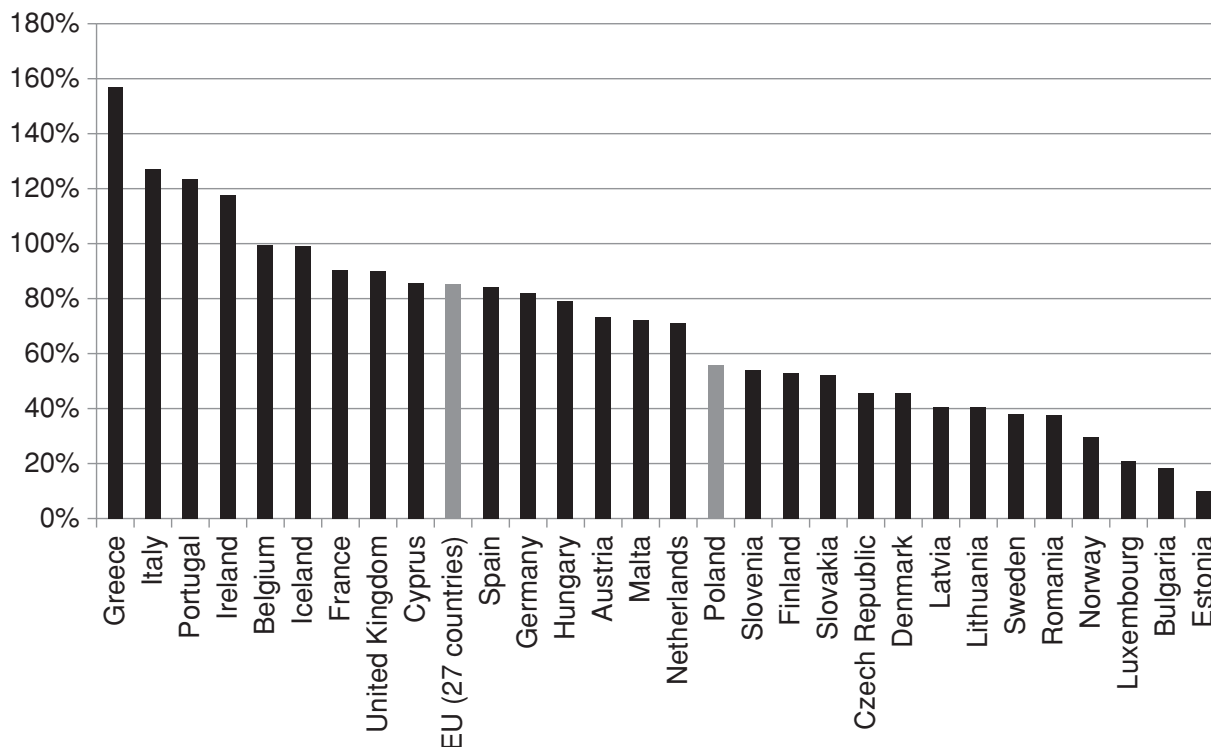
<u>Specification</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
	<b>current prices, PLN million</b>				
GDP . . . . .	1,595,225	1,528,127	1,416,585.0	1,343,657	1,275,432
Gross Value Added . . . . .	1,412,909	1,342,386	1,247,651.0	1,193,982	1,116,476
<i>of which:</i>					
industry/industrial processing . . . . .	243,829	233,641	209,714	221,833	208,030
trade, motor vehicle repairs . . . . .	268,592	251,191	242,150	218,008	201,936
public administration and national defence; compulsory social security . . . . .	69,480	67,345	66,517	72,382	66,445
Education . . . . .	65,582	64,508	60,717	57,235	52,970
health care and welfare . . . . .	53,216	51,859	48,694	45,540	42,902
construction . . . . .	110,621	110,539	101,026	87,545	81,074
professional, scientific and technical activities . . . . .	70,455	67,670	63,999	n.a.	n.a.
administration and ancillary activities . . . .	28,169	25,389	21,945	n.a.	n.a.
transportation and warehousing . . . . .	86,822	76,199	68,807	88,693	76,807
real property market services . . . . .	81,297	75,322	70,094	172,603	158,773
finance and insurance activities . . . . .	63,558	59,314	55,110	45,744	58,522
information and communications . . . . .	51,912	49,538	47,488	n.a.	n.a.
hospitality industry . . . . .	16,917	16,261	14,630	n.a.	n.a.

Source: GUS.

In recent years the level of public debt in Poland has increased in absolute terms, reaching PLN 840.5 billion, which amounts to 52.7% of Poland's GDP. By comparison, the average level of public debt in relation to GDP for all the 27 EU member states was 69.1%. The graph below shows the ratio of public debt to GDP for the EU as a whole and for individual member states.

## MARKET OVERVIEW

Public debt as % of GDP in the European Union as a whole and in its member states in 2012.



The level of public debt presented in the table was calculated in accordance with the definition contained in the Lisbon Treaty amending the European Union Treaty and the Treaty establishing the European Community (OJ UE C 306/1 of 17 December 2007); pursuant to this definition, Poland's public debt amounted to 55.6% in 2012.

Source: Eurostat.

In 2012, Poland's budget deficit amounted to PLN 30.4 billion, while the deficit in the public finance sector totalled PLN 46.3 billion, accounting for 2.9% of GDP. As at the end of September 2013, the budget deficit amounted to PLN 29.6 billion, which amounts to 57% of the total deficit projected in the budget act for 2013.

### Electricity market

#### History

At the beginning of the 1990s, five companies were divided into 32 producers, 33 entities involved in electricity distribution and four lignite mines, each holding the status of a state enterprise. As part of the commercialisation process which took place in the years 1993-1994, companies involved in electricity generation and distribution were transformed into companies operating under commercial law and the power industry underwent a partial privatisation process. Despite such privatisations, the majority of power industry companies remained in the possession of the State Treasury.

In 2007, state-owned power companies were subject to intensive consolidation, the purpose of which was to increase their financial and market strength to the level necessary to achieve the further development of that industry. As a consequence, in May 2007 four power groups were established: (i) PGE group managed by PGE Polska Grupa Energetyczna S.A., (ii) Tauron group managed by TAURON Polska Energia S.A., (iii) ENERGA group managed by the Company, and (iv) Enea group managed by ENEA S.A. These groups operate in all segments of the electricity market, i.e. generation, distribution and sales.

Apart from the four above-mentioned power groups, the power market in Poland currently consists of: (i) PSE, the transmission system operator, which balances the demand of the domestic electricity system, of which 100% of shares are owned by the State Treasury, (ii) the power exchange market, consisting of Towarowa Giełda Energii S.A., owned by the Warsaw Stock Exchange, and (iii) domestic and European companies holding shares in individual generation and distribution assets within the territory of Poland.



These enterprises, apart from the Company, include among others companies from the following capital groups: RWE, PGNiG, CEZ, EdF, GDF Suez, Dalkia, Fortum and ZE PAK.

In recent years, the power industry privatisation process has accelerated. Shares of the four companies managing the power groups were admitted to trading on the WSE, namely ENEA S.A. shares in 2008, PGE Polska Grupa Energetyczna S.A. shares in 2009, and TAURON Polska Energia S.A. shares in 2010.

In line with the above-mentioned processes, since the early 1990s, the power industry in Poland has been subject to transformation and the reforms introduced arise from the need to adapt the domestic electricity market to EU standards with the aim of creating a competitive market. The above reforms consisted mainly of the termination of the long-term power purchase agreements (PPAs), withdrawal from the tariff approval system in electricity sales, and the unbundling of distribution system operators (see “Regulatory Matters”).

PPAs were contracts for the acquisition of power and electricity at a price that ensured the coverage of generation costs as well as the financing costs of new generation units. Electricity acquired as part of PPAs was subsequently sold to retail sale companies according to the MPQ (Minimum Power Quantity) tariff approved by the ERO President. Any electricity purchased as part of PPAs in excess of electricity sold as part of the MPQ was sold on the wholesale market at the market price. The difference between the costs and revenues of the electricity producer was covered by the transmission system operator, i.e. PSE, as compensation for the additional services and then included in the PSE transmission tariff. In connection with termination of PPAs, generators that had previously been parties to these agreements obtained the right to receive reimbursements to cover the stranded costs, i.e. incurred capital expenditures which were not covered by revenues after the termination of PPAs. The most important consequence of terminating PPAs was the introduction of a uniform and transparent price shaping mechanism for power market players.

### General Information

According to Eurostat data for 2011, the Polish power industry was sixth in the EU in terms of total gross generation of electricity, after Germany, France, Great Britain, Italy and Spain.

Total gross generation of electricity in individual EU states and in the entire EU in the years 2009-2011 (in GWh).

Country	2011	2010	2009	Country	2011	2010	2009
EU (27 member states) .	3,279,570	3,346,225	3,203,499	Greece . . . . .	59,436	57,392	61,365
Germany . . . . .	608,869	628,984	590,367	Portugal . . . . .	52,459	54,091	50,208
France . . . . .	561,980	569,103	535,850	Bulgaria . . . . .	50,797	46,653	42,964
United Kingdom . . . . .	367,801	381,771	376,775	Hungary . . . . .	35,983	37,371	35,908
Italy . . . . .	302,570	302,063	292,641	Denmark . . . . .	35,171	38,792	36,383
Spain . . . . .	291,759	301,527	294,620	Slovakia . . . . .	28,656	27,858	26,155
<b>Poland . . . . .</b>	<b>163,548</b>	<b>157,657</b>	<b>151,720</b>	Ireland . . . . .	27,478	28,612	28,313
Sweden . . . . .	150,376	148,609	136,729	Slovenia . . . . .	16,056	16,433	16,401
Holland . . . . .	112,966	118,140	113,502	Estonia . . . . .	12,893	12,964	8,779
Belgium . . . . .	90,168	95,120	91,225	Latvia . . . . .	6,095	6,627	5,569
Czech Republic . . . . .	87,454	85,910	82,250	Lithuania . . . . .	4,822	5,749	15,358
Finland . . . . .	73,481	80,668	72,062	Cyprus . . . . .	4,929	5,322	5,215
Austria . . . . .	65,699	71,125	69,080	Luxembourg . . . . .	3,717	4,592	3,878
Romania . . . . .	62,218	60,979	58,014	Malta . . . . .	2,189	2,113	2,168

Source: Eurostat.

In 2011 electricity consumption in the EU as a whole was 2,767,549 GWh, while in Poland it was 121,940 GWh, which corresponds to 4.4% of total electricity consumption in the entire EU. According to Eurostat and CSO data, the Polish economy is still characterised by one of the higher rates of electricity consumption per unit of GDP amongst European countries similar to Poland. This is due to the fact that in Poland the share of energy-intensive industries in the GDP structure is relatively high versus other EU countries, the economies of which are—to a more significant extent—based on the service industry.

## MARKET OVERVIEW

Electricity consumption per EUR 1 million of GDP in individual EU countries and the EU as a whole in the years 2009-2011 (MWh).

Country	2011	2010	2009	Country	2011	2010	2009
EU (27 member states) . . . . .	218.4	229.6	29.2	Greece . . . . .	248.4	239.1	236.8
Germany . . . . .	199.8	221.0	208.7	Portugal . . . . .	282.7	288.6	284.0
France . . . . .	209.7	229.3	221.6	Bulgaria . . . . .	738.1	751.8	768.5
United Kingdom . . . . .	179.6	189.9	202.3	Hungary . . . . .	346.0	354.2	362.6
Italy . . . . .	191.2	192.8	190.8	Denmark . . . . .	130.6	135.9	140.7
Spain . . . . .	229.3	234.1	229.4	Slovakia . . . . .	359.0	366.4	367.8
<b>Poland . . . . .</b>	<b>328.8</b>	<b>335.5</b>	<b>362.6</b>	Ireland . . . . .	153.0	160.9	155.7
Sweden . . . . .	321.5	375.0	421.9	Slovenia . . . . .	348.7	337.2	318.8
Holland . . . . .	179.4	182.1	181.3	Estonia . . . . .	415.5	482.3	483.2
Belgium . . . . .	216.5	234.0	226.7	Latvia . . . . .	306.3	344.5	329.5
Czech Republic . . . . .	364.4	381.6	386.2	Lithuania . . . . .	278.5	301.8	278.5
Finland . . . . .	425.3	467.0	447.3	Cyprus . . . . .	262.6	280.5	281.9
Austria . . . . .	205.6	215.0	213.5	Luxembourg . . . . .	152.3	164.9	169.7
Romania . . . . .	325.3	332.3	318.2	Malta . . . . .	275.5	254.0	286.6

Source: Eurostat.

### Electricity consumption and projected demand for electricity in Poland

The total consumption of electricity in Poland in 2012, according to ARE, was 159,299 GWh, having risen by 2% compared to 2010 and by 15% compared to the year 2000. The bulk of electricity consumption in Poland occurs in industry, which accounted for 49% of the total consumption structure in 2011 and 46% in 2012. Households accounted for 20% of electricity consumption both in 2011 and 2012.

Specification	2012	2011	2010
<b>Total consumption, of which:</b> . . . . .	<b>159,299</b>	<b>158,306</b>	<b>156,304</b>
<b>Domestic consumption, of which:</b> . . . . .	<b>148,415</b>	<b>147,668</b>	<b>144,453</b>
Industry, of which: . . . . .	68,709	72,253	69,289
demand of power plants . . . . .	14,574	14,584	14,209
water pumping in pumped storage plants . . . . .	647	645	828
Households . . . . .	29,843	30,006	30,740
Network losses . . . . .	10,884	10,638	11,851
Transportation . . . . .	4,263 <sup>(1)</sup>	4,245	4,648
Construction . . . . .	810 <sup>(1)</sup>	798	770
Agriculture . . . . .	379	418	456
<b>Export . . . . .</b>	<b>12,643</b>	<b>12,022</b>	<b>7,664</b>
<b>Total Electricity Used . . . . .</b>	<b>171,942</b>	<b>170,328</b>	<b>163,968</b>

(1) Preliminary data.

(2) Included total consumption of electricity, increased by exports.

Data included in the table above are taken from annual ARE publications, thus they may differ from the data presented in this Offering Circular but taken from other ARE publications, particularly those published quarterly. As a matter of principle, data published annually by ARE are more precise than data published quarterly.

Source: ARE.

Pursuant to ARE figures, the volume of electricity used in Poland in 2012 was approximately 5% higher than in 2010. This increase was a result of a number of factors, including the increase in GDP, the increase in energy exports as well as alignment of the level of electricity consumption per capita with other EU member states. Despite the narrowing of this difference, the average electricity consumption per capita in Poland is still significantly lower than the average electricity consumption in the 27 EU member states (e.g. in 2010 in Poland electricity consumption per capita was 3.1 MWh, whilst the average electricity consumption per capita in all the EU countries was 5.7 MWh). In 2011, the average per capita electricity consumption in Poland was 3.2 MWh, compared to 5.5 MWh in the 27 EU member states. At the same

time, the 2.4% compound annual growth rate (CAGR) in electricity consumption per capita in the years 2005-2010 calculated as total domestic electricity consumption divided by the number of inhabitants was much higher than in other selected European countries, whilst this figure for all 27 EU member states is 0.1%. The table below sets forth per capita electricity consumption in the years 2008-2010 (kWh).

Country	2010	2009	2008	Country	2010	2009	2008
EU (27 member states) . . . . .	5,661	5,441	5,738	Greece . . . . .	4,699	4,859	5,051
Germany . . . . .	6,466	6,043	6,392	Portugal . . . . .	4,690	4,503	4,454
France . . . . .	6,864	6,578	6,772	Bulgaria . . . . .	3,583	3,529	3,748
United Kingdom . . . . .	5,293	5,234	5,583	Hungary . . . . .	3,416	3,305	3,417
Italy . . . . .	4,960	4,830	5,180	Denmark . . . . .	5,793	5,730	6,095
Spain . . . . .	5,666	5,572	5,860	Slovakia . . . . .	4,446	4,270	4,585
<b>Poland . . . . .</b>	<b>3,104</b>	<b>2,955</b>	<b>3,082</b>	Ireland . . . . .	5,630	5,611	6,061
Sweden . . . . .	14,048	13,329	14,010	Slovenia . . . . .	5,846	5,556	6,370
Holland . . . . .	6,447	6,305	6,653	Estonia . . . . .	5,145	4,961	5,214
Belgium . . . . .	7,686	7 148	7,747	Latvia . . . . .	2,764	2,699	2,910
Czech Republic . . . . .	5,445	5,246	5,587	Lithuania . . . . .	2,503	2,499	2,679
Finland . . . . .	15,599	14,496	15,586	Cyprus . . . . .	6,087	5,962	5,871
Austria . . . . .	7,323	6,927	7,141	Luxembourg . . . . .	13,152	12,379	13,547
Romania . . . . .	1,925	1,749	1,940	Malta . . . . .	3,876	4,127	4,509

Source: Eurostat.

According to ARE figures prepared in accordance with the energy balance sheet according to OECD, final consumption of energy defined as electricity consumption by end-customers (net of consumption in the power sector), totalled approximately 123 TWh in 2012 and was comparable to final consumption in 2011.

Specification	2012	2011	2010
		<b>GWh</b>	
<b>Total gross generation, of which:</b> . . . . .	<b>162,139</b>	<b>163,548</b>	<b>157,658</b>
System power plants . . . . .	146,480	149,242	144,541
Industrial CHP plant <sup>(1)</sup> . . . . .	7,818	7,837	7,525
Flow-through hydroelectric plants . . . . .	2,037	2,331	2,920
Pumped storage hydroelectric plants <sup>(2)</sup> . . . . .	428	430	568
Wind farms . . . . .	4,747	3,205	1,664
Renewable fuels power plants <sup>(3)</sup> . . . . .	629	503	440
<b>Imports . . . . .</b>	<b>9,803</b>	<b>6,780</b>	<b>6,310</b>
<b>Exports . . . . .</b>	<b>12,643</b>	<b>12,022</b>	<b>7,664</b>
Total consumption, of which: . . . . .	159,299	158,306	156,304
<b>Electricity consumption in the power sector<sup>(4)</sup> . . . . .</b>	<b>25,768</b>	<b>25,628</b>	<b>25,380</b>
<b>Transmission losses and network losses . . . . .</b>	<b>10,884</b>	<b>10,638</b>	<b>11,851</b>
<b>Final consumption<sup>(5)</sup> . . . . .</b>	<b>122,647</b>	<b>122,040</b>	<b>119,073</b>

(1) with the exception of biogas- and biomass-fired stations and hydroelectric plants,

(2) generation from pumped water in pumped-storage plants,

(3) other than classified as RES: (i) co-combustion of biomass included in production in system power plants, and (ii) except generation in hydroelectric plants,

(4) includes electricity consumption in power plants and consumption of electricity for extracting raw materials (e.g. coal) indispensable for electricity generation,

(5) includes gross generation increased by imports of electricity and decreased by: (i) exports of electricity, (ii) electricity consumption in the power sector and transmission losses and network losses.

Source: ARE.

According to Poland's Energy Policy until 2030, a moderate growth is projected with regard to the demand for electricity by end-customers, i.e. domestic final demand for energy, from the level of 119.1 TWh in 2010 to 167.5 TWh in 2030, i.e. by 40.6%

## MARKET OVERVIEW

### Segments of the electricity market

The Polish electricity market is divided into the following segments: (i) the generation segment, (ii) the transmission segment, (iii) the distribution segment, and (iv) the sales segment, including commodity exchange.

### Generation

According to PSE figures, as at 31 December 2012, the aggregate installed generation capacity in the Polish energy sector was approximately 38,046 MW, whereas the aggregate achievable capacity was 37,720 MW. In Poland, electricity is generated by power plants, including CHP plants, which are obliged to obtain a licence to generate electricity and which sell the electricity they generate to enterprises engaging in sales of electricity and/or end-customers. The table below sets forth installed and achievable capacity for the years 2010-2012 (in MW).

	2012		2011		2010	
	Installed capacity	Achievable capacity	Installed capacity	Achievable capacity	Installed capacity	Achievable capacity
Domestic power plants, of which: . . . . .	38,046	37,720	37,367	37,010	35,756	35,509
System power plants, of which: . . . . .	32,942	33,061	32,937	33,032	32,304	32,382
Thermal system power plants, of which: .	30,721	30,750	30,716	30,722	30,083	30,085
—coal-fired . . . . .	20,152	20,129	20,152	20,130	20,377	20,351
—lignite-fired . . . . .	9,635	9,704	9,630	9,675	8,772	8,817
—gas-fired . . . . .	934	917	934	917	934	917
System hydroelectric plants . . . . .	2,221	2,311	2,221	2,310	2,221	2,297
Industry power plants . . . . .	2,486	2,053	2,486	2,046	2,486	2,173
RES power plants <sup>(1)</sup> . . . . .	2,617	2,606	1,943	1,932	966	953

(1) Excluding system hydroelectric plants also classified as RES. The aggregate installed capacity in RES, according to the ERO, in the years 2010-2012 is given in the table below.

Source: ERO.

In 2012, coal- and lignite-fired system power plants played a dominant role in the structure of available capacity, with their combined installed capacity at of 29.8 GW, which represented 78% of the total capacity installed in the KSE. The fastest growth has been recorded in the category of renewable energy sources.

The following table shows the capacity installed in renewable energy sources based on licences valid as at 31 December in the years 2010-2012 (in MW). According to ERO figures, based on the licences issued, the capacity installed in renewable energy sources as at 31 December 2012 was 42% higher than on 31 December 2011, which in itself represented a 21% growth on the preceding year. The fastest growth recorded in 2012 concerned the capacity installed in biomass-fired plants (by approximately 100%) and the capacity installed in wind farms (by approximately 54%).

Type of source	2012	2011	2010
Biogas-fired plants . . . . .	99.5	88.1 <sup>(2)</sup>	82.9
Biomass-fired plants . . . . .	820.7	409.7	356.2
Solar power plants . . . . .	1.3	1.1	0.0
Wind farms . . . . .	2,496.7	1,616.4	1,180.3
Hydroelectric plants classified as RES . . . . .	966.1	951.4	937.0
Co-combustion <sup>(1)</sup> . . . . .	n.a.	n.a.	n.a.
<b>Total</b> . . . . .	<b>4,384.3</b>	<b>3,082.0</b>	<b>2,556.4</b>

(1) Due to different biomass content brackets in total fuel, no full installed capacity was given for these facilities.

(2) Excluding data for 15 facilities generating electricity from agricultural biogas, registered in a register kept by the President of the Agricultural Market Agency.

Source: ERO.

Electricity generated in Poland is divided into the following subgroups: (i) electricity generated from conventional sources (“black” energy), (ii) electricity generated through coal cogeneration (“red” energy),

(iii) electricity generated through gas cogeneration (“yellow” energy), and (iv) electricity generated from renewable sources (“green” energy). Polish regulations provide for a number of mechanisms devised to encourage green generation. The table below shows electricity generation broken down by energy sources for the years 2010-2012.

	2012		2011		2010	
	GWh	%	GWh	%	GWh	%
Coal . . . . .	80,596	49.72	87,326	53.4	87,941	55.8
Lignite . . . . .	54,054	33.3	52,529	32.1	48,651	30.9
Natural gas . . . . .	6,259	3.9	5,821	3.6	4,797	3.0
Biomass and biogas <sup>(1)</sup> . . . . .	10,094	6.2	7,601	4.6	6,305	4.0
Water <sup>(2)</sup> . . . . .	2,465	1.5	2,761	1.7	3,488	2.2
of which water in power plants classified as						
RES . . . . .	2,037	1.3	2,331	1.4	2,920	1.9
of which water in pumped-storage plants . . . . .	428	0.3	430	0.3	568	0.4
Wind . . . . .	4,747	3.0	3,205	2.0	1,664	1.1
Remaining fuels . . . . .	3,924	2.4	4,305	2.6	4,812	3.1
<b>Total . . . . .</b>	<b>162,139</b>	<b>100.0</b>	<b>163,548</b>	<b>100.0</b>	<b>157,658</b>	<b>100.0</b>
of which from RES . . . . .	<b>16,879</b>	<b>10.4%</b>	<b>13,137</b>	<b>8.0%</b>	<b>10,889</b>	<b>6.9%</b>

(1) includes electricity generated from co-combustion of biomass and biogas, from biomass-fired power plants and biogas power plants,

(2) includes electricity generated in pumped-storage hydroelectric plants.

Source: ARE.

#### *Electricity generated from renewable energy sources*

Poland has been witnessing a gradual growth in the generation of electricity from renewable sources. The share of renewable energy sources in total electricity generated in particular energy groups in 2012 was: (i) ENERGA—approximately 32%, (ii) ENEA—approximately 8%, (iii) Tauron—approximately 6%, and (iv) PGE—approximately 4%.

According to ARE, the aggregate generation of electricity from renewable energy sources as at 31 December 2011 was 13,137 GWh, rising 27.8% to 16,788 GWh as at 31 December 2012.

According to the Updated Forecast of Demand for Fuels and Energy up to 2030, prepared by ARE at the request of the Ministry of Economy, renewable energy sources should account for at least 15% of the total final electricity consumption in 2020. It is also expected that the overall volume of net electricity generated from renewable energy sources in 2020 will reach 26.6 TWh, compared to 16.9 TWh in 2012, which would account for 16.3% of the total electricity generation projected for 2020. That volume will rise to approximately 33.9 TWh in 2030, and would then account for approximately 17.5% of net electricity to be generated in 2030. It is also expected that electricity from wind farms will account for the bulk of electricity generated from renewable energy sources and the volume of such electricity will reach approximately 19.6 TWh in 2030, which would account for approximately 10% of total net electricity generation projected for 2030. At the end of 2012, renewable energy sources accounted for approximately 10.4% of total

## MARKET OVERVIEW

electricity generation. The table below shows the generation of electricity from renewable energy sources for the years 2010-2012 (in GWh) and for the six-month period ended 30 June 2013.

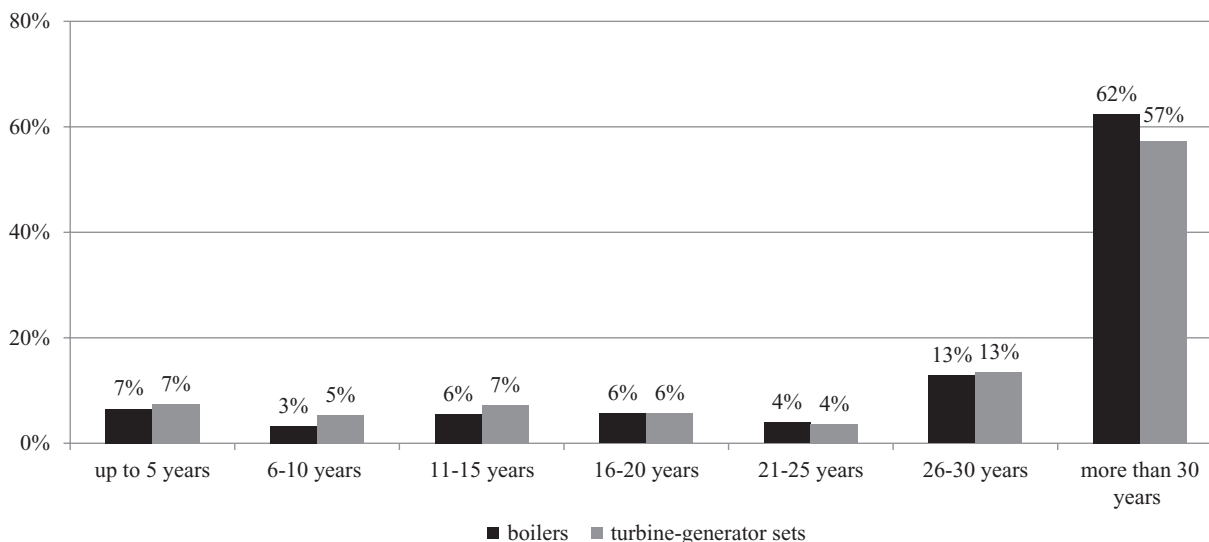
Type of source	30 June 2013		2012		2011		2010	
	GWh	%	GWh	%	GWh	%	GWh	%
Biogas-fired power plants . . . . .	296	3.6	563	3.3	451	3.5	395	3.6
Biomass-fired power plants . . . . .	1,615	19.6	1,679	9.9	759	5.8	313	2.9
Co-combustion of biomass and biogas . . .	2,268	27.6	7,852	46.5	6,391	48.6	5,597	51.4
Wind farms . . . . .	2,537	30.8	4,747	28.1	3,205	24.4	1,664	15.3
Hydroelectric plants . . . . .	1,512	18.4	2,037	12.1	2,331	17.7	2,920	26.8
Photovoltaic plants . . . . .	2.0	0.0	1.0	0.0	0.0	0.0	0.0	0.0
<b>Total . . . . .</b>	<b>8,230</b>	<b>100</b>	<b>16,879</b>	<b>100</b>	<b>13,137</b>	<b>100</b>	<b>10,889</b>	<b>100</b>

Source: ARE.

### Current status and development of generating capacity in Poland

A considerable number of the generating units working in Poland at present are characterised by a high degree of technical wear and tear. This results in a lower surplus of available capacity compared to peak demand. In many instances, unscheduled unit downtime means that it is increasingly difficult for the TSO to preserve a safe operational surplus of available capacity, which, according to the Transmission Network Operation and Maintenance Manual, should amount to no less than 9% of the planned demand that should be met by domestic power plants. However, according to Poland's Energy Policy until 2030, that surplus should actually amount to 15%. The table below sets forth the structure of generating units in Poland broken down by age.

Generating units in Poland in 2012 by age (boilers and turbine-generator sets).



Source: ARE.

Due to the advancing process of the technical depreciation of generating units and the increasingly stringent EU standards regarding the emission of pollutants, the existing generating units will be decommissioned from operations or modernised. The decommissioned units will be replaced by new ones, the bulk of which will be coal-fired units, with some expenditures also planned with regard to natural gas-fired and lignite-fired units.

In accordance with Poland's Energy Policy until 2030, establishing new generating capacity or new units replacing decommissioned units is estimated at 4.9 GW in the years 2011-2015, 8.5 GW between 2016 and 2020, 8.2 GW in the years 2021-2025 and approximately 10.4 GW between 2026 and 2030. Taking into account the planned decommissioning of current capacity in the KSE, the net achievable capacity of generating sources is to increase to approximately 46.4 GW by 2030. The most pronounced drop in net



achievable capacity is expected in coal-fired power plants (from 14,536 MW in 2008 to 5,433 MW in 2030). With regard to lignite the decommissioned units are successively going to be replaced by new ones, so that their achievable capacity should remain stable until 2025, after which their achievable capacity should increase. It is expected that the planned nuclear power plants will have 4,500 MW of installed capacity. The biggest growth of capacity will occur in the renewable sources sector, especially wind farms and biogas-fired plants. By 2030, there should be around 6,000 MW of installed capacity in onshore wind farms and around a further 2,550 MW in offshore wind farms, however it is expected that the additional capacity will not translate into high production of electricity due to low capacity utilisation figures in wind farms. Biomass-fired power plants and CHP plants are to achieve a capacity in the region of 1,400 MWe by 2030, while biogas-fired plants should increase their capacity to approximately 631 MWe. The plans to build new generating units reflect the expected growth in the demand for electricity in Poland.

### *Cross-border connections*

In the past, contractual electricity flows between the systems of different countries were typically based on long-term agreements and were therefore stable. Despite the increase of international exchanges of electricity recorded in recent years, only approximately 11% of the electricity used in the European Union crosses state borders, due to technical limitations, the applied methods of allocating transmission capacity and units introduced by the operators of particular transmission systems. The current limited transmission capacity between the systems of individual countries is the main impediment to the integration and creation of a fully uniform and competitive European electricity market. This situation is a consequence of the previous policy with respect to the isolation of domestic markets and the historically-rooted lack of international transmission capacities, which, were originally created with the idea of ensuring the security of supply in emergencies rather than of creating a cross-border electricity market.

In Europe there is the European Network of Transmission System Operators for Electricity—the ENTSO-E, an organisation grouping 41 transmission system operators from 34 countries, including PSE. ENTSO-E represents operators in relations with stakeholders, including institutions and the authorities of the European Union, and the Agency for Cooperation of Energy Regulators (ACER). The objective of the ENTSO-E is to ensure the security of electricity supply.

## MARKET OVERVIEW

Selected data regarding the physical flow of electricity, including commercial import and export within the framework of cooperation under ENTSO-E in the years 2010-2012 (GWh)<sup>(1)</sup>.

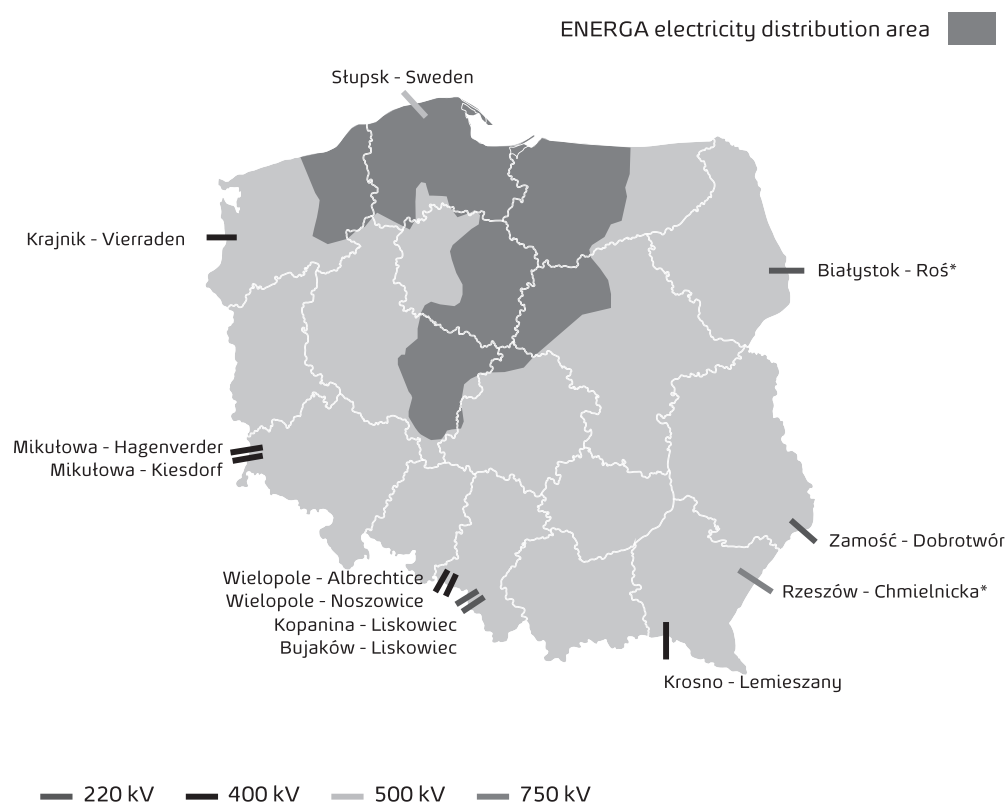
		2012	2011	2010			2012	2011	2010
<b>Austria</b> . . . . .	import	21,361	27,191	22,530	<b>Latvia</b> . . . . .	import	4,346	4,010	3,973
	export	19,145	17,885	19,270		export	2,800	2,760	3,101
<b>Belarus</b> . . . . .	import	4,199	747	402	<b>Lithuania</b> . . . . .	import	7,175	8,086	8,177
	export	2,400	2,916	4,488		export	1,351	1,345	2,185
<b>Belgium</b> . . . . .	import	14,018	13,189	12,287	<b>Luxemburg</b> . . . . .	import	6,004	7,099	7,282
	export	6,346	10,652	11,843		export	2,300	2,657	3,208
<b>Bulgaria</b> . . . . .	import	2,357	1,493	1,178	<b>The Netherlands</b> . . . . .	import	26,489	20,665	15,589
	export	10,451	12,000	9,278		export	11,936	11,787	12,811
<b>Czech Republic</b> . . . . .	import	10,883	10,457	6,682	<b>Poland</b> . . . . .	import	8,831	6,779	6,310
	export	25,741	27,501	21,579		export	11,511	12,023	7,664
<b>Denmark (total)</b> . . . . .	import	14,578	11,647	10,585	<b>Portugal</b> . . . . .	import	10,766	6,685	5,667
	export	9,573	10,276	11,740		export	2,870	3,928	3,190
<b>Estonia</b> . . . . .	import	2,477	1,517	1,743	<b>Romania</b> . . . . .	import	4,553	2,946	1,791
	export	4,300	4,986	4,947		export	4,307	4,846	4,707
<b>Finland</b> . . . . .	import	16,780	18,489	16,354	<b>Slovakia</b> . . . . .	import	11,794	11,228	7,342
	export	1,793	4,614	5,878		export	12,082	10,501	6,295
<b>France</b> . . . . .	import	11,392	9,068	19,950	<b>Slovenia</b> . . . . .	import	6,403	7,034	8,611
	export	51,703	64,185	48,563		export	6,809	8,308	10,744
<b>Germany</b> . . . . .	import	42,692	49,722	42,171	<b>Spain</b> . . . . .	import	7,785	7,935	5,214
	export	57,811	55,988	59,878		export	18,697	13,656	13,117
<b>Greece</b> . . . . .	import	5,545	7,181	8,523	<b>Sweden</b> . . . . .	import	10,528	14,229	16,988
	export	3,799	3,932	2,801		export	27,546	21,356	14,728
<b>Hungary</b> . . . . .	import	15,961	14,667	9,897	<b>Ukraine</b> . . . . .	import	0	0	0
	export	8,930	8,018	4,706		export	937	59	0
<b>Ireland</b> . . . . .	import	627	733	744	<b>United Kingdom</b> . . . . .	import	12,087	8,645	7,136
	export	319	243	293		export	3,373	3,844	6,408
<b>Italy</b> . . . . .	import	40,956	47,478	45,899					
	export	2,085	1,715	1,699					

(1) The data are limited to EU member states (excluding Malta and Cyprus) and Belarus and Ukraine, with which Poland has no cross-border connections.

Source: ENTSO-E.

The KSE has the following cross-border connections: (i) in the North: to Sweden (submarine cable), (ii) in the South: to the Czech Republic via a twin 220 kV line and two 400 kV lines and with Slovakia via a 400 kV line, (iii) in the East: with Belarus via a 220 kV line and with Ukraine via a 750 kV line (in a permanent stand-by mode) and a 220 kV line and (iv) in the West: with Germany via two 400 kV lines. Connections with the systems in Germany, the Czech Republic and Slovakia are synchronous connections (identical frequency and identical phase shift angle permitting free flow of electricity between the connected systems). Connections with Sweden, Ukraine and Belarus are asynchronous (where the asynchronous interfaces or DC couplings are required to connect the systems). In addition to transmission voltages of 220 kV and over, there are connections with distribution voltage (110 kV or less) at particular border points used under the technical supervision of distribution system operators. Poland is a net exporter of electricity. According to ENTSO-E data, in 2012, commercial export sales of electricity from Poland totalled 11,511 GWh, while commercial imports amounted to 8,831 GWh. In 2011, these two volumes amounted to 12,023 GWh and 6,779 GWh, respectively.

Cross-border Connections of the KSE (voltages exceeding 110 kV).



Source: Ministry of Economy.

According to Poland’s Energy Policy until 2030, one of the goals with respect to the generation and transmission of electricity and heat is the development of cross-border connections, which will be coordinated with the expansion of the national transmission system and the expansion of the transmission systems of Poland’s neighbouring countries. The planned development is to enable cross-border exchange of at least 15% of domestic electricity consumption volume by 2015, and this percentage will further increase to 20% by 2020 and to 25% by the year 2030.

### Transmission

Electricity transmission is defined as the transportation of electricity by means of transmission lines to distribution networks, or in rare cases to end-customers directly connected to the transmission network. In Poland, electricity transmission uses the highest and high-voltage (220 kV, 400kV and more) networks and the entity that is responsible for electricity transmission is the transmission system operator (the “TSO”). The TSO manages the operation of the highest and the high voltage network used for the transmission of electricity and also manages the balancing market of electricity in order to ensure the safe and efficient operation of the KSE and the country’s energy security.

There is a single transmission system operator in Poland, PSE, the company assigned by the ERO President to fulfil this role for the period from 1 January 2008 to 1 July 2014. According to the Energy Law, PSE is a joint-stock company, wholly-owned by the State Treasury and independent in terms of its legal form, organisation and the decision-making process from other types of activities that are unrelated to the transmission of electricity. The Polish transmission grid is integrated with the UCTE (*Union for the Coordination of Transmission of Electricity*) system, which is currently operating as the Continental Europe region within the European transmission grid coordinated by the ENTSO-E association (See section: “—Cross-border connections”).

## MARKET OVERVIEW

According to the “Report on Monitoring the Electricity Security of Supply”, prepared by the Ministry of Economy of the Republic of Poland in March 2013 for the period of 1 January 2011 to 31 December 2012, the estimated age structure of the distribution network was as follows:

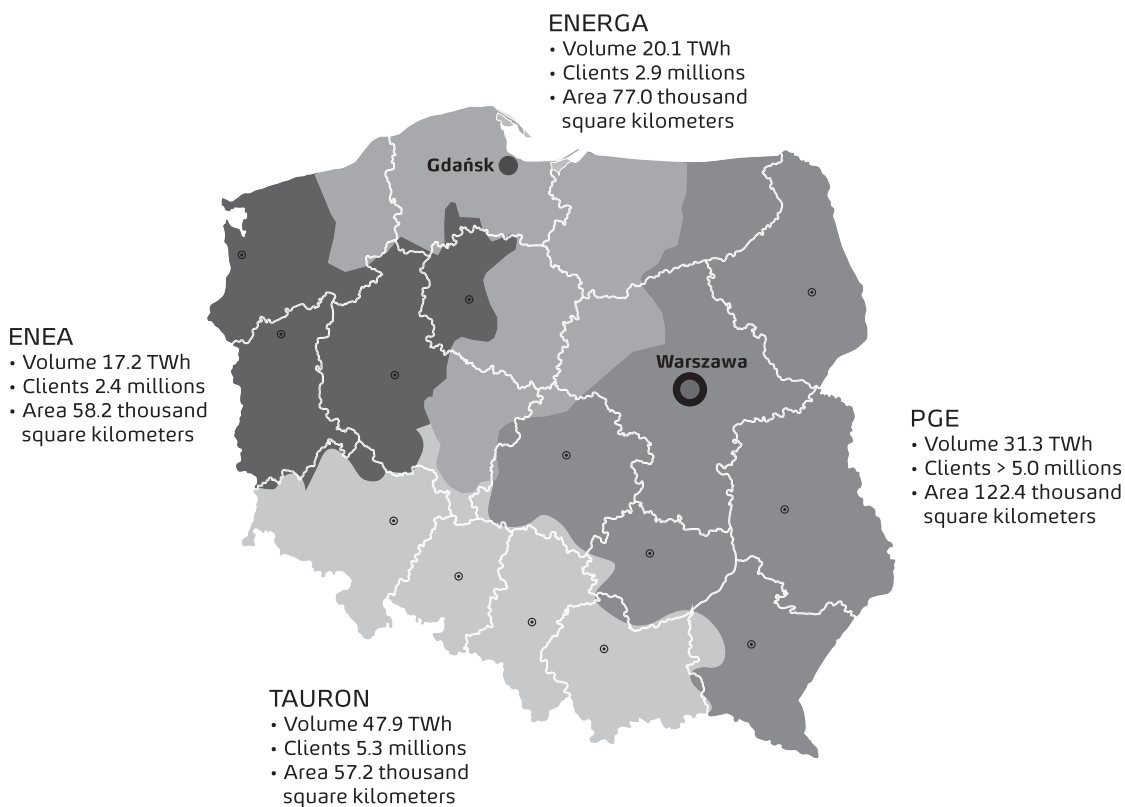
Age	220 kV lines	400 kV lines	Transformers
	%	%	%
Up to 20 years . . . . .	1	19	28
20-30 years . . . . .	17	54	34
More than 30 years . . . . .	82	25	38

Source: Ministry of Economy “Report on Monitoring the Security of Electricity Supply”.

The ageing status and the high degree of technical wear and tear of the transmission networks result in higher transmission losses and in more frequent failures. This is why they require significant modernisation expenditures, which is one of the paramount investment goals in the Polish energy sector. The planned capital expenditures of PSE for the years 2011-2025 include approximately PLN 18 billion for the development of PSE’s transmission infrastructure. The updated development programme of PSE for the years 2012-2016 envisages the modernisation of 220 kV and 400 kV transmission lines of a total length of approximately 2,500 kilometres and the construction of new 400 kV lines of a total length of approximately 4,600 kilometres. Nearly 40% of the anticipated expenditures relate to the connection of capacity from new generation sources, while network operation security and the construction of new cross-border lines are each expected to consume 30% of the total planned expenditures.

### Distribution

Electricity distribution is the transportation of electricity over distribution networks to end-customers. The figure below illustrates the areas of operation of the largest distribution system operators in Poland, along with their key operational data in 2012.



Source: Annual reports and presentations of results of individual groups for 2012.

End-customers on the Polish electricity market include end-customers that belong to tariff group G (mainly households) and industrial customers. According to the ERO, as at 31 December 2012, there were

approximately 16.7 million customers, nearly 90% of which were households. The total electricity supply in 2012 amounted to 122,859 GWh, and totalled 61,700 GWh in the first half of 2013. In 2012, approximately 24% of the total electricity supply was delivered to households while approximately 75% of the total electricity supply was delivered to industrial customers. In the first half of 2013, the ratio was similar. The table below presents electricity supplies by tariff groups in the years 2010- 2012 and the six-month period ended 30 June 2013 (GWh).

	30 June 2013		2012		2011		2010	
	GWh	%	GWh	%	GWh	%	GWh	%
<b>Supply from the network to end-customers: . . . . .</b>	<b>61,700</b>		<b>122,859</b>		<b>121,942</b>		<b>119,529</b>	
Of which:								
HV (tariff group "A") . . . . .	12,649	21	26,485	22	26,483	22	25,067	21
MV (tariff group "B") . . . . .	21,415	35	42,632	35	41,853	34	40,433	34
LV (tariff group "C") . . . . .	11,861	19	22,973	19	22,622	19	22,778	19
Households (tariff group "G") . . . . .	4,599	24	29,325	24	29,412	24	29,807	25
Other . . . . .	695	1	1,444	1	1,572	1	1,444	1

Source: ARE.

Electricity is distributed via high voltage (110 kV, and in exceptional cases 220kV), medium voltage (from 1 kV to 110 kV) and low voltage (up to 1 kV) lines. Distribution of electricity in Poland is handled by companies holding an electricity distribution licence. Based on information from the ERO, 97 entities in Poland held a licence to engage in electricity distribution as at 17 October 2013. Distribution activity is a natural monopoly on the relevant local market and is highly regulated, particularly with respect to tariffs, which are prepared by the distribution companies taking into consideration the principles set out in the provisions of law (see "Regulatory Matters—Energy sector regulations—Tariffs"). Distribution system operators are appointed by the ERO President, upon the motion of the owner of the distribution network, for a specified period not exceeding the term of the licence. The ERO President simultaneously defines the area in which a given distribution system operator will operate.

The technical condition of the distribution networks varies. In some areas of the country there are problems with maintaining the electricity supply parameters, mostly in rural areas (with long routes of low-voltage lines). Medium voltage lines and low voltage circuits using small diameter cables, as well as lines which show excessive voltage fluctuations at terminals, should be modernised and refurbished.

The condition of the distribution network impacts the level of electricity losses incurred by distribution companies. Electricity losses include: technical losses and commercial losses (related to obtaining energy bypassing the metering systems, or resulting from the limited accuracy of metering systems or non-simultaneous readings at entrance and exit points of the network). In addition, energy losses are mainly attributable to the length of the distribution networks and other related technical parameters. Lower electricity losses on low-voltage lines in recent years result from DSO efforts to modernise the network and limit the illegal obtaining of energy.

## MARKET OVERVIEW

In 2011 network losses in Poland reached 8.7% and were 1.4 percentage points higher than the European average, which amounted to 7.3%. The table below shows the level of network losses in selected EU countries in the years 2009-2011.

Country	2011		2010		2009	
	Gwh	% <sup>(1)</sup>	Gwh	% <sup>(1)</sup>	Gwh	% <sup>(1)</sup>
European Union—27	200,844	7.3	209,464	7.4	191,731	7.1
Bulgaria	4,396	15.5	4,480	16.5	4,512	16.8
Czech Republic	4,405	7.8	4,466	7.8	4,487	8.2
Denmark	2,388	7.6	2,555	8.0	2,366	7.5
Estonia	949	14.3	1,047	15.2	886	13.3
France	29,052	6.9	35,414	8.0	34,878	8.3
Germany	24,799	4.8	23,974	4.5	25,003	5.0
Greece	2,820	5.4	3,783	7.1	3,223	5.9
Hungary	3,784	11.0	3,801	11.1	3,604	10.9
Italy	20,848	6.9	20,570	6.9	20,352	7.0
<b>Poland</b>	<b>10,638</b>	<b>8.7</b>	<b>11,851</b>	<b>10.0</b>	<b>12,533</b>	<b>11.1</b>
Romania	7,141	16.7	7,058	17.1	7,029	18.7
Slovakia	500	2.0	856	3.5	782	3.4
Spain	26,793	11.2	27,400	11.2	11,200	4.7

(1) In order to compare the level of network losses in Poland and in other EU countries for the purposes of this Offering Circular, the level of losses is shown in relation to the electricity consumption in individual countries.

Source: Eurostat.

### *Electricity Trading*

Trading in electricity consists of the purchase of electricity from generators or other entities engaged in electricity trading. Trading in electricity includes the wholesale of electricity and the sale of electricity to end-customers. Wholesale electricity trading takes place between generators and trading companies (including retail traders). Retail sales take place when generators or trading companies sell electricity to end-customers (both households and businesses). The sale of electricity to end-customers involves the obligation to present certificates of origin to the ERO President for redemption, in a number that corresponds to the amount of electricity distributed (see “—Fuels—Certificates of Origin”).

Trading in electricity is a regulated business, which requires obtaining the relevant licence. There is one type of licence which covers both wholesale and retail sales of electricity. Electricity sellers may purchase electricity from and sell to any freely chosen counterparties, and they have the right of equal access to transmission and distribution networks. Since 2007, all customers in Poland have been free to choose their electricity provider (the TPA—Third Party Access principle).

Due to the small number of cross-border connections and the technical regulatory restrictions of the national electricity system, wholesale trade in electricity is mostly limited to entities operating on the domestic market.

According to ARE, electricity sales by generators in Poland reached 147,290 GWh in 2011, whereas in 2012 they reached 143,957 GWh, meaning a decrease of 2.3%. According to ARE figures, in the first half of 2013 electricity sales in Poland by generators amounted to 71,737 GWh.

### *Wholesale of electricity in Poland*

Wholesale of electricity in Poland is conducted within three segments: (i) bilateral contracts, (ii) transactions on the power exchange market; and (iii) the balancing market. The table below presents



the structure of electricity sales on the wholesale market (excluding trading activities) in the years 2010-2012 and the six-month period ended 30 June 2013.

Lines	30 June			
	2013	2012	2011	2010
	%	%	%	%
Trading companies/distribution systems trading companies including: .	41.1	30.6	33.9	88.9
Intra-Group sales . . . . .	33.0	19.0	17.9	67.0
Sales to end-customers, including:				
Purchase agreements . . . . .	0.3	0.2	0.1	0.6
Comprehensive agreements . . . . .	1.3	1.2	0.9	0.3
Power exchange market, including . . . . .	51.3	61.1	58.6	4.2
Commodity derivatives market . . . . .	no data	no data	47.6	1.1
Balancing market . . . . .	4.1	3.8	4.1	6.0

Source: ARE.

Sales under bilateral contracts that are, as a rule, mainly concluded between the seller, i.e. an electricity generator or a trading company, and the purchaser of electricity, decreased by 59.7%, from 124.0 TWh in 2010 to 50.0 TWh in 2011 and by 11.8% to 44.1 TWh in 2012. The decrease is mainly due to the obligation to sell a specific quantity of the electricity generated through the Polish Power Exchange (the “Power Exchange Obligation”). During the first half of 2013, electricity sales by generators based on bilateral contracts totalled approximately 30.0 TWh.

Exchange contracts in Poland are mainly entered into on the Polish Power Exchange on the following markets: (i) the Commodity Derivatives Market; (ii) the Day-Ahead Market; (iii) the Intra Day Market; and (iv) Electricity Auctions. Additionally, the Polish Power Exchange runs markets for trading in certificates of origin of electricity and gas and CO<sub>2</sub> allowances. In recent years the electricity trading model has undergone significant reorganisation, arising from the imposition in 2010 of the Power Exchange Obligation on the generators. This is why the energy exchange market is currently one of the key segments of wholesale electricity trading. In 2011 generators’ sales on the energy exchange market reached 86.4 TWh, which represented 58.6% of overall electricity sales, while in 2012 exchange sales went up to 88.0 TWh, which represented 61.1% of overall electricity sales. In the first half of 2013, electricity sales by generators on the power exchange market totalled approximately 36.8 TWh, which represented 51.3% of overall electricity sales. The balancing market used for the technical and commercial balancing of the market participants is operated by PSE. The balancing market is operated on strictly defined terms subject to approval by the ERO President and serves to balance the deviations between the planned and actual quantities of electricity distributed to or received from the transmission network (see “Regulatory Matters”). In 2012 the sales of electricity on the balancing market amounted to 5.5 TWh, which represented 3.8% of overall electricity sales. In comparison to 2011 in which the sales on the balancing market were 6.0 TWh, the sales on the balancing market in 2012 declined by 8.3%. In the first half of 2013, electricity sales by generators on the balancing market totalled approximately 2.9 TWh, which represented 4.1% of overall electricity sales.

#### *Retail electricity market in Poland*

The end-customer supply market includes the retail market and refers to transactions to which end-customers are a party, buying electricity for their own use. There are two types of end-customers: individual customers (households comprising tariff group G), and customers buying electricity for the purposes of their business activities.

The largest slice of the retail electricity sales market (on the supply side) is held by existing incumbent suppliers, who remained in that capacity after the unbundling of the DSOs. They act as sellers of last resort in relation to the customers who have not opted to move to the seller of their choice, despite enjoying the right to do so since 1 July 2007. (See “Regulatory Matters—Energy sector regulations—Independence of transmission and distribution systems operators—unbundling”).

Retail sales of electricity in Poland are significantly affected by the obligation to submit tariffs to the ERO President for approval. Currently, trading companies are required to obtain approval for tariffs applied to end-customers from tariff group G. Regarding other tariff groups, the ERO President has lifted the

## MARKET OVERVIEW

obligation to obtain approval for these tariffs, as an acknowledgment that the market is competitive. For more information regarding tariffs, see “Regulatory Matters—Energy sector regulations—Tariffs” below.

In connection with the gradual increase of RES electricity generation in Poland, the share of renewables in electricity sales to end-customers is also rising. The share of renewable energy sources in the portfolio of electricity sold to end-customers by individual energy groups in 2012 was as follows: (i) ENERGA: approximately 18%, (ii) ENEA: approximately 15%, (iii) Tauron: approximately 9% and (iv) PGE: approximately 6%.

### Electricity prices

#### Introduction

The Polish electricity market has experienced significant changes in recent years. The most material changes were related to the gradual departure from the approval of tariffs in electricity trading for the benefit of market mechanisms, the termination of the long term power purchase agreements (PPAs) and the unbundling of DSOs. A significant role was also played by the development of web-based Internet platforms and the Polish Power Exchange, which made organised trading in electricity possible.

Despite this significant liberalisation on the Polish electricity market, the prices of electricity in Poland still vary from the average prices in the European Union. By way of comparison, the prices of electricity for industrial and medium-sized household consumers in Poland remain significantly lower than those in selected European countries. The table below presents prices of electricity for industrial and medium-sized household consumers in Poland and other selected European countries in 2012.

Country	Industrial price <sup>(1)</sup> (EUR per 1 MWh)	Price to households <sup>(2)</sup> (EUR per 1 MWh)	Country	Industrial price <sup>(1)</sup> (EUR per 1 MWh)	Price to households <sup>(2)</sup> (EUR per 1 MWh)
EU (27 member states)	95.4	134.2	Greece	100.6	106.5
Germany	89.5	144.1	Portugal	105.0	110.5
France	80.9	98.6	Bulgaria	68.4	70.6
United Kingdom	109.7	160.3	Hungary	100.0	119.7
Italy	119.3	144.5	Denmark	82.9	131.4
Spain	115.5	176.6	Slovakia	127.3	140.0
<b>Poland</b>	86.9	110.6	Ireland	129.3	185.0
Sweden	80.4	131.2	Slovenia	87.2	119.3
The Netherlands	80.5	131.7	Estonia	64.7	77.1
Belgium	95.0	159.0	Latvia	110.3	113.8
Czech Republic	102.8	123.5	Lithuania	113.5	104.2
Finland	68.4	108.9	Cyprus	217.1	233.8
Austria	90.5	143.3	Luxemburg	100.7	146.8
Romania	83.3	79.5	Malta	180.0	161.5

(1) Average national price without taxes applicable for the first six months of 2012 for medium-sized industrial consumers (Consumption Band Ic with annual consumption between 500 MWh and 2,000 MWh).

(2) Average national price without taxes applicable for the first six months of 2012 for medium-sized household consumers (Consumption Band Dc with annual consumption between 2500 kWh and 5000 kWh).

Source: Eurostat.

When analysing electricity prices for households in different countries, it should however be noted that although Polish electricity prices are significantly lower than in other European countries, they may not necessarily converge with average electricity prices in other European countries, due to the influence of many local market conditions.

### Electricity prices

In 2012 the average wholesale price, that is the price at which generators sold electricity, was PLN 203.4 per 1 MWh and was 2.2% higher than the average price at which generators sold electricity in 2011. The average price of electricity sold by generators to trading companies in 2012 was PLN 202.4 per 1 MWh and was 2.6% higher than the same average price in 2011. In 2012 the average price of electricity sold by generators to end-customers was PLN 237.3 per 1 MWh and was 1.2% higher than the price of electricity

sold by generators to end-customers in 2011. The table below shows in detail the average prices of electricity sold by generators on the wholesale market, broken by market segments in the years 2010-2012.

	<u>2012</u>	<u>2011</u>	<u>2010</u>
	<u>PLN per MWh</u>		
Sales to end-customers . . . . .	237.3	234.5	245.3
Sales on the balancing market . . . . .	191.2	206.3	207.4
Sales on the power exchange . . . . .	203.8	199.4	204.8
Sales to trading companies . . . . .	202.4	197.2	187.8
Exports . . . . .	199.8	194.8	0.0
Other sales . . . . .	208.8	201.1	205.5
<b>Average</b> . . . . .	<b>203.4</b>	<b>199.1</b>	<b>190.7</b>

Source: ERO.

The table below presents average electricity prices on the competitive market, i.e. the market for sales of electricity (the volume of sales and the value of electricity sold) by generators and trading companies in competitive segments of the domestic wholesale market for electricity, i.e. to trading companies under bilateral contracts and on the power exchange. The sale of electricity on the balancing market is not taken into account in the algorithm for the determination of prices on the competitive market due to the technical nature of this market segment.

<u>Year</u>	<u>2013<sup>(2)</sup></u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Price(PLN/MWh) <sup>(1)</sup> . . . . .	195.1	201.4	199.0	195.3	197.2	155.4	128.8	119.7	117.5	118.0

(1) In the case of vertically integrated capital groups, the price is calculated based on the volume of electricity sales and the value of sales to external trading companies and to the power exchange.

(2) Preliminary data.

Source: ERO.

The retail price of electricity (without the distribution fee) is influenced by many factors including market conditions, the regulatory environment and average wholesale prices of electricity. According to ARE, the average retail price of electricity in 2011 was PLN 263.6 per MWh, while in 2012 it was PLN 271.0 per MWh, which represented an increase by 2.8%.

The average electricity price for end-customers, including the distribution fee (under the comprehensive agreements) in 2012 was PLN 469.4 per 1 MWh, whereas in 2011 the price, including the distribution fee, amounted to PLN 442.9 per 1 MWh.

In Poland, end-customers fall into tariff groups depending on the voltage of the network to which they are connected. According to ARE, in 2012, Group A end customers (i.e. end-customers connected to networks of no less than 110 kV) consumed 26.5 TWh at the average price (including transmission and distribution fees) per MWh of PLN 320.2 per 1 MWh, while Group B end-customers (i.e. end-customer connected to networks of no less than 1 kV but no more than 110 kV) consumed 42.6 TWh at the average price of PLN 373.9 per 1 MWh. According to ARE, small and medium-sized enterprises (i.e. Group C end-customers, connected to networks of no more than 1 kV) consumed 22.9 TWh of electricity for the average price (including transmission and distribution fees) of PLN 566.1 per 1 MWh, while households and farms (i.e. Group G end-customers) consumed 29.3 TWh of electricity for the average price (including transmission and distribution fees) of PLN 504.7 per 1 MWh. The table below presents the average prices

## MARKET OVERVIEW

of electricity, including transmission and distribution fees, for the 2010-2012 period and for the six-month period ended 30 June 2013, broken down by customers from particular tariff groups.

	Electricity <sup>(1)</sup>				Transmission and distribution				Total: electricity, transmission and distribution			
	30 June 2013	2012	2011	2010	30 June 2013	2012	2011	2010	30 June 2013	2012	2011	2010
						PLN per 1MWh						
Group A . . . . .	234.5	253.3	244.4	234.9	64.9	66.9	64.6	65.2	299.4	320.2	309.0	300.1
Group B . . . . .	260.5	270.9	265.6	263.7	101.9	102.9	96.4	92.8	362.4	373.9	362.1	356.5
Group C . . . . .	330.9	329.1	311.1	298.2	240.3	237.1	222.7	207.7	571.2	566.1	534.1	505.9
Group G . . . . .	284.5	282.5	267.6	250.0	222.9	222.2	209.8	201.0	507.4	504.7	477.4	451.0
<b>Total . . . . .</b>	<b>285.0</b>	<b>287.9</b>	<b>275.3</b>	<b>264.5</b>	<b>184.4</b>	<b>181.5</b>	<b>167.5</b>	<b>156.3</b>	<b>469.4</b>	<b>469.4</b>	<b>442.9</b>	<b>420.8</b>

(1) Prices of electricity sold to customers who have comprehensive agreements with trading companies—former distribution companies (in relation to data for 2010-2012).

Source: ARE.

### Competition

As a result of restructuring and consolidation processes described in “—Electricity Market—History”, three other major energy groups operate on the Polish market along with ENERGA Group: PGE, Tauron and Enea. Due to their structure, these groups occupy a strong market position. As at 31 December 2012 their aggregate net output was 91.4 TWh of electricity and they held approximately a 92% share of the market for sales of electricity to end-customers.

#### Key players in the electricity generation sector

According to ERO figures for 2012, the largest energy groups on the Polish market in terms of electricity generated included: PGE, Tauron, EDF, Enea and ZE PAK. The gross output of the ENERGA Group in 2012 was 4.1 TWh which represents approximately 3% of the gross electricity production in Poland in 2012.

The table below summarises selected data regarding the key electricity generating companies in Poland in 2011-2012 and the six-month period ended 30 June 2013.

Company	Generation—net output <sup>(1)</sup>					
	30 June 2013 <sup>(2)</sup>		2012		2011	
	TWh	Share %	TWh	Share %	TWh	Share %
PGE . . . . .	28.2	40.0	57.1	39.3	56.5	38.5
Tauron . . . . .	9.8	13.9	19.1	13.1	21.4	14.6
Enea . . . . .	6.0	8.5	11.5	7.9	11.4	7.8
ENERGA . . . . .	2.3	3.3	3.7	2.5	4.3	2.9
Other . . . . .	24.3	34.3	54.0	37.2	53.2	36.2
<b>Total . . . . .</b>	<b>70.6</b>	<b>100.0</b>	<b>145.4</b>	<b>100.0</b>	<b>146.8</b>	<b>100.0</b>

(1) The net electricity output means the gross electricity output less the use of electricity in power stations for energy generation processes,

(2) Preliminary data from ARE.

Source: ARE—Companies' publicly available information for 2011 and 2012—annual reports and results presentations.

#### Key distribution sector players

According to ERO data for 2012, the key distribution system operators in Poland were: PGE Dystrybucja S.A., ENEA Operator sp. z o.o., TAURON Dystrybucja S.A. and ENERGA OPERATOR S.A. The other distribution system operators were local industrial power distributors.

The table below summarises the shares of individual companies in the distribution of electricity in 2011-2012 and the six-month period ended 30 June 2013.

Company	Distribution					
	30 June 2013 <sup>(2)</sup>		2012		2011	
	TWh	Share %	TWh	Share %	TWh	Share %
PGE	15.6	25.3	31.3	25.5	31.1	25.5
Tauron	24.0	39.0	47.9	39.0	52.8 <sup>(1)</sup>	43.3
Enea	8.7	14.1	17.2	14.0	17.1	14.0
ENERGA	10.1	16.4	20.1	16.4	19.6	16.1
Other	3.3	5.2	6.4	5.2	1.3	1.1
Total <sup>(2)</sup>	61.7	100.0	122.9	100.0	121.9	100

(1) Including the volume of electricity distributed in 2011 by the companies of Górnośląski Zakład Energetyczny,

(2) Network supplies to end-customers according to ARE.

Source: ARE—Companies' publicly available information for 2011 and 2012—annual reports and results presentations.

According to data published by the key distribution system operators in Poland and in Europe, in the year ended 31 December 2012 the distribution business generated 29%, 51% and 49% of consolidated EBITDA for PGE, Tauron and ENEA, respectively, as compared to 97% and 100% for the UK National Grid and the Belgian-German group Elia. To this end please note that, due to differences in accounting policies implemented by these entities and the fact that each of them may calculate EBITDA differently, these percentages may not be exactly comparable (in particular the National Grid group presents EBITDA on regulated generating activities).

#### Key players in the electricity sales sector

According to ERO figures for 2012, the key players in the electricity sales sector were the four major energy groups: Grupa Tauron, Grupa PGE, Grupa Energa, Grupa Enea. In 2012, total sales of electricity to end-customers amounted to 121.7 TWh, of which a total of 112.1 TWh was sold by the aforementioned groups representing 92% of the total sales of electricity to end-customers in 2010-2012.

The table below summarises the shares of individual companies in the sale of electricity to end-customers in 2011-2012 and the six-month period ended 30 June 2013.

Group	Sales to end-customers					
	30 June 2013		2012		2011	
	TWh	Share %	TWh	Share %	TWh	Share %
Tauron <sup>(1)</sup>	20.9	34.8	44.7	36.7	35.5	29.6
PGE	17.9	29.8	31.9	26.2	31.6	26.4
ENERGA	9.3	15.5	20.5	16.8	19.3	16.1
Enea	6.6	11.0	14.9	12.2	14.7	12.3
Total	54.7	91.1	112.1	92.1	101.1	84.3
Total on the domestic market <sup>(2)</sup>	60.1	100.0	121.7	100	119.9	100

(1) Data for 2011 unadjusted after the takeover in the end of 2011 of Górnośląski Zakład Elektroenergetyczny S.A. by TAURON Polska Energia S.A.

(2) Sales to end-customers according to ARE.

Source: ARE—Companies' publicly available information for 2011 and 2012—annual reports and results presentations.

#### Nuclear power prospects

One of the key priorities set out in Poland's Energy Policy until 2030 is to diversify the structure of electricity generation. This diversification is to include the use of nuclear power. On 13 January 2009 the Council of Ministers adopted a resolution to engage in actions aimed at preparing and implementing a nuclear power development programme for Poland. The aforementioned resolution has obliged the

Ministry of State Treasury to ensure that PGE Polska Grupa Energetyczna S.A. will have the leading role during the implementation of this programme. On 12 May 2009 the Council of Ministers appointed, through an ordinance, the Government’s Commissioner for Polish Nuclear Power, and defined his competences. The Commissioner is responsible, among other things, for the coordination and supervision of actions aimed at preparing the necessary regulatory and institutional environment to launch the “Polish Nuclear Power Programme”. The key directions of activities related to the development of nuclear power in Poland include adjusting the legal framework to ensure the swift implementation of the process, obtaining social acceptance, training the required professionals, preparing research facilities, selecting locations for the first power stations and dump sites for radioactive waste, devising fuel cycles that would secure continuous and safe access to nuclear fuel. As a result of the activities related to nuclear power, in July 2009 the Ministry of Economy published a timetable outline (prepared by the Government’s Commissioner for the Polish Nuclear Power) for the nuclear power Programme. In 2011 the Polish parliament passed two key statutes for nuclear power: an amendment to the Nuclear Energy Act and the Act on preparation and implementation of investments related to nuclear power facilities and accompanying infrastructure. The surveys concerning the location and environment of the first Polish nuclear power plant, with a capacity of approximately 3,000 MWe, will be held simultaneously in two locations: Choczewo (Pomorskie province) and Żarnowiec (Pomorskie province).

## Fuels

### Overview

The fuels used in the Polish power sector originate predominantly from domestic natural resources. Poland has significant coal and lignite resources, some natural gas resources and marginal crude oil resources. The relative availability of these fuels is the key factor determining the current structure and development strategies of the energy sector.

The following table illustrates the key fossil fuels extracted in Poland.

<u>Poland</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Hard coal (million metric tons) . . . . .	79.6	76.2	76.6
Lignite (million metric tons) . . . . .	64.2	62.8	56.4
Natural gas (million metric tons) . . . . .	5,780	5,823	5,666

Source: CSO.

Poland’s Energy Policy until 2030 assumes the use of coal and lignite as the main fuels for the power industry to ensure the appropriate level of power security for the country. In 2012, 83.7% of the electricity produced in Poland was produced from coal and lignite. Their average share in production of electricity globally is fairly stable and hovers just above 40%. The utilisation of coal and lignite for generating electricity requires additional capital expenditure to mitigate the impact of the process on the natural environment, ensuing from the emissions of pollutants (such as CO<sub>2</sub>, SO<sub>2</sub>, NO<sub>x</sub> and dust), which accompany the combustion of these fuels (see “Regulatory Matters—Environmental protection—Regulations concerning climate protection, including those related to the emissions of CO<sub>2</sub> and other substances”).

During recent years, the consumption of lignite and hard coal has fallen slightly, while the consumption of gas and biomass has increased simultaneously.

### Hard coal

Poland is the largest hard coal producer in Europe (excluding Russia) and an important one worldwide. According to the CSO, in 2012 the volume of hard coal mined was 79.6 million metric tons, an increase by 4.5% on the previous year.

The total hard coal mined in Poland in 2011 represented 40% of the total coal mined in Europe (excluding Russia) and 1.2% of the global output, which ranks Poland as the ninth biggest hard coal producer worldwide. At the end of 2012, Poland had 48.2 billion metric tons of proven hard coal resources. According to the Polish Geological Institute, hard coal resources in Poland are located in three coal basins: the Upper Silesian Basin, the Lublin Basin and the Lower Silesian Basin. At present, coal is extracted in



the Upper Silesian Basin, where most of the active coal mines are located, and in one coal mine in the Lublin Basin. Hard coal is extracted in Poland from over 30 underground mines.

Hard coal resources in Poland (million metric tons)

<u>Basins</u>	<u>No. of deposits</u>	<u>Resources</u>	
		<u>Geological resources</u>	<u>Industrial resources</u>
Lower Silesian Basin . . . . .	7	359.7	—
Upper Silesian Basin . . . . .	128	38,606.4	3,897.0
Lublin Basin . . . . .	11	9,259.5	313.6
<b>Total:</b> . . . . .	<b>146</b>	<b>48,225.6</b>	<b>4,210.6</b>

Source: Polish Geological Institute.

The biggest mining companies in Poland include: Kompania Węglowa S.A., Jastrzębska Spółka Węglowa S.A., Katowicki Holding Węglowy S.A. and Lubelski Węgiel “Bogdanka” S.A. With the exception of Lubelski Węgiel “Bogdanka” S.A., the State Treasury has majority stakes in all of these companies. Lubelski Węgiel “Bogdanka” S.A. and Jastrzębska Spółka Węglowa S.A. had their debuts on the WSE in 2009 and 2011, respectively.

Output, utilisation, import and export of hard coal in Poland in 2004-2012 (million metric tons)

<u>Year</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Output . . . . .	79.6	76.4	76.7	78.0	84.3	88.3	95.2	98.0	100.0
Utilisation in power plants and CHPs . . . . .	no data	43.8	44.1	41.5	43.6	47.5	47.3	no data	no data
Import <sup>(1)</sup> . . . . .	10.2	14.8	14.2	10.8	10.3	5.9	5.3	3.4	2.3
Export <sup>(1)</sup> . . . . .	7.1	5.8	10.6	8.4	8.5	11.9	16.7	19.4	no data

(1) volumes include hard coal, blocks and briquettes as well as solid fuels made of hard coal.

Source: CSO.

In 2012, the average hard coal price was 12.8 PLN per 1 GJ, an increase of 7% compared to 2011. In 2011 the average forward price of hard coal in Europe (CIF ARA) was EUR 3.5 per 1 GJ, which translates to an increase of almost 20% as compared to the average price in 2010.

The physical properties of hard coal make it feasible to transport over longer distances. Hard coal is mainly transported by rail and on longer routes by waterway. The import of hard coal to Poland has been increasing since 2000, from approximately 1.5 million metric tons in 2000 to more than 10 million metric tons in 2012. Approximately 7.1 million metric tons of hard coal mined in Poland were exported in 2012.

According to the German Commodities Agency (Deutsche Rohstoffagentur), the largest hard coal producers worldwide are China, the USA and India. Other key producers include Australia, South Africa, Russia, Indonesia, Kazakhstan, Poland and Columbia.

### **Lignite**

According to the German Commodities Agency (Deutsche Rohstoffagentur), the largest lignite producer worldwide is Germany. Other key producers include USA, Australia, Russia, Poland and China. According to the CSO, in 2012 the lignite output in Poland was 64.2 million metric tons, an increase by 2.2% over the preceding year.

Lignite output in Poland in 2002-2012

<u>Year</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Output (million metric tons) . . . . .	64.2	62.8	56.4	56.9	59.4	57.5	60.8	61.6	61.1	60.9	58.2

Source: CSO.

Lignite is a cheaper fuel than hard coal (in terms of the price of per unit of energy). The cheapest and most widespread mining method is opencast excavation. In practice, lignite is only mined for the purposes of the

domestic power sector. This results primarily from the fact that the lignite mined is soft lignite that is difficult to transport or store. Once extracted, lignite is transported directly from the opencast mine to a nearby power plant, which reduces transportation costs. Thus, lignite output strictly correlates with the volume of electricity produced at a particular power plant located near to the mine.

Approximately 98% of all lignite mined in Poland is purchased by three major system power plants: (i) PGE Elektrownia Bełchatów S.A. which purchases lignite from PGE Kopalnia Węgla Brunatnego Bełchatów S.A.; (ii) PGE Elektrownia Turów S.A. which purchases lignite from PGE Kopalnia Węgla Brunatnego Turów S.A.; and (iii) Zespół Elektrowni Pątnów-Adamów-Konin S.A. which purchases lignite from Kopalnia Węgla Brunatnego Adamów S.A. and Kopalnia Węgla Brunatnego Konin S.A.

According to data from the Polish Geological Institute, there are 86 lignite deposits in Poland. The resources in active deposits amount to 1.7 billion metric tons with approximately 18.1 billion metric tons in undeveloped deposits, of which 4.1 billion metric tons are in deposits that have been examined in detail and 14 billion metric tons are in deposits that have been subjected only to preliminary appraisals.

Since lignite is not, as a rule, an internationally traded commodity, mainly due to the above-mentioned transport costs for longer distances, its prices are determined in individual contracts between mines and power plants concluded on the domestic market. According to ARE data, in the period from January to December 2012 the average cost of lignite in the energy sector was PLN 7.2 per 1 GJ, whereas the average cost of hard coal in the energy sector was PLN 12.8 per 1 GJ.

### *Natural gas*

According to the CSO, the production of natural gas in Poland in 2012 stood at 5.8 million m<sup>3</sup>, which is 0.7% less than in 2011. In 2012 the total volume of mineable gas reserves was 140.1 billion m<sup>3</sup> (proved and probable reserves), a decrease by 4.8 billion m<sup>3</sup> in comparison to the preceding year. The shortfall was mainly caused by mining. The extractable reserves of developed gas deposits are 115.8 billion m<sup>3</sup>, which represents approximately 83% of the total volume of extractable reserves. Industrial reserves of natural gas in 2012 were 66.4 billion m<sup>3</sup>.

According to ERO data, in 2012 the total consumption of natural gas in Poland was 15.4 billion m<sup>3</sup> with approximately only 4.3 billion m<sup>3</sup> procured from domestic sources. The main customers of natural gas are chemical and heavy industry sectors.

Based on the data from PGNiG, the dominant entity on the domestic natural gas market, PGNiG's imports of high-methane natural gas in 2012 reached 11.0 billion m<sup>3</sup> as compared to 10.9 billion m<sup>3</sup> in 2011 and 10.1 billion m<sup>3</sup> in 2010. PGNiG imports natural gas mainly from the east (approximately 82% of its natural gas imports in 2012 came from Russia and Central Asia) and from Germany (approximately 13% of its natural gas imports in 2012). Natural gas imports from the Czech Republic increased significantly in 2012 (from 0.2 million m<sup>3</sup> in 2011 to 0.6 billion m<sup>3</sup> in 2012). In 2012 import of natural gas from the Czech Republic constituted 5.1% of the entire import. Due to the fact that almost 58% of the natural gas consumed in Poland is imported from OOO "Gazprom export", with its registered office in Russia, Poland is highly dependent on the gas supply from this partner.

Imported gas is supplied to Poland mainly from the east, using the Yamal pipeline and connectors in Drozdowicze (Poland-Ukraine) and Wysokoje (Poland-Belarus). Two other connectors on the eastern border, in Hrubieszów (Ukraine) and Tietierowice (Belarus) are significant locally. Additionally, there are possibilities of import from the west, using an interconnector (Poland-Germany) in Lasów (1.5 billion m<sup>3</sup> per year) and the virtual reverse flow on the Yamal pipeline (approximately 2.3 billion m<sup>3</sup> per year) as well as the south connector in Cieszyn (0.5 billion m<sup>3</sup> per year). To diversify sources of gas supply, there are plans to establish interconnections between Poland and Lithuania and Poland and Slovakia, and to complete the construction of the LNG terminal in Świnoujście on the Baltic coast in 2014. Additionally, the Polish gas transmission system operator, GAZ-SYSTEM S.A., is planning to build gas pipelines in north-western and central Poland as well as in Lower Silesia and also establish a physical reverse in the Yamal pipeline.

Other sources of planned gas supply diversification are based on the extraction of domestic unconventional (shale and tight) gas as soon as the mineable resources are confirmed. In March 2012, the Polish Geological Institute released its report estimating that the total mineable shale (unconventional) gas

resources in Poland could amount to a maximum of 1.920 billion m<sup>3</sup> but the most probable resources could amount to between 346 billion m<sup>3</sup> and 768 billion m<sup>3</sup>. This would mean that unconventional gas resources would be 2.5 to 5.5 times higher than conventional resources documented thus far. Over the last few years, the prospects of extraction of shale gas have been a significant element of the natural gas market in Poland. According to the Polish Ministry of Environment, as at 1 June 2013, 108 licences for prospecting for the exploration of oil and gas resources with regard to both conventional and shale gas resources had been granted. Drilling began in June 2010 in the area of Łebień in the Pomorskie province. According to the Ministry, there are plans to drill 233 exploration wells by 2017. However, by 30 July 2013, only 48 such wells had been drilled. Estimates of the national shale gas resources vary significantly and have not been yet confirmed. In 2014, the Polish Geological Institute plans to publish a report on domestic shale gas resources based on the drilling that will have been conducted to that date.

Until 20 December 2012 gas was only traded on the basis of bilateral contracts. At present it is also traded on the gas market of the Polish Power Exchange. Average prices of gas for industrial customers have been increasing since 2006. Prices of gas in Poland are strongly regulated and subjected to tariffs established by the ERO President. According to Eurostat data, in 2011 and 2010, the average price of gas for industrial off-takers, net of tax, was EUR 9.11 per 1 GJ and EUR 8.40 per 1 GJ, respectively. By way of comparison, in the same periods the average price of natural gas for industrial off-takers for the whole European Union was EUR 8.9 per 1 GJ and EUR 7.9 per 1 GJ, respectively

### ***Biomass***

Electricity can be generated from biomass of plant (agricultural or wood) or animal origin, being a by-product of agricultural production, farming or food processing.

Wood biomass has been the main type of biomass used for electricity generation in recent years. Due to the regulations in place, by 2015 Poland will have to reduce the use of wood biomass. After that date, wood biomass, in limited quantities, will only be utilised in biomass combustion units (see “Regulatory Matters—Energy sector regulation—Regulation of renewable energy and cogeneration (CHP)—Energy from renewable sources”).

According to CIRE, the utilisation of biomass increased rapidly in 2009, from less than 3 million GJ in January to 4.8 million GJ in December. The utilisation of this fuel stabilised in 2010 at an annual average level of 4.5 million GJ per month. According to forecasts, in the following years the use of biomass will continue to grow as new biomass-fired generating units are to be built and the existing ones modernised to combust biomass alone, provided that the support system is maintained on a level ensuring the economic viability of these projects.

Biomass is sold directly by its producers or through transactions on the biomass exchange. According to data from the Internet Biomass Exchange, in December 2011 the price of wood biomass was between PLN 18 and PLN 27 per 1 GJ, and that of agricultural biomass between PLN 25 and PLN 30 per 1 GJ. In December 2012 the price of wood biomass was between PLN 18 and PLN 27 per 1 GJ and agricultural biomass between PLN 25 and PLN 33 per 1 GJ.

One of the ENERGA Group companies—ENERGA Elektrownie Ostrołęka—is the largest electricity and heat generating enterprise in north-eastern Poland. This company is one of the first Polish power sector companies utilising vegetable biomass, and the first enterprise in Poland with a large unit capable of combusting biomass, namely a 35 MWt fluidised bed boiler.

### ***Market of CO<sub>2</sub> emission allowances***

Generation of electricity in fossil fuel-fired power plants involves emissions of relatively large quantities of CO<sub>2</sub> which are subject to EU CO<sub>2</sub> emission reduction programmes.

Depending on the technology of the installed capacity, the major Polish energy groups are characterised by various levels of CO<sub>2</sub> emissions per unit of energy generated. In 2012 ENERGA Group emitted 723 metric tons of CO<sub>2</sub>/1 GWh, PGE 1,064 metric tons of CO<sub>2</sub>/1 GWh, Tauron 787 metric tons of CO<sub>2</sub>/1 GWh and ENEA 839 metric tons of CO<sub>2</sub>/1 GWh.

One of the elements of the CO<sub>2</sub> emission reduction programme is the obligation imposed on electricity generating companies to purchase CO<sub>2</sub> emission allowances. The generating companies may obtain such

## MARKET OVERVIEW

---

allowances through free-of-charge allocation or buy them on the market. The prices of CO<sub>2</sub> emission allowances are subject to considerable fluctuations, due to changing expectations with respect to the demand for electricity, changes in the prices of primary fuels for the energy sector, the supply of non-conventional energy sources or changes to the macroeconomic or the regulatory environment.

Average prices of CO<sub>2</sub> emission allowances on the SPOT market in 2012

	<u>I</u> <u>2012</u>	<u>II</u> <u>2012</u>	<u>III</u> <u>2012</u>	<u>IV</u> <u>2012</u>	<u>V</u> <u>2012</u>	<u>VI</u> <u>2012</u>	<u>VII</u> <u>2012</u>	<u>VIII</u> <u>2012</u>	<u>IX</u> <u>2012</u>	<u>X</u> <u>2012</u>	<u>XI</u> <u>2012</u>	<u>XII</u> <u>2012</u>
Spot EUA (euro) per metric ton . . . . .	6.9	8.5	7.6	6.9	6.7	7.1	7.5	7.6	7.7	7.9	7.5	6.6

Source: *www.cire.pl*.

In recent months the prices of CO<sub>2</sub> emission allowances have decreased considerably on the spot market. The price as at 30 July 2013 reached the maximum of EUR 4.33 per 1 metric ton. The main reason for the price decrease is the oversupply of European Union Allowances (EUA) in the EU. Supply remains rigid, as the allocation took place in 2008 and has not changed. Demand, on the other hand, decreased as a result of, among other factors, the financial crisis of 2008, the current economic slowdown, mild temperatures and the rapid growth of renewable energy generation. Despite the changing economic conditions, the allocation has not been adjusted. The current market price of CO<sub>2</sub> allowances precludes attaining the objectives of the introduction of CO<sub>2</sub> emission limits as well as the emission allowances trading mechanism. The low price of CO<sub>2</sub> allowances is also responsible for the fact that the development of low-emission technologies is below the expectations arising from the adopted emission reduction targets. As at the date of this Offering Circular, discussions continue in the EU regarding the suspension of an auction of 900 CO<sub>2</sub> million emission allowances in the years 2013-2015 (backloading), which could result in an increase in their current price. At the beginning of July 2013 the European Parliament approved a proposal of the European Commission to suspend the auction. To become law, the proposal must be additionally approved by the EU Council.

Further information on the regulations governing the CO<sub>2</sub> emission allowances is contained in “Regulatory Matters—Environmental protection—Regulations concerning climate protection, including those related to the emissions of CO<sub>2</sub> and other substances”.

### *Certificates of origin*

Electricity producers generating power from renewable sources are entitled to receive green certificates of origin. Electricity producers generating power in high-efficiency cogeneration are entitled to receive other certificates, such as (i) yellow—for gas-fired units or units with a total installed capacity below 1MW, (ii) purple—for units fired with methane released and extracted from operational, liquidated or closed coal mines, or from biomass-derived gas, and (iii) red—for other high-efficiency cogeneration units.

The certificates are granted by the ERO President upon the generator’s application, in the form of transferable economic rights. The certificates are traded and registered on the Polish Power Exchange.

An additional kind of economic right are the “white certificates” issued to investors engaging in projects resulting in the improvement of energy generation efficiency. Since the secondary legislation in this respect was introduced only in 2013, the system for these certificates is still in its infancy. It is expected to be similar to the system of green, red, purple and yellow certificates.

The table below illustrates prices of certificates of origin and cogeneration on the Polish Power Exchange in the years 2010-2012 and for the nine-month period ended 30 September 2013 (PLN/MWh).

<u>Economic rights to certificates of origin and/or cogeneration certificates for electricity generated in:</u>	<u>30 September 2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Renewable sources in generation periods commencing before 1 March 2009, as stated in the origin certificate (green certificate) . . . . .	85.0	225.6	196.4	255.0
Renewable sources in generation periods commencing after 1 March 2009, as stated in the origin certificate (green certificate) . . . . .	154.6	251.2	281.4	274.4
Other cogeneration units (red certificate) . . . . .	57.8	57.8	57.6	no data
Gas-fired cogeneration or units with the total installed electrical capacity up to 1 MW (yellow certificate) . . . . .	95.0	124.7	124.0	124.2

Source: *www.polpx.pl*.

For more information regarding certificates of origin, see “Regulatory Matters—Energy sector regulation—Regulation of renewable energy and cogeneration (CHP)” and “Regulatory Matters—Environmental protection—Regulations concerning climate protection, including those related to the emissions of CO<sub>2</sub> and other substances—Efficient use of energy”.

## OUR BUSINESS

## Introduction

We are principally engaged in the distribution, generation and sale of electricity. We are the third largest distribution system operator in Poland in terms of the volume of electricity distributed to end-customers holding a leading position in the Polish market in terms of the share of distribution in EBITDA. Among the largest power utilities in Poland, we hold a leading position in terms of energy generated from hydroelectric power plants and in terms of proportion of electricity generated from renewable energy sources in total electricity generated and distributed. We are the third electricity supplier in Poland in terms of the volume of electricity sold to end-customers.

Our revenue and EBITDA amounted to PLN 8,537.5 million and PLN 1,501.4 million, respectively, in the nine-month period ended 30 September 2013 and PLN 11,176.8 million and PLN 1,629.2 million in the year ended 31 December 2012. The value of our assets totalled PLN 16,560.5 million as at 30 September 2013 and the RAB reached PLN 10,016.7 million as at 1 January 2013.

Our business consists of the following main segments:

- the distribution segment, which comprises distribution of electricity and other activities directly and indirectly related to distribution services and contributed 75.7% of our EBITDA in the nine-month period ended 30 September 2013 and 74.8% of our EBITDA in the year ended 31 December 2012;
- the generation segment, which comprises mainly generation of electricity from renewable sources and system power plants as well as CHP generation and heat distribution and contributed 13.2% of our EBITDA in the nine-month period ended 30 September 2013 and 9.7% of our EBITDA in the year ended 31 December 2012; and
- the sales segment, which comprises sale of electricity as well as customer and lighting services and contributed 12.5% of our EBITDA in the nine-month period ended 30 September 2013 and 16.2% of our EBITDA in the year ended 31 December 2012.

The table below sets forth selected operational data relating to our distribution, generation and sales businesses as at, and for, the periods indicated.

	Nine-month period ended 30 September		Year ended 31 December					
	2013	2012	2012		2011		2010	
	Volume*	Volume*	Volume*	% of market share**	Volume*	% of market share**	Volume*	% of market share**
Electricity distributed (GWh)	15,165	14,880	20,058	16.4	19,611	16.1	19,311	16.2
Gross electricity generated (GWh) . . . . .	3,756	3,274	4,072	2.5	4,682	2.9	4,556	2.9
Electricity sold to end-customers (GWh) . . . . .	13,631	15,079	20,482	16.8	19,339	16.1	18,552	15.7

Source: \*Company; \*\*Company's calculation based on ARE data.

Distribution is the key business segment for our operating viability. The distribution of electricity in Poland is a regulated activity, and the tariffs are subject to approval by the ERO President. We are a natural monopoly in the area of northern and central Poland, where our distribution assets are located and we distribute electricity to over 2.9 million customers. As at 30 June 2013, our distribution network included power lines with a total length of over 193,000 kilometres, covering an area of nearly 77,000 square kilometres, or 25% of the area of Poland.

Our generation assets operate as RES, system power plants and CHP. The generation capacity for electricity of our power plants relies on diversified energy sources such as coal, water, biomass and, recently, also wind. We generate green energy through a network of 46 run-of-river plants and biomass-combustion systems. In the nine-month period ended 30 September 2013 and in the year ended 31 December 2012, we generated 63.4% and 67.9% of electricity from coal, respectively, 21.9% and 18.5% in hydroelectric plants, respectively, and 13.5% and 13.6% from biomass combustion, respectively. Additionally, in the nine-month period ended 30 September 2013, 1.1% of the generated energy was



obtained from wind. As a result of acquiring a portfolio of wind farms from DONG Energy Wind Power A/S and Iberdrola Renovables Energía, S.A.U. in June and in July 2013 we have increased our achievable generation capacity by 165 MWe and we have acquired a portfolio of wind farm projects with a total planned generation capacity of 1,438 MWe.

We sell electricity to 2.9 million customers, both households and businesses. We also trade in electricity in the domestic and international wholesale electricity markets. The volume of electricity we sold to end-customers reached 13.6 TWh in the nine-month period ended 30 September 2013 and 20.5 TWh in the year ended 31 December 2012. The volume of electricity sold on the wholesale market reached 7.8 TWh in the nine-month period ended 30 September 2013 and 5.4 TWh in the year ended 31 December 2012.

A significant number of wind farms, small hydroelectric plants and biogas plants are connected to our distribution network. As at 31 December 2012, the total installed capacity of RES connected to our distribution network was 1.6 GW, which accounted for approximately 36% of the total installed capacity of the renewable energy sources in Poland. As a result green energy accounted for over 18% of the electricity sold to our customers in the year ended 31 December 2012. As at 30 September 2013 the total installed capacity of RES connected to our distribution network was 1.9 GW.

Our activities also include generation, distribution and sale of heat. As at 30 September 2013, the total installed thermal capacity of our CHPs amounted to 867.1 MWt. In the nine-month period ended 30 September 2013, we generated a net amount of 2,605.3 TJ of heat, with 3,877.7 TJ of heat generated in the year ended 31 December 2012. We supply heat to the towns of Ostrołęka, Elbląg, Kalisz, Wyszogród, Winnica and Żychlin which are situated in the vicinity of our generating assets.

The table below sets forth selected financial data related to our business segments in the respective periods.

	Nine-month period ended 30 September				Year ended 31 December					
	2013		2012		2012		2011		2010	
	(PLN million)	(%)*	(PLN million)	(%)*	(PLN million)	(%)*	(PLN million)	(%)*	(PLN million)	(%)*
<b>Revenues</b>										
Distribution . . . . .	2,799.1	32.8	2,707.6	32.9	3,684.3 <sup>(1)*</sup>	33.0	3,389.4 <sup>(1)*</sup>	32.7	3,222.5 <sup>(1)*</sup>	34.0
Generation . . . . .	1,115.8	13.1	1,158.2	14.1	1,547.7 <sup>(1)*</sup>	13.8	1,826.0 <sup>(1)*</sup>	17.6	1,607.1 <sup>(1)*</sup>	17.0
Sales . . . . .	5,248.8	61.5	5,214.3	63.3	7,178.6 <sup>(1)*</sup>	64.2	6,804.4 <sup>(1)*</sup>	65.6	5,646.0 <sup>(1)*</sup>	59.6
Services . . . . .	261.9	3.1	270.5	3.3	376.1 <sup>(1)*</sup>	3.4	274.8 <sup>(1)*</sup>	2.7	180.6 <sup>(1)*</sup>	1.9
Other revenue and consolidation eliminations and adjustments . . .	(888.1)	(10.4)	(1,109.4)	(13.5)	(1,610.0) <sup>(1)*</sup>	(14.4)	(1,926.7) <sup>(1)*</sup>	(18.6)	(1,188.6) <sup>(1)*</sup>	(12.6)
Total revenues . . . . .	8,537.5	100.0	8,241.2	100.0	11,176.8	100.0	10,368.0	100.0	9,467.8	100.0
<b>EBITDA</b>										
Distribution <sup>(2)</sup> . . . . .	1,136.1	75.7	1,036.9	77.8	1,218.0 <sup>(1)*</sup>	74.8	916.1 <sup>(1)*</sup>	60.3	653.6 <sup>(1)*</sup>	46.4
Generation <sup>(2)</sup> . . . . .	198.6	13.2	114.8	8.6	158.2 <sup>(1)*</sup>	9.7	498.5 <sup>(1)*</sup>	32.8	591.0 <sup>(1)*</sup>	42.0
Sales <sup>(2)</sup> . . . . .	188.0	12.5	201.2	15.1	264.5 <sup>(1)*</sup>	16.2	167.5 <sup>(1)*</sup>	11.0	242.7 <sup>(1)*</sup>	17.2
Services <sup>(2)</sup> . . . . .	26.4	1.8	11.5	0.9	21.7 <sup>(1)*</sup>	1.3	(0.5) <sup>(1)*</sup>	(0.0)	2.5 <sup>(1)*</sup>	0.2
Other revenue and consolidation exclusions and adjustments <sup>(2)</sup> . . .	(47.8)	(3.2)	(31.9)	(2.4)	(33.1) <sup>(1)*</sup>	(2.0)	(61.9) <sup>(1)*</sup>	(4.1)	(82.1) <sup>(1)*</sup>	(5.8)
Group EBITDA <sup>(2)</sup> . . . . .	1,501.4	100.0	1,332.4	100.0	1,629.2	100.0	1,519.7	100.0	1,407.6	100.0
Adjusted EBITDA <sup>(2)</sup> . . . . .	1,681.0*	—	1,471.0*	—	1,876.1*	—	1,610.7*	—	1,602.6*	—

(1) The Company changed the presentation of the segments in the Condensed Interim Consolidated Financial Statements (see: “Operating and Financial Review—Reporting by segments” and “Important Information—Financial information and operating data—Changes in the presentation” above). With reference to these changes, in order to ensure the comparability of financial information for the segments between the Condensed Interim Consolidated Financial Statements and the Consolidated Financial Statements, the relevant items are presented in accordance with the manner adopted for the Condensed Interim Consolidated Financial Statements.

(2) We define and calculate EBITDA as operating profit/(loss) (calculated as net profit/(loss) on continuing operations for the period/year adjusted for (i) income tax, (ii) shares in profits/losses of associates (iii) finance income and (iv) finance costs) adjusted for depreciation and amortisation (as disclosed in the income statement). The Company defines and calculates Adjusted EBITDA as EBITDA adjusted to the effect of one-off events. The calculation of EBITDA and Adjusted EBITDA was specified in detail in the section headed “Important Information—Financial information and operating data—Financial information not based on GAAP (Generally Accepted Accounting Principles)”. Both EBITDA and Adjusted EBITDA are not defined by the IFRS and should not be treated as an alternative to IFRS measures and categories. Moreover, neither EBITDA nor Adjusted EBITDA have any uniform definition. The method of calculating EBITDA and Adjusted EBITDA used by other

## OUR BUSINESS

---

companies may differ significantly from that used by us. In consequence, the EBITDA and Adjusted EBITDA presented in this section cannot, as such, be relied upon for the purpose of comparisons with the EBITDA and Adjusted EBITDA reported by other companies. A reconciliation of net profit/(loss) for the period/year and EBITDA, is presented in “Important Information—Financial information and operating data—Financial information not based on GAAP (Generally Accepted Accounting Principles)”.

Source: *Financial Statements*; \*Company (unaudited).

### **Our competitive strengths**

We believe that our competitive strengths set out below will enable us to achieve our strategic goals and further enhance our position in the markets in which we operate:

#### *A safe and predictable business mix weighted towards the attractive regulated electricity distribution segment*

We are the third largest distribution system operator in Poland in terms of the volume of electricity distributed to end-customers. Based on the tariff approved by the ERO President, in the nine-month period ended 30 September 2013 we distributed 15.2 TWh electricity (and 20.1 TWh in the year ended 31 December 2012) to over 2.9 million end-customers. Our distribution business provides us with predictable and stable cash flows generated from a regulated business activity conducted in a geographic area in which we enjoy a natural monopoly. In the year ended 31 December 2012, our distribution business accounted for 67% of our EBIT, as compared to, respectively, 49.5% and 26.6% contribution of the distribution business to EBIT of other energy groups in Poland: Tauron and PGE. We have observed a continuous increase in our RAB in recent years (from PLN 8,506 million in 2010 to PLN 10,017 million in 2013), which contributes to the growth of our regulated revenue from the distribution of electricity. The regulated revenues are also increasing due to the revaluation of the RAB on the Polish market. According to our estimations, the full RAB value will be reflected in the calculation of the return on capital in ENERGA-OPERATOR's tariff for 2014. Furthermore, we are Poland's market leader in terms of the installed capacity of RES that are directly connected to our distribution network which is due to the favourable location in northern Poland—a region with favourable conditions for the development of wind power. We also have one of the largest investment programmes in the distribution segment among all of Poland's large energy groups, in CAPEX per kilometre of grid line terms, which affects the value of capital rewarded by the tariff. Systematic implementation of the investment programme should allow us to increasingly benefit from our strong position in the regulated electricity distribution segment of the Polish market in the coming years. Furthermore, unlike other large energy groups in Poland, our operations are characterised by relatively low exposure to decreases in electricity prices and increases in the prices of fuels and CO<sub>2</sub> emission allowances. Due to the much lower generation capacity and, consequently, lower fixed costs, as well as the use of relatively smaller and geographically dispersed generation assets, we are also capable of responding flexibly to changes in the market prices of electricity. At the same time, we maintain flexibility in managing our portfolio purchased electricity in order to meet commitments to our end-customers.

#### *Significant share of the electricity generated from RES in our generation segment*

We are the largest energy group in Poland in terms of the proportion of electricity generated from renewable energy sources and Poland's market leader in terms of electricity generated from hydroelectric power plants. Electricity generated from RES represented 32% of our total electricity generation in 2012 compared to 6.4%, 7.9% and 4.4%, respectively, in the case of Tauron, Enea and PGE. As at 31 December 2012, we had RES assets with installed capacity of 343.5 MW (508.1 MW as at 30 September 2013), which in the year ended 31 December 2012 generated 1.3 TWh of electricity (gross), accounting for 7.7% of Poland's aggregate generation of green energy. Following the acquisition of a portfolio of wind farms from DONG Energy Wind Power A/S and Iberdrola Renovables Energia S.A.U., in June and July 2013, we increased our RES generation capacity by 165 MW and acquired a number of wind projects with an aggregate planned capacity of 1,438 MW. The high degree of utilisation of RES translates into relatively low overall CO<sub>2</sub> emission levels of our generation assets, which in the nine-month period ended 30 September 2013 reached the rate of 0.652 CO<sub>2</sub>/MWh (0.723 CO<sub>2</sub>/MWh in the year ended 31 December 2012). The high participation of low-emission energy sources significantly decreases our exposure to the risks of regulatory changes in the area of environmental protection and fluctuations in the price of CO<sub>2</sub> emission allowances, which are faced by other large energy groups in Poland.

***Proven track record of growth strengthened by investments in the distribution sector***

Over the last few years we have consistently increased both our revenue (from PLN 9,467.8 million in 2010 to PLN 11,176.8 million in 2012) and EBITDA (from PLN 1,407.6 million in 2010 to PLN 1,629.2 million in 2012) reaching an attractive compound annual growth rate (CAGR) of 8.7% and 7.6%, respectively. We assume that further, stable growth will be achieved through the consistent implementation of our investment programme, focused on investments in the distribution network. We are convinced that Poland's anticipated economic growth and the requirements concerning the development of low-emission energy sources in Poland constitute positive factors that enhance the attractiveness of our investment programme, which translates into a further increase in our sales and EBITDA.

***A stable financial position which supports the implementation of our investment programme and dividend policy***

Our operations generate high and stable cash flows. Our EBITDA amounted to PLN 1,501.4 million in the nine-month period ended 30 September 2013 and to PLN 1,629.2 million in the year ended 31 December 2012, with the distribution segment contributing 75.7% and 74.8% of EBITDA, respectively. We expect that the stable revenues from our operations (in particular the regulated revenue from operations in the electricity distribution segment), constitute a solid basis for the further development of our operations, the implementation of our investment programme enhancing the Group's value for our shareholders (financed with our own funds and with the use of external financing) and the implementation of our dividend payment policy. Our favourable financial condition is reflected in the investment grade ratings assigned to us by two independent rating agencies: Moody's Investors Service and Fitch Ratings.

***Upside from continuous efficiency improvements and economies of scale***

Systematic development and continuation of restructuring and efficiency initiatives are bringing us closer to achieving our operating targets, and as such they are one of the main priorities of the Management Board. These efforts include personnel reductions (mainly through the implementation of individual redundancy programmes and schemes in the Group companies), process restructuring and optimisation, centralisation of services supporting our core business, such as: accounting, human resources and IT, as well as additional emphasis on maintaining cost discipline. The above-mentioned actions are accompanied by initiatives aimed at changing our middle level management's mindset by departing with a purely task-oriented thinking and emphasising higher effectiveness of undertaken actions, as well as by implementing a compensation system based on results. As a result of our efforts, in the period between the end of 2009 and the end of September 2013, we reduced the Group's headcount from 12,618 to 10,441 employees i.e. by 17.3%, the SAIDI index declined from 527 minutes per customer in 2010 to 309 minutes per customer in 2012, with network losses decreasing from 6.9% in 2010 to 6.2% in 2012. We believe that the combination of our flexible business model and our efficiency initiatives will enable us to gain an additional competitive advantage as well as maintain and further enhance our market position in terms of scale and capacity. The significant scale of our Group's operations and our solid market position enable us to benefit from synergies and economies of scale in many areas of our operations, including the purchase of fuels and the managing of wholesale trade in electricity and certificates of origin.

***A competent and stable management team***

Our Management Board and other officers possess knowledge and have proven professional experience with regard to all core segments of our operations. Management Board members have accumulated extensive experience in implementing restructuring and investment programmes, both in companies in which the State Treasury holds a stake and in entities belonging to multinational corporations with a diversified profile of operations. Both the President of the Management Board, Mr Mirosław Bieliński and the Vice President for Finance, Mr Roman Szyszko, have held their posts since 2008, and the Vice President of the Management Board for strategy and development, Mr Wojciech Topolnicki, before taking up his post in May 2012, was the Deputy President of the Management Board and the Finance Director of PGE Polska Grupa Energetyczna S.A. in the years 2008-2011. The diversified corporate and managerial experience of our leaders has made it possible to devise an efficient management model that, in our opinion, will make it possible to implement an organisational and corporate structure corresponding to the best international standards and also to the principles of corporate governance that WSE-listed companies are required to follow. Furthermore, we are the first operator in Poland to have embarked on the

implementation of a smart metering system, which is part of the smart distribution grid. We are confident that this makes us the most experienced distribution system operator in the domestic market in this respect, which gives us a significant competitive advantage in the context of the anticipated direction of changes in the tariff setting principles for distribution system operators in the following regulatory period. We believe that our managers' competences will also make it possible to efficiently and cost-effectively implement our strategy and investment programme.

### **Strategy**

Our principal goal is to create value for our shareholders and other stakeholders by developing the Group as an increasingly efficient and innovative company, which is flexible in adapting to changes in market conditions, maintains a low risk business profile and conservative capital structure and is an increasingly reliable distributor, a preferred supplier and an environmentally-friendly producer of energy.

Our strategy is to maintain a leading position amongst Polish power utilities and further increase our efficiency and service quality through the joint efforts of our dedicated and committed employees. Our strategy is based on three core pillars: (i) the further development of our distribution business, (ii) the minimisation of our environmental impact; and (iii) the continuous focus on customer service.

Our priority in respect of the distribution business is to increase its profitability, improve the quality and reliability of service and continue to connect new customers and renewable energy sources to our grid. We expect to achieve these goals in particular through the modernisation and expansion of the distribution network and the increase of its operational efficiency.

Our aim is to minimise our environmental impact through the further development of environmentally-friendly energy sources, should such development be economically viable, including investments in renewable energy sources, and through supporting the efficient use of energy. We plan to use commercially proven technologies and processes which reduce greenhouse gas emissions in generation and distribution of electricity.

Our continuous focus on customer service will help us increase customer satisfaction with the quality of service and maintain strong long-term relationships with our customers. Our aim is to deliver high quality products and services to our customers reliably in a cost-effective manner.

One of the key tools for the implementation of our strategy is our investment programme, described in "—Investment programme" below. We will apply a thorough financial analysis aimed at ensuring that the investment projects we undertake meet or exceed our minimum internal rate of return requirements.

With a view to implementing our strategy, we are monitoring acquisition opportunities on an ad hoc basis. As at the date of this Offering Circular we do not plan any significant acquisitions. However, if we recognise attractive acquisition opportunities or identify opportunities to enter into joint-ventures or strategic alliances, we will only consider those options that create additional value for the Group and its shareholders.

We are committed to maintaining an attractive dividend policy as described in "Dividends and Dividend Policy".

### **Investment programme**

#### ***Introduction***

Our 2013-2021 investment programme focuses on the distribution segment and RES generation, which differentiates us from other large Polish energy groups.

We divide our investment programme into core investment projects and non-core investment projects. Our core investment projects are the projects that are essential to the implementation of our strategy and have a relatively low dependence on external factors, such as, in particular, regulatory changes and market conditions. Our non-core investment projects are subject to market and regulatory conditions and their implementation will in each case depend on the results of an analysis of the project's viability, cost-effectiveness and risks involved in its implementation. Considering the uncertainties relating to the new regulations for the energy sector, including the support system for electricity generated from RES and

the time necessary to prepare and implement investment projects, it is possible that not all or none of the non-core investment projects be implemented.

The table below outlines the structure of core and non-core investment projects under our investment programme for the years 2013-2021.

	Distribution	Generation			Sales and other	Total
		RES	System power plants	CHP		
		(PLN million)				
<b>Core investment projects</b> . . . . .	<b>12,463</b>	<b>1,742*</b>	<b>498</b>	<b>620</b>	<b>580</b>	<b>15,903</b>
<i>including projects completed in the nine-month period ended 30 September 2013</i> . . . . .	842	1,064**	59	97	42	2,104
Non-core investment projects . . . . .	—	3,105	234	452	—	3,791

\* Includes acquisitions from DONG of PLN 345.8 million and Iberdrola of PLN 667.5 million and costs directly related to these acquisitions

\*\* Includes acquisition from DONG of PLN 345.8 million and Iberdrola of PLN 667.5 million.

Source: Company (unaudited data).

### Investment Criteria

The decision whether to implement any specific investment projects depends on the fulfilment of the following criteria: (i) compliance of the project with the Group's strategy; (ii) the internal rate of return (IRR) for the investment project of no less than the Group's WACC (whilst taking into account the project's specific risk premium); (iii) the possibility of financing such an investment project; (iv) no legal or technical obstacles which would prevent the implementation of an investment project or imply unacceptable levels of risk and (v) the investment meeting the current and projected environmental requirements.

We seek to evaluate, make investments and manage business risks prudently whilst maintaining a conservative capital structure and pursuing the following financial targets:

- sustaining investment grade credit ratings;
- capping outlays for a single project up to the value of the Group's annual EBITDA;
- maintaining a conservative level of financial indices, our objective being to maintain the net debt/EBITDA at a level not exceeding 2.5x in the long term;

### Core investment projects

The priorities of our investment programme are projects that facilitate growth and efficiency improvement of our distribution segment and increase in our generation capacity in RES and cogeneration.

#### Distribution

*Modernisation of the distribution network to improve the reliability of supply.* The objective of this element of the investment programme is to decrease network losses and to reduce the failure rate and shorten power supply disruptions in the distribution network, the direct effect of which will be improvement of the continuity of supply indices: SAIDI and SAIFI. We intend to spend approximately PLN 3.1 billion until 2021 to modernise our distribution network in order to improve the reliability of supply.

*Network development to connect new customers.* As part of its statutory obligations, ENERGA-OPERATOR is required to connect new customers upon their technically and economically justified request, which results in the need for investments in the power grid at all voltage levels. By 2021, we expect to have spent up to PLN 4.7 billion on the construction of connections and development of the grid in order to connect new customers; the actual value of our investment will depend on the actual number of requests from new customers, which in turn depends on the general economic situation in the region in which we operate.



## OUR BUSINESS

*Network development and modernisation to connect RES.* ENERGA-OPERATOR has a statutory obligation to carry out the process of connecting new energy sources. Currently, the total connection capacity of the already existing RES amounts to 1.9 GW. Based on the currently issued conditions for connection and concluded agreements for the connection to the power grid, we estimate that by 2021 the total connection capacity of RES may reach approximately 7.7 GW. According to our estimates, we plan to spend up to PLN 1.8 billion for developing and modernising our grid. However, we believe that the actual demand for interconnection of the new RES will depend on the final form of the regulatory support system for electricity generated from RES, which is currently under discussion and may have a material impact on the development of new RES in the future.

*Implementation of advanced metering and other smart grid elements.* The purpose of implementing the advanced metering infrastructure (AMI) is: (i) to create the basis for the construction of a smart grid, (ii) to increase our operational efficiency and profitability, (iii) to enhance the reliability and quality of supply and to improve the quality of services provided to customers and (iv) to establish the basis for the development of dispersed electricity generation assets in the geographic area in which ENERGA-OPERATOR operates. In 2012 the cost of one municipal smart meter and the accompanying infrastructure was approximately EUR 70.00. Until 2021, we plan to assign approximately PLN 1.7 billion for the implementation of smart metering and other elements of the smart grid, which based on our tariff for 2013 receive a 2 percentage point higher rate of return on capital engaged, and based on the terms of rewarding the assets invested in AMI (see “Regulatory Matters—Energy sector regulation—Tariffs”) from 2014 onwards will receive a 7 percentage point higher rate of return on the capital engaged, as compared to other types of capital expenditures for distribution networks.

*IT systems and other expenditures in the distribution segment.* In order to fulfil our statutory obligations, ENERGA-OPERATOR incurs additional capital expenditures to safeguard its appropriate operation as a DSO. Such expenditures include, in particular, expenditures for IT systems and means of transportation. We intend to assign, until 2021, approximately PLN 1.1 billion for these expenditures, in the electricity distribution segment.

The table below provides information on the capital expenditures in the distribution segment that we plan to incur in the years 2013-2021.

	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
	(PLN million)									
Network development to connect new customers . . . . .	554	428	436	497	518	522	549	576	590	<b>4,670</b>
Network development and modernisation to connect RES . . . . .	112	336	333	267	247	245	98	99	104	<b>1,841</b>
Distribution network modernisation to improve reliability of supply . . . . .	485	246	203	162	192	217	564	502	512	<b>3,083</b>
Advanced metering and other smart grid elements . . . . .	141	250	259	258	250	240	57	132	136	<b>1,723</b>
Other expenditures . . . . .	169	118	157	135	114	123	112	107	111	<b>1,146</b>
<b>Total distribution . . . . .</b>	<b>1,461</b>	<b>1,378</b>	<b>1,388</b>	<b>1,319</b>	<b>1,321</b>	<b>1,347</b>	<b>1,380</b>	<b>1,416</b>	<b>1,453</b>	<b>12,463</b>

Source: Company (unaudited).

### Generation

*RES projects.* In order to increase the capacity of assets generating power from no-fuel RES from 508.1 MW as at the date of this Offering Circular we intend to assign approximately PLN 360 million for the construction of a wind farm in Myślino with a capacity of approximately 21 MW, which is planned to be commissioned in 2015 (subject to obtaining final administrative decisions as assumed in the time schedule), and the construction of a wind farm in Drzewiany with a capacity of approximately 28 MW, which is planned to be commissioned in 2015. Expenditures on the construction of photovoltaic farms with a total capacity of approximately 6 MW will amount to approximately PLN 33 million. Furthermore, we are planning to spend approximately PLN 234 million on the modernisation of small hydroelectric power plants and EW Włocławek and ESP Żydowo. The modernisation of small hydroelectric power plants will include the repair and replacement of electrical and mechanical components (including turbines and



generators). In EW Włocławek the work will focus on the modernisation of the cooling system and implementation of an automation system.

*System power plants.* In the years 2013-2016 we plan to assign approximately PLN 498 million for the modernisation of the generation equipment at the Ostrołęka B power plant, primarily to increase its capacity and general efficiency. As a result of the modernisation the capacity of the Ostrołęka B power plant will be increased by approximately 50 MW. To satisfy the requirements of the EID Directive, we will invest in the development of a flue gas desulphurisation system, DeNO<sub>x</sub> system and electrostatic precipitators. Completion of the modernisation will prevent the Ostrołęka B power plant from being decommissioned. The modernisation expenditures also include the addition of heat generation capacity in the Ostrołęka B power plant. The aim of this project is to ensure heat supply to the town of Ostrołęka, after closing down the Ostrołęka A CHP (see “—Material agreements—Share purchase agreements—Agreement on the purchase of shares in Ostrołęckie Przedsiębiorstwo Energetyki Ciepłej sp. z o.o. (currently ENERGA OPEC sp. z o.o.)”). We are planning for the Ostrołęka B power plant to commence heat supplies in 2014.

In addition to the investment programme, ENERGA Elektrownie Ostrołęka will pursue a range of initiatives to improve the cost-effectiveness of the plant. The key initiatives include: (i) the reduction of fuel purchase and transportation costs; (ii) increasing the income from ancillary regulatory services; (iii) improvement of the plant’s availability; (iv) waste management optimisation; (v) employment structure optimisation; (vi) reduction of repair and maintenance costs; and (vii) sale of non-operating assets.

*Co-generation investments.* Two new generation sources to replace the existing hard coal-fired units are planned to be constructed at the Kalisz CHP. From 2017 onwards, heat will be generated in a biomass-fired unit of approximately 10 MWe and two gas engines with a total capacity of approximately 20 MWe. The total cost of these investments is estimated at PLN 221 million.

In order to increase electricity generation through cogeneration, to further diversify the structure of revenues and to obtain access to additional green certificates of origin, in 2010 we have commenced the construction of a biomass-fired cogeneration unit in Elbląg with a capacity of 25 MWe. The expenditures planned for 2013 amount to PLN 62 million and the total expenditures for this project will reach PLN 210 million.

The 2013-2021 investment programme for the CHP subsegment also includes the potential acquisition of generation units and district heating networks. The expenditures planned for this purpose and for the remaining investment projects in this subsegment amount to approximately PLN 291 million.

#### *Other activities*

In line with our strategy of achieving high standards of customer service quality, we plan investments principally in the area of sales and customer service as well as in the IT sector, which are expected to improve the efficiency of operations in this segment. Our key investments in the sales segment include, inter alia implementation of CRM, including an integrated new billing system as well as construction of the necessary IT infrastructure supporting remote contact with customers as part of the contact centre and implementation of new products, as well as the introduction of related business changes. The total amount of capital expenditures planned in the area of other activities is PLN 580 million, which includes PLN 365 million on IT investments.

#### *Non-core investment projects*

Our non-core investment projects are described below.

*RES projects.* In the period from 2014 to 2021 we could increase the capacity of our RES by pursuing investment opportunities which have not been identified yet. We expect this initiative to bring us between 40 and 80 MW of annual increase in RES capacity. We can achieve this target by implementing projects on our own, including the projects acquired from DONG Energy Wind Power A/S and Iberdrola Renovables Energy S.A.U., in joint-ventures with other entities or through acquisitions of projects, both in the preparatory phase and those already commissioned. Potential capital expenditures on non-core investment projects may reach approximately PLN 2,955 million. Considering the uncertainties related to new

regulations of the energy sector, including the support system for electricity generated from RES and the time necessary to prepare and implement investment projects, it is possible that not all or none of the non-core investment projects will be implemented.

*Co-generation investments.* One of the non-core projects is the construction of an approximately 115 MW CCGT unit at the Elbląg CHP. The successful implementation of this project is to ensure the long-term supply for heat in the area of Elbląg. The project cost is estimated at PLN 452 million. The amount includes both the construction of the CCGT unit and the installation of heat recovery steam generators capable of peak load operation (*kotły rezerwowo-szczytowe*). This unit would replace the coal-fired units to be decommissioned.

*Modernisation of the Ostrołęka B Power Plant.* Some of the elements relating to the modernisation of the Ostrołęka B Power Plant with an aggregate value of PLN 145 million have been included in non-core projects. A significant portion of this amount are expenditures aimed at reducing auxiliary power consumption and modernisation of the Łęg landfill site. The commencement of this investment is subject to improvement of electricity market conditions.

*Gas investments (CCGT).* We are analysing a project for the construction of two new highly-efficient CCGT units of approximately 500 MWe each. The successful implementation of these projects will depend on the ability to obtain the required rate of return, which in our view may happen in the event of a significant decrease in gas prices or regulatory changes that would introduce a capacity market. If these projects are implemented, the application of the CCGT technology would allow us to minimise the adverse environmental impact of electricity generation, as compared to coal-fired units of the same capacity, through the reduction of SO<sub>2</sub>, CO<sub>2</sub>, NO<sub>x</sub> and dust emissions. The ENERGA Group investment plan includes a total of approximately PLN 89 million for the preparation for construction of the two projects.

*Second dam on the Vistula River (“Vistula Project”).* We are analysing the construction of a second dam on the Vistula River downstream from Włocławek. If implemented, the project will increase the capacity of RES and improve flood risk in the area of Dolina Dolnej Wisły (the Lower Vistula valley). The investment project assumes the construction of a water dam and hydroelectric power plant on the Vistula river with a capacity of approximately 70 MW. The expenditures on the construction of the second dam on the Vistula River are estimated at PLN 3.5 billion and have not been included in the Group’s investment plan until 2021, as the project may become commercially viable only if the majority of the hydro-engineering work is paid for out of public funds. However, the investment plan includes the cost of the project preparation up to PLN 150 million.

### **History and Development of the Group**

ENERGA-OPERATOR was formed as a result of the transformation of a state enterprise: Zakład Energetyczny Gdańsk into a company wholly-owned by the State Treasury. On 31 December 2004, ENERGA-OPERATOR (formerly, Koncern Energetyczny S.A.) merged with seven other State Treasury distribution companies comprising the G-8 group and acquired the entire assets of these companies in exchange for shares in ENERGA-OPERATOR issued to the sole shareholder of the target companies, i.e. the State Treasury. The eight State Treasury companies that were consolidated were replaced by eight divisions of ENERGA-OPERATOR.

In 2006, the State Treasury, ENERGA-OPERATOR and ENERGA Elektrownie Ostrołęka established ENERGA as a holding company. ENERGA was entered into the register of entrepreneurs of the National Court Register on 8 January 2007.

In 2007, as part of the increasing of the share capital of ENERGA, the State Treasury made an in-kind contribution to ENERGA in the form of an 85% stake in ENERGA-OPERATOR and ENERGA Elektrownie Ostrołęka. In the same year, in order to simplify ENERGA’s shareholding structure, ENERGA’s shares belonging to ENERGA-OPERATOR and ENERGA Elektrownie Ostrołęka were redeemed and, as a result, the State Treasury became the sole shareholder of ENERGA.

In the years 2007-2009, the Group underwent a reorganisation process in order to adapt its operations to the requirements included in Directive 2009/72/EC and the Energy Law, i.e. the separation of sales of electricity, customer service and the other additional activities of ENERGA-OPERATOR from the

electricity distribution which constituted its core business (unbundling). In particular, as part of the above reorganisation:

- in 2007, the part of the ENERGA-OPERATOR business engaged in sales of electricity was contributed as an in-kind contribution to ENERGA-OBRÓT;
- in 2008, the part of the ENERGA-OPERATOR business which operated customer service centres was sold to ENERGA Obsługa i Sprzedaż;
- in 2009, ENERGA-OPERATOR was further split, as a result of which part of the ENERGA-OPERATOR assets not connected with electricity distribution, including real property and assets related to IT as well as shares in its subsidiaries were contributed to ENERGA.

In 2010, the lighting business of the Group was consolidated into ENERGA Oświetlenie sp. z o.o. and the process of exchanging shares of ENERGA-OPERATOR and ENERGA Elektrownie Ostrołęka for ENERGA shares, carried out pursuant to the Act on Exchange of Employee Shares, was generally completed, as a result of which authorised persons acquired shares representing in total 13.44% of ENERGA's share capital.

In 2010, the State Treasury commenced the ENERGA privatisation process as part of which it entered into a conditional agreement for the sale of 84.19% of shares in ENERGA to PGE Polska Grupa Energetyczna S.A. ("PGE"). In 2011, the AMO President issued a decision prohibiting PGE from acquiring ENERGA's shares, which was upheld by the court on 14 May 2012.

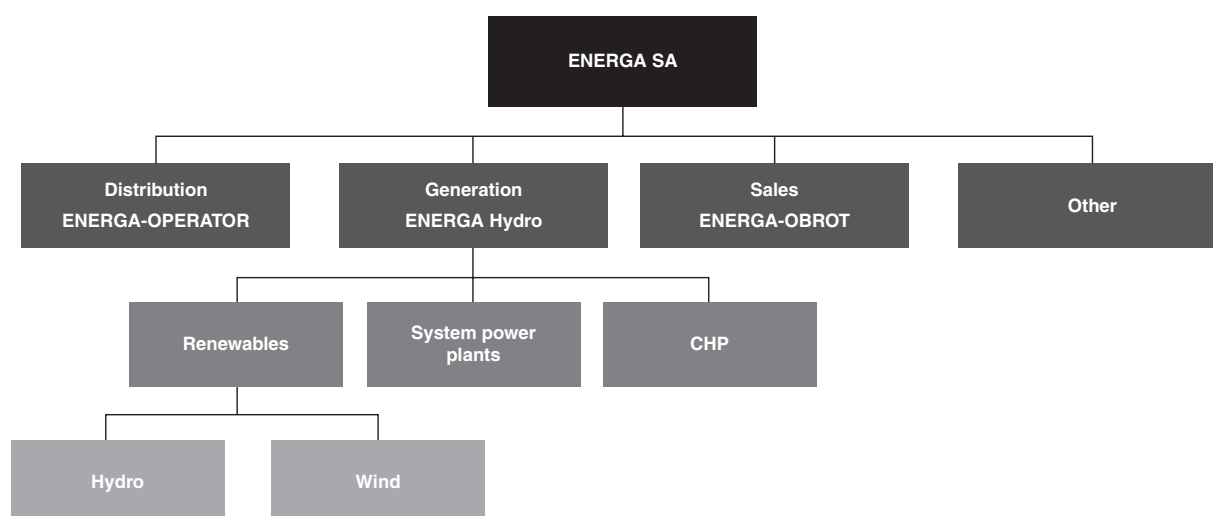
In 2011, ENERGA purchased shares in ENERGA-OPERATOR and ENERGA Elektrownie Ostrołęka from the State Treasury, for the total price of PLN 585.7 million, thus obtaining 99.74% of the share capital of ENERGA-OPERATOR and 89.38% of the share capital of ENERGA Elektrownie Ostrołęka.

In 2013 ENERGA Hydro acquired shares in companies holding wind farms with the installed capacity of 165 MW and a number of wind projects with planned capacity of approximately 1,438 MW.

### Organisational structure

As at the date of this Offering Circular, the Group consists of ENERGA and 57 other companies, direct or indirect subsidiaries of ENERGA, including three leaders of the main segments of our business: (i) ENERGA-OPERATOR managing the distribution segment, (ii) ENERGA Hydro managing the generation segment; and (iii) ENERGA-OBRÓT managing the sales segment (see "General Information on the Group—Structure of the ENERGA Group").

The chart below illustrates a simplified organisational structure of the Group.



Source: Company.

Our distribution activities are consolidated in the distribution segment led by ENERGA-OPERATOR, and comprise (i) the DSO subsegment, in which ENERGA-OPERATOR, the owner and manager of the

## OUR BUSINESS

---

network assets, operates and (ii) the subsegment of grid work, consisting of ENERGA-OPERATOR's subsidiaries that handle tasks related to work involving the ENERGA-OPERATOR assets as well as design work, the manufacture of power generating equipment, trade and logistics.

Our generation activities, consisting primarily of generation of electricity from renewable energy sources, generation in system power plants and CHPs, are consolidated in the generation segment led by ENERGA Hydro, and comprise three separate subsegments: RES, system power plants and CHPs.

Our sales activities are consolidated in the sales segment led by ENERGA-OBRÓT and comprise activities relating to trading in electricity, customer service as well as road and street lighting services.

Activities supporting the three key business segments in the Group are consolidated in the services and other activities segment, led by ENERGA as the holding company for the Group. The companies providing support services for the key business segments include primarily the shared-services centres providing accounting, human resources, payroll, and IT services.

On 26 August 2013, the Management Board of ENERGA adopted a resolution providing guidelines for the gradual reduction of the number of supervisory authorities in the Group companies. Ultimately, the supervisory boards will be left only in companies that are currently the leaders of individual business segments, i.e. in the distribution segment: at ENERGA-OPERATOR, in the generation segment: at ENERGA Hydro and in the sales segment: at ENERGA-OBRÓT. The key objective of the proposed changes in corporate governance is to simplify and more directly influence the management of the main business processes at the level of each business segment, which should translate into an enhanced transparency of management, more responsibility on the management boards and limitation of the costs of operations.

### *Distribution*

Through more than 193,000 kilometres of high-, medium- and low-voltage lines, both overhead and cable we distributed 15.2 TWh of electricity to end-customers in the nine-month period ended 30 September 2013, and 20.1 TWh, 19.6 TWh and 19.3 TWh in the years ended 31 December 2012, 2011, and 2010, respectively. As at 30 June 2013, our distribution system covered an area of almost 77 thousand square kilometres, which is approximately 25% of the area of the country. We enjoy a natural monopoly in the area of northern and central Poland where our distribution assets are located.

The figure below illustrates the area of electricity distribution covered by ENERGA-OPERATOR.



---

Source: Company.

The table below presents selected financial information related to our electricity distribution segment.

	Nine-month period ended 30 September		Year ended 31 December		
	2013	2012	2012	2011	2010
			(PLN million)		
Sales to external clients . . . . .	2,761.4	2,670.3	3,654.7 <sup>(1)*</sup>	3,330.3 <sup>(1)*</sup>	3,151.0 <sup>(1)*</sup>
Inter-segment sales . . . . .	37.7	37.2	29.6 <sup>(1)*</sup>	59.1 <sup>(1)*</sup>	71.5 <sup>(1)*</sup>
Total segment revenues . . . . .	2,799.1	2,707.6	3,684.3 <sup>(1)*</sup>	3,389.4 <sup>(1)*</sup>	3,222.5 <sup>(1)*</sup>
EBITDA <sup>(2)</sup> . . . . .	1,136.1	1,036.9	1,218.0 <sup>(1)*</sup>	916.1 <sup>(1)*</sup>	653.6 <sup>(1)*</sup>
Adjusted EBITDA <sup>(2)</sup> . . . . .	1,208.8*	1,041.5*	1,321.3*	954.1*	750.9*
Net profit/(loss) for the financial period .	450.5	386.1	320.1 <sup>(1)*</sup>	265.3 <sup>(1)*</sup>	63.8 <sup>(1)*</sup>
Capital expenditure . . . . .	842.3	891.7	1,363.6 <sup>(1)*</sup>	1,209.8 <sup>(1)*</sup>	997.9 <sup>(1)*</sup>

(1) The Company changed the presentation of the segments in the Condensed Interim Consolidated Financial Statements (see: “Operating and Financial Review—Reporting by segments” and “Important Information—Financial information and operating data—Changes in the presentation” above). With reference to these changes, in order to ensure the comparability of financial information for the segments between the Condensed Interim Consolidated Financial Statements and the Consolidated Financial Statements, the relevant items are presented in accordance with the manner adopted for the Condensed Interim Consolidated Financial Statements.

(2) We define and calculate EBITDA for individual business segments as a profit/(loss) on operating activity of that segment (calculated as the net profit/(loss) on continuing operations of that segment for the financial period/year adjusted for (i) income tax for that segment, (ii) shares in profits/losses of associates (iii) finance income and (iv) finance costs of that segment adjusted for depreciation and amortisation (as disclosed in the income statement). The Company defines and calculates Adjusted EBITDA for individual business segments as EBITDA adjusted to the effect of one-off events for individual segments. The calculation of EBITDA and Adjusted EBITDA was specified in detail in “Important Information—Financial information and operating data—Financial information not based on GAAP (Generally Accepted Accounting Principles)”. Both EBITDA and Adjusted EBITDA are not defined by the IFRS and should not be treated as alternative to IFRS measures and categories. Moreover, neither EBITDA nor Adjusted EBITDA have any uniform definition. The method of calculating EBITDA and Adjusted EBITDA used by other companies may differ significantly from that used by us. In consequence, the EBITDA and Adjusted EBITDA presented in this section cannot, as such, be relied upon for the purpose of comparisons with the EBITDA and Adjusted EBITDA reported by other companies. A reconciliation of net profit/(loss) for the period/year and EBITDA, is presented in “Important Information—Financial information and operating data—Financial information not based on GAAP (Generally Accepted Accounting Principles)”.

Source: Condensed Interim Consolidated Financial Statements; \*Company (unaudited).

### Customers

As at 30 September 2013, we provided electricity to over 2.9 million customers of which approximately 2.6 million were retail customers. We provide electricity to our customers on the basis of comprehensive agreements executed by ENERGA-OBRÓT, or purchase agreements based on the TPA principle (unbundled agreements). Comprehensive agreements include provisions relating both to electricity sales agreements and electricity distribution services agreements. The TPA principle gives the customer the ability to purchase electricity from any sales company holding a licence to trade in electricity, as selected by the customer, while the distribution system operator provides energy supplies based on a separate agreement entered into directly with the customer (see “Regulatory matters—Energy sector regulation—Right to choose the seller and third-party access (TPA)”). As at the date of this Offering Circular, we provided electricity to approximately 97.0% of all of our customers under comprehensive agreements.

A majority of the regulations of the so-called “small tri-pack” came into force on 11 September 2013. The regulations result in the need for the connection agreements to be adjusted accordingly (for more information see “Regulatory Matters—Energy sector regulation—Introduction”). ENERGA-OPERATOR has been implementing a customer service improvement strategy since 2009, which includes reduction of the time required for getting connected to the grid. In order to adapt to the new regulations we are modifying the time schedules for connection to the grid in the previously executed connection agreements.



## OUR BUSINESS

The table below presents the structure of the Group's customers, broken down by the number of customers who are party to the comprehensive agreements and customers who are party to unbundled agreements, in the periods indicated.

Distribution services sold under	Nine-month period ended 30 September				Year ended 31 December					
	2013		2012		2012		2011		2010	
	Number	(GWh)	Number	(GWh)	Number	(GWh)	Number	(GWh)	Number	(GWh)
Comprehensive agreement . . . . .	2,837,130	10,026	2,834,243	10,832	2,835,347	14,517	2,854,525	15,451	2,841,703	16,152
Unbundled agreement . . . . .	98,320	5,139	75,085	4,047	81,420	5,541	37,907	4,160	21,715	3,158
<b>Total . . . . .</b>	<b>2,935,450</b>	<b>15,165</b>	<b>2,909,328</b>	<b>14,880</b>	<b>2,916,767</b>	<b>20,058</b>	<b>2,892,432</b>	<b>19,611</b>	<b>2,863,418</b>	<b>19,311</b>

Source: Company.

The table below presents the volume of electricity delivered by us to end-customers and the number of our end-customers from individual tariff groups to whom we distributed electricity in the periods indicated.

Tariff Groups <sup>(1)</sup>	Nine-month period ended 30 September					
	2013			2012		
	Volume of electricity distributed	Percentage share in the total volume of electricity distributed	Number of customers	Volume of electricity distributed	Percentage share in the total volume of electricity distributed	Number of customers
	(TWh)	(%)	(Number)	(TWh)	(%)	(Number)
Tariff Group A (HV) . . . . .	2.92	19.3	61	2.79	18.8	55
Tariff Group B (MV) . . . . .	5.08	33.5	6,186	4.96	33.3	5,981
Tariff Group C (LV) . . . . .	3.14	20.7	301,507	3.09	20.8	300,676
Tariff Group G . . . . .	4.01	26.5	2,627,696	4.04	27.2	2,602,616
<b>Total . . . . .</b>	<b>15.17</b>	<b>100.0</b>	<b>2,935,450</b>	<b>14.88</b>	<b>100.0</b>	<b>2,909,328</b>

(1) Tariff group A—largest customers, connected to high-voltage lines (110 kV), e.g. steelworks, mines, shipyards and large factories; tariff group B—large industrial enterprises connected to medium voltage lines (from 1 kV to 60 kV), e.g. factories, hospitals, shopping centres, leisure and entertainment centres; tariff group C—institutional customers connected to the low voltage lines (up to 1 kV), e.g. banks, shops, health clinics, retail and service points, streets lighting; tariff group G—households and similar end-customers, regardless of the connection voltage.

Source: Company.

Tariff group <sup>(1)</sup>	Year ended 31 December								
	2012			2011			2010		
	Volume of electricity distributed	Percentage share in the total volume of electricity distributed	Number of customers	Volume of electricity distributed	Percentage share in the total volume of electricity distributed	Number of customers	Volume of electricity distributed	Percentage share in the total volume of electricity distributed	Number of customers
	(TWh)	(%)	(Number)	(TWh)	(%)	(Number)	(TWh)	(%)	(Number)
Tariff Group A (HV) . . . . .	3.78	18.8	57	3.59	18.3	50	3.30	17.1	44
Tariff Group B (MV) . . . . .	6.65	33.2	6,045	6.42	32.7	5,849	6.24	32.3	5,473
Tariff Group C (LV) . . . . .	4.17	20.8	299,283	4.14	21.1	298,847	4.21	21.8	297,117
Tariff Group G . . . . .	5.45	27.2	2,611,382	5.46	27.8	2,587,686	5.57	28.8	2,560,784
<b>Total . . . . .</b>	<b>20.06</b>	<b>100%</b>	<b>2,916,767</b>	<b>19.61</b>	<b>100%</b>	<b>2,892,432</b>	<b>19.31</b>	<b>100%</b>	<b>2,863,418</b>

(1) Tariff group A—largest customers, connected to high-voltage lines (110 kV), e.g. steelworks, mines, shipyards and large factories; tariff group B—large industrial enterprises connected to medium voltage lines (from 1 kV to 60 kV), e.g. factories, hospitals, shopping centres, leisure and entertainment centres; tariff group C—institutional customers connected to the low voltage lines (up to 1 kV), e.g. banks, shops, health clinics, retail and service points, streets lighting; tariff group G—households and similar end-customers, regardless of the connection voltage.

Source: Company.



The table below presents sales volumes of electricity distribution services, including the average prices of such services in the periods indicated.

	Nine-month period ended		Year ended 31 December		
	30 September		2012	2011	2010
	2013	2012			
Sales volume of electricity distribution services (GWh) . . .	15,165	14,880	20,058	19,611	19,311
Average sale price of electricity distribution services (PLN/MWh) . . . . .	168.4	165.3	165.9	153.4	146.1

\* Average price of electricity distribution services is a ratio of our invoiced revenues from the sales of electricity distribution services (in PLN) and the volume of electricity distributed to end-customers (MWh).

Source: Company (unaudited data).

### Distribution assets

The table below presents selected data regarding key assets used in our distribution business as at the date indicated.

Assets*	As at	As at 31 December		
	30 June	2012	2011	2010
<b>Total length of overhead lines (km) . . . . .</b>	<b>145,224</b>	<b>144,925</b>	<b>144,480</b>	<b>144,441</b>
<i>including</i>				
HV lines (km) . . . . .	6,372	6,366	6,337	6,326
MV lines (km) . . . . .	56,513	56,418	56,374	56,341
LV lines** (km) . . . . .	82,339	82,141	81,769	81,774
<b>Total length of cable lines (km) . . . . .</b>	<b>47,860</b>	<b>47,081</b>	<b>44,862</b>	<b>43,536</b>
<i>including</i>				
HV lines (km) . . . . .	22	22	13	13
MV lines (km) . . . . .	11,723	11,476	11,053	10,765
LV lines** (km) . . . . .	36,115	35,583	33,796	32,758
<b>Total length of lines (overhead and cable lines) (km) . .</b>	<b>193,084</b>	<b>192,006</b>	<b>189,342</b>	<b>187,977</b>
Total power of transformer stations (MVA) . . . . .	17,204	17,101	16,542	15,970
Total transformer stations (number) . . . . .	59,238	58,654	58,039	57,651
Total electric stations (number) . . . . .	58,894	58,320	57,641	57,115
Total transformer stations (number) . . . . .	58,544	57,990	57,173	56,638
Connections (number) . . . . .	1,101,797	1,093,503	1,073,317	1,058,279

\* Length of line per one line track plus connections.

\*\* Decrease in the total length of overhead lines (LV lines) as at 31 December, 2011 compared to 31 December, 2010 was mainly due to the transfer of assets related to the lighting business to ENERGA Oświeetlenie sp. z o.o.

Source: Company.

As at 30 June 2013, 45% of our distribution network was less than 25 years old, 51% of our distribution network was between 25 and 50 years old and 4% of our distribution network was more than 50 years old.

### Tariffs

Electricity distribution in Poland is a regulated activity, and tariffs applied by the DSO for the provision of distribution services require the approval of the ERO President.

The DSO tariff model is structured every year based on the calculation of regulated revenue comprising the costs of distribution activities that are deemed justified by the ERO President, as well as the return on capital employed. Expenditures related to distribution activity include operating costs, depreciation, taxes on the network's property, costs of electricity purchase to cover the network losses, costs of purchasing

## OUR BUSINESS

transmission services from PSE and other DSOs, as well as the costs of the transitional fee (*opłata przejściowa*) arising under the PPA Act. The basis for the calculation of a return on capital employed is the RAB and the WACC. Tariffs are usually approved for one calendar year. The ERO President sets the length of regulatory periods (from 3 to 5 years), for which it defines the model for determining the justified operating costs and the justified level of network losses. Pursuant to the Energy Law, the tariffs approved by the ERO President should specifically ensure: (i) covering the justified costs of electricity distribution activities conducted by a power company, including the justified return on capital employed in these activities and (ii) protection of the customers' interests against unjustified level of prices and fee rates. For detailed information on the method of calculating the distribution tariff see "Regulatory Matters—Energy sector regulation—Tariffs".

The table below presents the structure of regulated revenue approved by the ERO President as the basis for calculating tariffs in the periods indicated. The actual incurred operating costs are the costs of distribution activities in the years ended 31 December 2012, 2011, 2010, of PLN 880.4 million, PLN 898.0 million, PLN 890.2 million, respectively, reduced by the profit/loss on the core non-distribution business in the years ended 31 December 2012, 2011, 2010, of PLN 47.8 million, PLN 40.2 million, PLN 35.8 million, respectively, treated by ENERGA-OPERATOR as a source of financing of its costs.

	Year ended 31 December							
	2013		2012		2011		2010	
	(PLN million)							
RAB (PLN million) . . . . .	10,016.7		9,419.4		8,899.9		8,506.2	
RAB rate subject to return (%) . . . . .	94.0		78.7		66.8		50.4	
WACC (%) . . . . .	8.949		9.624		9.597		10.519	
Return on capital (PLN million) . . . . .	843.7	24.3%	713.4	21.2%	570.4	18.6%	450.7	15.6%
Costs deemed justified by the ERO . . . . .	2,634.2	75.7%	2,651.3	78.8%	2,501.9	81.4%	2,437.4	84.4%
<i>Operating costs and other costs</i> . . . . .	879.6	25.3%	818.1	24.3%	771.2	25.1%	744.0	25.8%
<i>Depreciation</i> . . . . .	562.8	16.2%	502.1	14.9%	433.5	14.1%	415.9	14.4%
<i>Tax on network assets</i> . . . . .	206.7	5.9%	190.4	5.7%	181.6	5.9%	166.5	5.8%
<i>Cost of electricity purchased to cover network losses</i> . . . . .	318.0	9.1%	339.0	10.1%	323.4	10.5%	313.0	10.8%
<i>Cost of purchase of transmission services</i> . . . . .	667.2	19.2%	801.7	23.8%	792.3	25.8%	798.1	27.6%
<b>Regulated revenue</b> . . . . .	<b>3,478.0</b>	<b>100.0%</b>	<b>3,364.7</b>	<b>100.0%</b>	<b>3,072.3</b>	<b>100.0%</b>	<b>2,888.1</b>	<b>100.0%</b>
<b>ENERGA-OPERATOR revenues*</b> . . . . .	<b>—</b>	<b>—</b>	<b>3,334.9</b>	<b>99.1%</b>	<b>3,013.7</b>	<b>98.1%</b>	<b>2,825.5</b>	<b>97.8%</b>

\* The difference between the revenues of ENERGA-OPERATOR and the allowed revenue arises from the difference between the level of electricity distribution assumed by the ERO and the actual distribution level (drafting of tariffs, that require approval by ERO President is based on planned volumes of electricity distributed. If the actual volume distributed was lower than assumed at the tariff calculation stage, e.g. as a result of lower demand, it may be impossible to achieve the expected (planned) level of revenue).

Source: Company (unaudited data).

An important factor that contributed to the increase in our revenues from distribution activities in the years 2010-2013 were changes in the method of determining the justified return on capital to be incorporated in the distribution tariff, introduced by the ERO President in 2010. The changes are aimed at the gradual adjustment over a time period of several years of the RAB, used as the basis for the calculation of the return on capital, to the actual market value of the distribution assets. Based on that method, the distribution assets of the DSOs which unbundled their distribution business from their electricity trading activities as of 1 July 2007 were valued on uniform terms and used as the basis to determine the justified return on capital. Only assets owned by a DSO as at 31 December 2008 were subject to the valuation, as the assets created after that date have been and are rewarded up to the full amount.

As at 1 January 2009 (i.e. before revaluation) the RAB of the Group was PLN 3,269.0 million. Based on the existing methodology, DSOs are required to update the calculation of the RAB on an annual basis and present a RAB update report and an auditor's report on the completion of the agreed review of certain components of that report. Due to a significant increase in the value of the justified return on capital (resulting from the increase in the RAB) as compared to previous years, the method also defines the "roadmap" to rewarding the full RAB. The maximum annual increase in the return on capital from the assets subject to revaluation was limited to 1.5% of the regulated revenue for the previous year, decreased by the return on capital and depreciation of new assets, i.e. assets created after 31 December 2008.

According to this method, it is anticipated that the full value of our new RAB will be reflected in the tariff for 2014.

The table below presents the share of operating costs taken into account by the ERO in the calculation of the distribution tariff in the total operating costs of ENERGA-OPERATOR in the periods indicated.

	Year ended 31 December		
	2012	2011	2010
Operating costs deemed justified by the ERO (PLN million) . . . . .	818.1	771.2	744.0
Actually incurred operating costs (PLN million) . . . . .	832.6	857.8	854.4
Justified costs/actual costs . . . . .	98.3%	89.9%	87.1%

\* Operating costs deemed justified by the ERO are the sum of operating costs, licence fees and others.

\*\* Actually incurred operating costs are the costs of the distribution segment less the profit/loss on the non-distribution business (treated by the company as the source of financing for the distribution costs).

Source: Company (unaudited data).

If the operating costs incurred by a DSO in a given regulatory period are below the level of justified costs, the DSO is not required to repay the difference (lower the tariff). However the operating costs incurred in that period will be taken into account when determining the level of costs for the next regulatory period, which may result in setting them at a lower level. The operating costs deemed justified by the ERO amount to: (a) PLN 880 million for 2013, (b) PLN 936 million for 2014; and (c) PLN 976 million for 2015 (at the assumed 2013 inflation rate of 1.2%).

The increase in the RAB and regulated revenue due to the implementation of the investment programme requires the DSOs' capital expenditures to be approved by the ERO President. The draft development plan for 2011-2015 submitted by ENERGA-OPERATOR, was approved by the ERO separately for 2011 (in the course of the tariff approval process) and for the remaining period. In the development plan submitted to the ERO, capital expenditures of ENERGA-OPERATOR are: (a) PLN 1,430 million in 2013, (b) PLN 1,346 million in 2014 and (c) PLN 1,353 million in 2015. Pursuant to the Energy Law, every three years DSOs are required to evaluate the progress of implementation of the development plan and submit the proposed revisions to the plan for agreement with the ERO President. In June 2013, the ERO President sent a letter to the DSOs, referring to the above provision and expecting the DSOs to submit a draft development plan for the years 2014-2019. An update to the current development plan has been submitted for the years 2014-2015. The update provides *inter alia* for maintaining the capital expenditures at the same level as in the previous development plan. The total capital expenditures planned in the updated plan for 2014-2015 reach PLN 2,721 million, which represents an increase by 0.8% as compared to the previous plan. Out of this amount, PLN 1,046 million is to be assigned for the network development relating to the connection of new customers, PLN 531 million for the network development and modernisation relating to the obligation to connect RES, PLN 514 million for the development of the distribution network to improve the reliability of supply and PLN 368 million for the implementation of the AMI and other smart grid components. The period to be covered by the development plan had earlier been consulted with the DSOs. It was decided that the development plans will be agreed upon every three years for the period of six years.

The table below presents the share of capital expenditures included in the tariff in the total capital expenditures of ENERGA-OPERATOR in periods indicated.

	Year ended 31 December		
	2012	2011	2010
Capital expenditures deemed justified by the ERO (PLN million) . . . . .	1,351.8	1,180.1	886.7
Actually incurred capital expenditures (PLN million) . . . . .	1,433.8	1,253.5	973.9
Justified expenditures/actual expenditures . . . . .	94.3%	94.1%	91.0%

Source: Company (unaudited data).

If capital expenditures incurred vary from the level agreed with the ERO in the development plan for a given year, the RAB is adjusted through an annual adjustment mechanism, based on the current method of determining the RAB and return on the capital employed. The ERO President may assess the effectiveness

## OUR BUSINESS

of the capital expenditures incurred and determine their justified level, which is subsequently reflected in the revaluation. According to the rules currently in force, capital expenditures that differ from the agreed level are reflected in the RAB revaluation in the second year following the end of the period in which the difference occurred. For the years 2010-2011, the ERO President recognised the full value of the capital expenditures incurred by the Company, in spite of the fact that they exceeded the amount stated in the approved development plan, which was subsequently reflected in the RAB revaluation in 2012 and 2013, respectively. The values pertaining to capital expenditures incurred in 2012 are currently being assessed by the ERO President, and if they are recognised they will be reflected in the RAB revaluation for 2014. As at the date of this Offering Circular, there is no assurance that the ERO President will recognise and include the full amount of the excess of the capital expenditures incurred in 2012 over the expenditures agreed with the ERO President in the updated RAB.

The rules for determining the RAB and justified return on capital are described in the document “The method of determining the Regulatory Asset Base and return on capital employed”. According to those rules, DSOs are required to update the calculation of the RAB on an annual basis and present the ERO President with a RAB update report and an auditor’s report on the completion of the agreed review of certain components of that report. The annual update of the RAB can be calculated by the following formula:

$$RAB_t = RAB_{t-1} + I_{t-1} - OP_{t-1} - SP_{t-1} - AR_{t-1} - \Delta I_{t-2}$$

where:

- $RAB_t$ —regulatory asset base for year t (as at the beginning of the tariff year),
- t—tariff year;
- $AR_{t-1}$  denotes the depreciation of RAB for year t-1;
- $I_{t-1}$  denotes the amount of capital expenditures taken into account by the ERO President in calculating the tariff for year t-1;
- $OP_{t-1}$ —connection payments taken into account by the ERO President in calculating the tariff for year t-1;
- $\Delta I_{t-2}$  denotes the difference in capital expenditures, connection payments and aid and other sources of financing which are not repayable,
- $SP_{t-1}$ —aid and other sources of financing which are not repayable, planned to be transferred to the grid company in order to finance grid assets in the year t-1.

The following table sets forth update values to RAB included within the report in the periods indicated.

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
$AR_{t-1}$ .....		501.1	508.6	594.8	667.4
$I_{t-1}$ .....		625.7	886.7	1,180.1	1,351.8
$OP_{t-1}$ .....		86.0	108.2	130.0	192.4
$\Delta I_{t-2}$ .....		0.0	(123.9)	(71.7)	(116.5)
$SP_{t-1}$ .....		0.0	0.0	7.4	11.1
<b><math>RAB_t</math></b> .....	<b><u>8,467.6</u></b>	<b><u>8,506.2</u></b>	<b><u>8,899.9</u></b>	<b><u>9,419.4</u></b>	<b><u>10,016.7</u></b>

Source: Company (unaudited data).

Due to the above-mentioned roadmap to achieving compensation for the full RAB in the Tariff, the value of return on capital calculated on the basis of revalued RAB steadily increased each year.

The following table sets forth the increasing value of return on capital calculated on the basis of revalued RAB.

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
RAB <sub>t</sub> . . . . .	8,506.2	8,899.9	9,419.4	10,016.7
Return on capital calculated on the basis of revalued RAB (according to the formula of 1.5% of allowed revenue) . . . .	395.0	436.9	479.7	524.7
WACC . . . . .	10.519%	9.597%	9.624%	8.949%
Return on capital calculated on the basis of investments completed after 31.12.2008 . . . . .	55.7	133.5	233.2	319.0
<b>Total return on capital taken into account in calculating allowed revenue . . . . .</b>	<b>450.7</b>	<b>570.4</b>	<b>713.4</b>	<b>843.7</b>
Return on capital calculated without roadmap to achieving full return on RAB . . . . .	894.8	854.1	906.5	896.4
RAB compensated in the tariff . . . . .	4,284.6	5,943.5	7,408.4	9,428.4
RAB not compensated in the tariff . . . . .	4,221.6	2,956.4	2,011.0	588.3
Effective return on RAB . . . . .	<u>5.298%</u>	<u>6.409%</u>	<u>7.574%</u>	<u>8.423%</u>

Source: Company (unaudited data).

#### Network losses

Network losses of electricity in the process of distribution include (i) technical losses, i.e. the transformation of electricity into heat during the flow of the electrical current through the distribution system, and (ii) commercial losses arising from the illegal abstraction of electricity as well as from metering errors or non-simultaneous reading of meters.

One of the elements of our strategy and of the investment programme is the modernisation and expansion of the distribution system and investments in a new distribution infrastructure to limit network losses, decrease the frequency of failures and shorten interruptions in electricity supplies (see “—Strategy” and “—Investment programme”).

The level of our network losses in electricity distribution (calculated as a ratio of the total volume of the aggregate network losses and the volume of electricity plugged into the network) reached 6.2%, 6.4% and 6.9% in the years ended 31 December 2012, 2011, and 2010, respectively. ENERGA-OPERATOR is systematically implementing a programme of reduction of system losses through an array of investment projects aimed at the modernisation and upgrade of the distribution network (new or modernised lines, cables or transformers) and through the implementation of smart metering systems.

The table below presents the ratio of costs due to network losses included in the tariff to the total costs due to network losses of ENERGA-OPERATOR in the periods indicated.

	<u>Year ended 31 December</u>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Costs of system losses deemed justified by the ERO (PLN million) . . . . .	339.0	323.4	313.0
Actual costs of system losses (PLN million) . . . . .	307.4	324.7	355.0
Actual costs/ justified costs . . . . .	90.7%	100.4%	113.4% <sup>(1)</sup>

(1) In 2010, ENERGA-OPERATOR incurred a higher cost of transmission losses than that recognised by the ERO President as justified in the tariff for 2010. The electricity purchase price paid by ENERGA-OPERATOR was 23% higher and the transmission 8% lower than recognised by the ERO President in the tariff.

Source: Company (unaudited data).

The costs of purchasing electricity to cover the network losses are defined in the tariff based on the price accepted by the ERO (which may differ from the actual electricity purchase prices for the DSO) and the quantity estimated by the ERO.

## OUR BUSINESS

The table below presents the volume of the network losses in the periods indicated.

	Year ended 31 December		
	2012	2011	2010
<b>Annual network losses (MWh)</b> . . . . .	<b>1,537,030.2</b>	<b>1,564,803.0</b>	<b>1,695,550.1</b>
Ratio of total network losses (%) . . . . .	6.2	6.4	6.9
<b>Network losses deemed justified by the ERO President (MWh)</b>	<b>1,637,596.0</b>	<b>1,720,000.0</b>	<b>1,841,000.0</b>
Actual network losses / justified network losses (MWh) . . . . .	(100,565.8)	(155,197.0)	(145,449.9)
Actual network losses / justified network losses (%) . . . . .	(6.1)	(9.0)	(7.9)

Source: Company.

### Interruptions in electricity supply

ENERGA-OPERATOR, was the first, among the domestic DSOs with a dispersed structure, to implement a uniform IT platform (Network Assets Management System—SID—integrated with SCADA), which was introduced as of the beginning of 2011. The platform enables centralised registration of planned and forced outages resulting in interruptions to the electricity supply to end-customers. From that time on, any interruptions in electricity supply to customers are recorded in a detailed and uniform manner in all branches of ENERGA-OPERATOR.

Interruptions in the distribution network are reflected in the System Average Interruption Duration Index indicating the average duration of long and very long system interruptions expressed in minutes per customer per year (SAIDI) and in the System Average Interruption Frequency Index indicating the average frequency of long and very long system interruptions (SAIFI). The SAIDI and SAIFI indices are calculated separately for planned and unplanned interruptions, taking or not taking into account any catastrophic system failures.

The table below presents the SAIDI and SAIFI indices which we reached in the periods indicated.

	SAIDI			SAIFI		
	unplanned	unplanned and catastrophic*	planned	Unplanned	unplanned and catastrophic	planned
	Number of minutes per customer in the period			Interruptions per customer in the period		
Nine-month period ended						
30 September 2013 . . . . .	112.30	113.40	47.30	1.90	1.90	0.29
Nine-month period ended						
30 September 2012 . . . . .	174.00	177.30	57.10	2.72	2.73	0.30
Year ended 31 December 2012 . .	221.10	225.10	83.70	3.39	3.39	0.43
Year ended 31 December, 2011 .	418.70	472.90	130.40	4.84	4.86	0.59
Year ended 31 December, 2010 .	306.20	404.30	122.50	4.02	4.07	0.48

- As defined in the Network Ordinance, catastrophic failures are interruptions in the energy supply to end-customers lasting more than 24 hours (regardless of their cause).

Source: Company.

The significant deterioration of the SAIDI/SAIFI indices in 2011 was due to a considerably higher number of catastrophic outages caused by unfavourable weather conditions, as compared to 2010 and 2012. Despite the above factors, the following efforts were instrumental in improving the continuity of supply indices in the years 2010-2012: (i) the consistently implemented investment programme, in which the modernisation of existing assets is aimed primarily at improving the continuity of supply and reducing the technical losses; and (ii) operation and maintenance efforts aimed at eliminating the risks relating to unfavourable weather conditions, as well carrying out any planned outages in a manner that does not result in interruptions of electricity supply to customers, by employing, among others, live-line working technologies.

Our objective is to ensure maximum reliability in our electricity supply to our customers. Thanks to our efforts aimed at improving the quality of operations and organisation of work, and due to our network



modernisation projects carried out in the recent years, including capital expenditures on network components and on pieces of equipment that were most prone to failure or in poor technical condition, our reliability indices improved. The aggregate SAIDI index was reduced from 527 minutes per customer in the year ended 31 December 2010 to 309 minutes per customer in the year ended 31 December 2012, while the aggregate SAIFI metric declined from 4.6 interruptions per customer in the year ended 31 December 2010 to 3.8 interruptions per customer in the year ended 31 December 2012. The initiatives undertaken ensured that in the year ended 31 December 2012 we had a leading position amongst the four largest DSO operating in the Polish market in terms of reliability of electricity distribution, measured in values of the SAIDI and SAIFI indices. We estimate that the improvement of the SAIDI and SAIFI metrics in 2012 gave us savings of close to PLN 16 million.

### *Restructuring*

In the years 2009-2012, we reorganised our electricity distribution segment in order to improve its profitability. The restructuring efforts concerned mainly a reduction in the headcount by 21% from 8,210 as at 1 January 2009 to 6,525 as at 30 September 2013.

The subsequent element of the restructuring process was the implementation of a programme for the optimisation of operating costs, which involved increased cost discipline and the implementation of subsequent restructuring stages aimed at the optimisation of processes. These actions included, among other things, the launch of both central and regional load dispatch centres, in order to reduce the number of locations where grid operation is managed and the transfer, with effect from 1 November 2011, the accounting, HR and payroll processing services to ENERGA CUW.

The main purpose behind the reorganisation of our distribution segment in the years 2009-2012 was to reduce the difference between the operating costs included by the ERO in the calculation of the distribution tariff and the operating costs actually incurred by ENERGA-OPERATOR. Our aim is to reduce that difference to 2.7% in 2013, 1.8% in 2014 and 1.9% in 2015.

In 2013 we undertook to increase the effectiveness of the implementation of investment projects in the distribution segment of electricity, mostly through finding less expensive and more effective ways to implement projects than previously. This will mostly mean that the scope of investment operations of the Group companies will be limited and that such operations will be outsourced. The purpose of such solution is to carry out the planned investment project but with lower capital expenditures.

Changes to the business profile of six operational/investment subsidiaries are currently underway. In 2014 the subsidiaries will cease to engage in any investment projects involving the assets of ENERGA-OPERATOR, due to the high cost of such work.

In June 2013 we commenced the sale of shares in subsidiaries that engage in network projects to an engineering and design company and shares in certain manufacturing companies. These companies operate on a competitive market and provide services which may be purchased by ENERGA-OPERATOR from many suppliers.

On 24 September 2013, as a result of a change of the business profile of six operational/investment subsidiaries, the Management Board of ENERGA-OPERATOR decided to terminate a portion of the Service Level Agreement with these companies, relating to the completion of investment work, effective as of the end of March 2014. Ultimately, any investment tasks are to be carried out on an arm's length basis by entities that are unrelated to ENERGA-OPERATOR, which is aimed at reducing the cost of these tasks. Simultaneously, the Management Board of ENERGA-OPERATOR and the management boards of companies engaged in network maintenance have prepared the following package for employees responsible for the completion of investment tasks who will opt for voluntary redundancy: (i) a compensation payment; or (ii) a compensation payment combined with a 3-year warranty of receiving arm's length assignments for investment work for ENERGA-OPERATOR with a value of PLN 161 thousand per year. Furthermore, a separate programme was prepared for employees who will acquire retirement or pre-retirement benefit entitlement by no later than 31 December 2015.

As part of the restructuring efforts, the services relating to the operation, maintenance and management of real properties unrelated to the energy business of ENERGA-OPERATOR (facility management), which until then had been provided by the employees or ENERGA-OPERATOR and external non-Group

## OUR BUSINESS

entities, were entirely outsourced to two special purpose vehicles established by ENERGA-OPERATOR. When the newly-established special purpose vehicles took over the existing workplaces and employees related to facility management as of 1 October 2013 and when the agreements for the provision of facility management services to ENERGA-OPERATOR were signed, the shares in the special purpose vehicles were sold to power industry investors. The purpose of these actions is to obtain savings resulting from the lower costs of facility management.

### Generation

As at the 30 September 2013, the total installed electricity generating capacity in our power plants was approximately 1.3 GW. The installed electricity capacity of power plants is based on diversified energy sources, such as coal, water and biomass, and, more recently, wind.

The table below presents information on the electricity generation, broken down by individual business segments in the periods indicated.

Generation GWh	Nine-month period ended 30 September				Year ended 31 December					
	2013		2012		2012		2011		2010	
	gross	net	gross	net	gross	net	gross	net	gross	net
System power plants . . . . .	2,784.5	2,534.5	2,572.2	2,328.9	3,171.7	2,865.6	3,536.5	3,216.7	3,141.1	2,835.0
CHP . . . . .	105.2	87.7	102.1	85.5	145.6	122.0	140.3	117.6	147.9	123.4
RES . . . . .	866.1	852.7	599.8	590.1	754.5	742.1	1,005.5	988.6	1,267.3	1,249.8
<b>Total electricity generation . . . . .</b>	<b>3,755.9</b>	<b>3,474.9</b>	<b>3,274.1</b>	<b>3,004.5</b>	<b>4,071.8</b>	<b>3,729.7</b>	<b>4,682.3</b>	<b>4,322.9</b>	<b>4,556.3</b>	<b>4,208.3</b>

Source: Company.

The table below presents selected financial information for the generation segment.

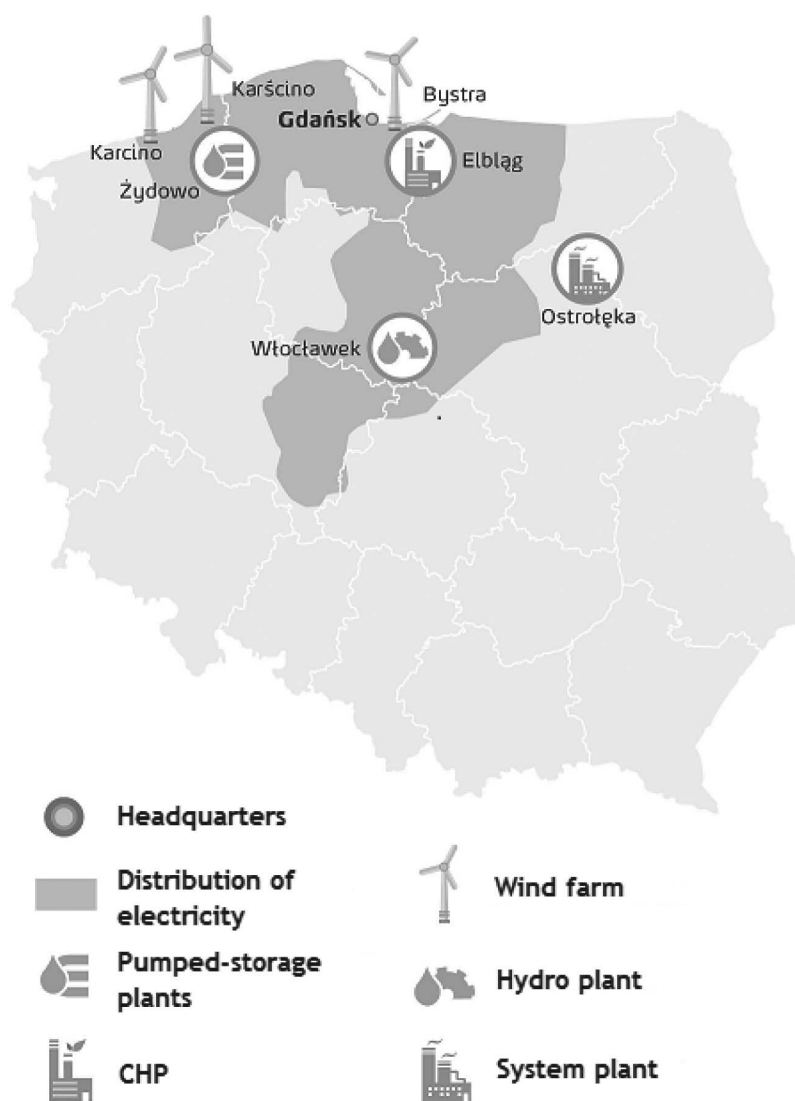
	As at or for nine-month period ended 30 September		As at or for year ended 31 December**		
	2013	2012	2012**	2011**	2010**
	(PLN million)				
Sales to external clients . . . . .	835.6	754.6	940.4 <sup>(1)*</sup>	888.8 <sup>(1)*</sup>	1,145.8 <sup>(1)*</sup>
Inter-segment sales . . . . .	280.2	403.5	607.2 <sup>(1)*</sup>	937.1 <sup>(1)*</sup>	461.4 <sup>(1)*</sup>
Total segment revenues . . . . .	1,115.8	1,158.2	1,547.7 <sup>(1)*</sup>	1,826.0 <sup>(1)*</sup>	1,607.1 <sup>(1)*</sup>
EBITDA <sup>(1)</sup> . . . . .	198.6	114.8	158.2 <sup>(1)*</sup>	498.5 <sup>(1)*</sup>	591.0 <sup>(1)*</sup>
Adjusted EBITDA <sup>(2)*</sup> . . . . .	322.4	238.1	293.3*	509.6*	686.3*
Net profit/(loss) for the period . . . . .	83.4	4.1	24.1 <sup>(1)*</sup>	345.7 <sup>(1)*</sup>	401.9 <sup>(1)*</sup>
Capital expenditure . . . . .	1,218.0	222.3	414.7 <sup>(1)*</sup>	200.7 <sup>(1)*</sup>	179.1 <sup>(1)*</sup>

(1) The Company changed the presentation of the segments in the Condensed Interim Consolidated Financial Statements (see: “Operating and Financial Review—Reporting by segments” and “Important Information—Financial information and operating data—Changes in the presentation” above). With reference to these changes, in order to ensure the comparability of financial information for the segments between the Condensed Interim Consolidated Financial Statements and the Consolidated Financial Statements, the relevant items are presented in accordance with the manner adopted for the Condensed Interim Consolidated Financial Statements.

(2) We define and calculate EBITDA for individual business segments as a profit/(loss) on operating activity of that segment (calculated as the net profit/(loss) on continuing operations of that segment for the financial period/year adjusted for (i) income tax for that segment, (ii) shares in profits/losses of associates (iii) finance income and (iv) finance costs of that segment adjusted for depreciation and amortisation (as disclosed in the income statement). The Company defines and calculates Adjusted EBITDA for individual business segments as EBITDA adjusted to the effect of one-off events for individual segments. The calculation of EBITDA and Adjusted EBITDA was specified in detail in “Important Information—Financial information and operating data—Financial information not based on GAAP (Generally Accepted Accounting Principles)”. Both EBITDA and Adjusted EBITDA are not defined by the IFRS and should not be treated as alternative to IFRS measures and categories. Moreover, neither EBITDA nor Adjusted EBITDA have any uniform definition. The method of calculating EBITDA and Adjusted EBITDA used by other companies may differ significantly from that used by us. In consequence, the EBITDA and Adjusted EBITDA presented in this section cannot, as such, be relied upon for the purpose of comparisons with the EBITDA and Adjusted EBITDA reported by other companies. A reconciliation of net profit/(loss) for the period/year and EBITDA, is presented in “Important Information—Financial information and operating data—Financial information not based on GAAP (Generally Accepted Accounting Principles)”.

Source: Condensed Interim Consolidated Financial Statements; \*Company (unaudited).

The figure below shows the location of our main generating assets.



Source: Company.

The generation segment comprises the following operating subsegments: renewable energy sources, system power plants and CHP.

Operations within the system power plants subsegment are conducted by ENERGA Elektrownie Ostrołęka, which generated 2.8 TWh of electricity and 1,038.5 TJ of heat in the nine-month period ended 30 September 2013 and 3.2 TWh, 3.5 TWh and 3.1 TWh of electricity and 1,603.8 TJ, 1,449.5 TJ and 3,316.2 TJ of heat in the years ended 31 December 2012, 2011, and 2010, respectively.

Operations within the renewable energy sources subsegment are conducted mainly by ENERGA Hydro, which generated 0.8 TWh of electricity in the nine-month period ended 30 September 2013 and 0.8 TWh, 1.0 TWh and 1.3 TWh of electricity in the years ended 31 December, 2012, 2011, and 2010, respectively. Following the acquisition in June and July 2013 of a portfolio of wind farms from DONG Energy Wind Power A/S and Iberdrola Renovables Energia S.A.U., we increased our RES installed capacity by 165 MW.

Operations in the CHP subsegment are pursued by ENERGA Kogeneracja and ENERGA Elektrociepłownia Kalisz, which generated 0.1 TWh of electricity and 1,718.2 TJ of heat in the nine-month period ended 30 September 2013 and 0.1 TWh, 0.1 TWh. and 0.1 TWh of electricity and 2,495.8 TJ, 2,449.5 TJ and 2,826.3 TJ of heat in the years ended 31 December 2012, 2011, and 2010, respectively.

## OUR BUSINESS

The table below presents information concerning the achievable electricity and heat generation capacity in the Group as at the indicated dates.

Company	Fuel	Achievable electricity generation capacity (MWe)					Achievable heat generation capacity (MWt)				
		As at 30 September		As at 31 December			As at 30 September		As at 31 December		
		2013	2012	2012	2011	2010	2013	2012	2012	2011	2010
ENERGA Elektrownie Ostrołęka . . .	Coal/biomass	722.0	722.0	722.0	722.0	722.0	394.3	394.3	394.3	394.3	394.3
ENERGA Hydro . . . . .	hydro	310.4**	358.7	361.9	358.7	358.2	0.0	0.0	0.0	0.0	0.0
ENERGA Kogeneracja . . . . .	coal/gas	42.0	42.0	42.0	42.0	42.0	246.9	246.9	246.9	270.9	270.9
ENERGA Kalisz CHP plant . . . . .	coal	7.0	7.0	7.0	7.0	7.0	106.0	106.0	106.0	106.0	106.0
ENERGA Hydro . . . . .	wind	51.0	—	—	—	—	—	—	—	—	—
ZCP Karścino . . . . .	wind	90.0	—	—	—	—	—	—	—	—	—
ZCP Bystra . . . . .	wind	24.0	—	—	—	—	—	—	—	—	—
<b>Total . . . . .</b>		<b>1,246.4</b>	<b>1,129.7</b>	<b>1,132.9</b>	<b>1,129.7</b>	<b>1,129.2</b>	<b>747.2</b>	<b>747.2</b>	<b>747.2</b>	<b>771.2</b>	<b>771.2</b>

\* The achievable capacity lower as at 30 September 2013 than as at 31 December 2012 is due to the on-going modernisation, and hence the outage for that time of a hydro turbine set in the Pumped-Storage Plant in Żydowo

Source: Company.

The table below presents the level of gross electricity generation in the Group broken down by sources in the periods indicated.

Fuel	Nine-month period ended 30 September				Year ended 31 December					
	2013		2012		2012		2011		2010	
	(GWh)	(%)	(GWh)	(%)	(GWh)	(%)	(GWh)	(%)	(GWh)	(%)
<b>Total ENERGA electricity generation . . . . .</b>	<b>3,755.9</b>	<b>100.0</b>	<b>3,274.1</b>	<b>100.0</b>	<b>4,071.8</b>	<b>100.0</b>	<b>4,682.3</b>	<b>100.0</b>	<b>4,556.3</b>	<b>100.0</b>
<b>Generation of electricity from conventional sources . . . . .</b>	<b>2,382.5</b>	<b>63.4</b>	<b>2,251.5</b>	<b>68.8</b>	<b>2,765.4</b>	<b>67.9</b>	<b>3,367.8</b>	<b>71.9</b>	<b>2,999.2</b>	<b>65.8</b>
ENERGA Elektrownie Ostrołęka . . . . .	2,277.3	60.6	2,149.4	65.6	2,619.8	64.3	3,227.5	68.9	2,851.3	62.6
ENERGA Kogeneracja . . . . .	93.5	2.5	89.4	2.7	126.5	3.1	122.9	2.6	129.6	2.8
ENERGA Kalisz CHP . . . . .	11.7	0.3	12.7	0.4	19.1	0.5	17.4	0.4	18.3	0.4
<b>Generation of electricity from renewable energy sources . . . . .</b>	<b>1,358.7</b>	<b>36.2</b>	<b>1,008.6</b>	<b>30.8</b>	<b>1,284.9</b>	<b>31.6</b>	<b>1,292.2</b>	<b>27.6</b>	<b>1,516.1</b>	<b>33.3</b>
ENERGA Hydro . . . . .	809.7	21.6	585.8	17.9	733.0	18.0	983.2	21.0	1,226.3	26.9
ENERGA Elektrownie Ostrołęka . . . . .	507.2	13.5	422.8	12.9	551.9	13.6	309.0	6.6	289.8	6.4
Wind farms . . . . .	41.8	1.1	—	—	—	—	—	—	—	—
<b>Pumped-storage power plant in Żydowo . . . . .</b>	<b>14.6</b>	<b>0.4</b>	<b>14.0</b>	<b>0.4</b>	<b>21.5</b>	<b>0.5</b>	<b>22.3</b>	<b>0.5</b>	<b>41.0</b>	<b>0.9</b>

Source: Company.

The table below presents the level of gross heat generation in the Group broken down by sources in the periods indicated.

	Nine-month period ended 30 September				Year ended 31 December					
	2013		2012		2012		2011		2010	
	(TJ)	(%)	(TJ)	(%)	(TJ)	(%)	(TJ)	(%)	(TJ)	(%)
<b>Total heat generation of</b>										
<b>ENERGA Group</b>	<b>2,756.6</b>	<b>100.0</b>	<b>2,819.4</b>	<b>100.0</b>	<b>4,099.6</b>	<b>100.0</b>	<b>3,899.0</b>	<b>100.0</b>	<b>6,142.5</b>	<b>100.0</b>
<b>ENERGA Elektrownie</b>										
<b>Ostrołęka</b>	<b>1,038.5</b>	<b>37.7</b>	<b>1,147.9</b>	<b>40.7</b>	<b>1,603.8</b>	<b>39.1</b>	<b>1,449.5</b>	<b>37.2</b>	<b>3,316.2</b>	<b>54.0</b>
<i>Coal</i>	872.4	31.6	901.4	32.0	1,288.3	31.4	1,305.5	33.5	2,762.5	45.0
<i>Biomass co-combustion</i>	166.1	6.0	246.6	8.7	315.5	7.7	143.9	3.7	553.7	9.0
<b>ENERGA Kogeneracja</b>	<b>1,369.5</b>	<b>49.7</b>	<b>1,334.9</b>	<b>47.3</b>	<b>2,010.6</b>	<b>49.0</b>	<b>1,975.1</b>	<b>50.7</b>	<b>2,277.3</b>	<b>37.1</b>
<i>Coal</i>	1,366.0	49.6	1,330.1	47.2	2,001.7	48.8	1,972.2	50.6	2,273.9	37.0
<i>Biomass</i>	1.7	0.1	2.8	0.1	5.6	0.1	0.0	0.0	0.0	0.0
<i>Gas</i>	1.8	0.1	2.0	0.1	3.3	0.1	2.9	0.1	3.3	0.1
<b>ENERGA Elektrociepłownia</b>										
<b>Kalisz</b>	<b>348.7</b>	<b>12.6</b>	<b>336.5</b>	<b>11.9</b>	<b>485.2</b>	<b>11.8</b>	<b>474.4</b>	<b>12.2</b>	<b>549.0</b>	<b>8.9</b>

Source: Company.

The table below sets forth information on the capacity utilisation ratio of electric and heat capacity in the Group, in the indicated period.

	Year ended 31 December 2012	
	Capacity utilisation ratio of electricity (%)	Capacity utilisation ratio of heat (%)
Elektrownia Ostrołęka B	54.60	N/A
Elektrociepłownia Ostrołęka A	10.10	12.90
Cogeneration—Elektrociepłownia Elbląg	29.39	26.82
Cogeneration—Ciepłownia Żychlin	N/A	17.86
Cogeneration—Ciepłownia Wyszogród	N/A	18.50
Cogeneration—Ciepłownia Winnica	N/A	11.49
Elektrociepłownia Kalisz	27.20	12.00
Hydroelectric Plant in Włocławek	42.89	N/A
Pumped-storage power plant in Żydowo	N/A	N/A
Small hydro plants	54.01	N/A

Source: Company.

#### Renewable energy sources

We are the leader among the largest energy groups operating on the Polish market in terms of the share of electricity generated from renewable energy sources in our total generated electricity. The generation of green energy takes place in a network of 46 run-of-river plants, a pumped-storage plant, biomass-combustion systems as well as recently acquired wind farms. As at the date of this Offering Circular, our generation segment has 508.1 MWe of renewable installed capacity, or 38.6% of our total installed capacity.

In the nine-month period ended 30 September 2013, electricity generated by our renewable facilities (hydroelectric plants and biomass co-combustion systems) was 1.4 TWh, or 36% of our total energy production. In the years ended 31 December 2012, 2011, and 2010 electricity generated by our renewable facilities was 1.3 TWh, 1.3 TWh and 1.5 TWh, respectively, or 32%, 28% and 33% of our total electricity generation, respectively.

The assets of all the 46 hydroelectric power plants and one pumped-storage power plant (which does not qualify as a renewable energy source) are held by ENERGA Hydro, which also acts as the operator in all the Group's hydroelectric power plants.

## OUR BUSINESS

The largest hydroelectric plant of ENERGA Hydro is located in Włocławek on the Vistula River, and has an installed capacity of 160.2 MWe. It is also the largest run-of-river power plant in Poland. ENERGA Hydro also controls the Żydowo pumped-storage plant, which, under a long-term agreement signed on 28 August 2009, provides ancillary regulatory services to PSE in relation to regulation of the KSE (see “—Material agreements—Peak-load generation agreement of 28 August 2009 between ENERGA Hydro and PSE”). A comprehensive modernisation of the pumped-storage plant in Żydowo was completed in October 2013. As part of the modernisation project, a major part of the plant’s equipment was modernised and through an increase in the hydroelectric units’ efficiency, the achievable capacity of the plant increased by 10 MWe from 157 MWe to 167 MWe.

The table below presents the electricity generation and sales of ENERGA Hydro in the periods indicated.

	Nine-month period ended 30 September				Year ended 31 December					
	2013		2012		2012		2011		2010	
	Generation	Sales	Generation	Sales	Generation (GWh)	Sales	Generation	Sales	Generation	Sales
EW Włocławek . . . . .	719.6	699.4	486.8	478.6	603.5	593.0	857.0	806.8	1,102.6	1,022.1
ESP Żydowo . . . . .	14.6	14.6	14.0	14.0	21.5	21.5	22.3	22.3	41.0	41.0
Other . . . . .	90.1	88.8	99.0	97.5	129.5	127.6	126.2	124.2	123.7	121.0
<b>Total . . . . .</b>	<b>824.3</b>	<b>802.8</b>	<b>599.8</b>	<b>590.1</b>	<b>754.5</b>	<b>742.1</b>	<b>1,005.5</b>	<b>953.3</b>	<b>1,267.3</b>	<b>1,184.2</b>

Source: Company.

The table below presents selected information on our hydroelectric plants as at the date of this Offering Circular.

Name	River	Type	Year built/modernised	Number of generating units	Installed capacity (MWe)
EW Włocławek . . . . .	Wisła	Run-of-the-river	1970/2007-2012	6	160.2
ESP Żydowo . . . . .	Jezioro Kamienne i Jezioro Kwiecko	Pumped-storage	1971/2011- 2013/	3	150.0
EW Bielkowo . . . . .	Radunia	Run-of-the-river	1925/2008 and 2011	3	6.7
EW Gałąźnia Mała . . . . .	Słupia	Run-of-the-river	1912/14	6	4.3
EW Rosnowo . . . . .	Radew	Run-of-the-river	1924/2009	3	3.3
EW Pierzchały . . . . .	Pasłęka	Run-of-the-river	1913/16	3	2.6
EW Straszyn . . . . .	Radunia	Run-of-the-river	1910/1932/1937/2009	3	2.4
EW Strzegomino . . . . .	Słupia	Run-of-the-river	1922/24	3	2.4
EW Łapino . . . . .	Radunia	Run-of-the-river	1925/1999/2010	2	2.3
EW Brąswałd . . . . .	Łyna	Run-of-the-river	1936/2003	2	2.2
EW Niedalino . . . . .	Radew	Run-of-the-river	1912	3	1.1
EW Kotowo . . . . .	Łyna	Run-of-the-river	2010	2	1
EW Krzynia . . . . .	Słupia	Run-of-the-river	1925/1926	2	0.9
EW Borowo . . . . .	Drawa	Run-of-the-river	1916/1918	2	0.9
EW Łyna . . . . .	Łyna	Run-of-the-river	1916/1996	2	0.9
EW Prędzieszyn . . . . .	Radunia	Run-of-the-river	1937/2008	2	0.9
EW Kuźnice . . . . .	Radunia	Run-of-the-river	1908/1934/1961/2006	2	0.7
EW Braniewo . . . . .	Pasłęka	Run-of-the-river	1930	2	0.7
EW Wojdyty . . . . .	Łyna	Run-of-the-river	2002	2	0.6
EW Lidzbark Warmiński . . . . .	Łyna	Run-of-the-river	1906/2001	2	0.6
EW Oława II . . . . .	Kanał Młynówka, Odra	Run-of-the-river	1991/2004	4	0.6
EW Rutki . . . . .	Radunia	Run-of-the-river	1910/2012	2	0.5
EW Rakowiec . . . . .	Nogat	Run-of-the-river	1934/35/2002	1	0.54
EW Kępka . . . . .	Wieprza	Run-of-the-river	1911/1998	2	0.5
EW Kępice . . . . .	Wieprza	Run-of-the-river	1918/1994	3	0.5
EW Biesowice I . . . . .	Wieprza	Run-of-the-river	1905	3	0.4
EW Kolincz . . . . .	Wierzyca	Run-of-the-river	1912	1	0.4
EW Rościno . . . . .	Parseła	Run-of-the-river	1935/36/undergoing modernisation	2	0.4
EW Żelkowo . . . . .	Łupawa	Run-of-the-river	1906 /1951	2	0.4
EW Stocki Młyn . . . . .	Wierzyca	Run-of-the-river	1908/1963/1994	1	0.4
EW Pieniężno . . . . .	Walsza	Run-of-the-river	1914/1958	2	0.4
EW Struga . . . . .	Słupia	Run-of-the-river	1896/2009/2012	1	0.3
EW Czarnocińskie Piece . . . . .	Wierzyca	Run-of-the-river	1907/2002/2009	1	0.3



Name	River	Type	Year built/modernised	Number of generating units	Installed capacity (MWe)
EW Pruszcz II . . . . .	Radunia	Run-of-the-river	2005	1	0.3
EW Owidz . . . . .	Wierzyca	Run-of-the-river	1910/1978/2006	1	0.3
EW Smoldzino . . . . .	Łupawa	Run-of-the-river	1935 /1957/2000/2004	2	0.3
EW Juszkowo . . . . .	Radunia	Run-of-the-river	1934/2006/2012	1	0.2
EW Wadąg . . . . .	Wadąg	Run-of-the-river	1935/1998	1	0.2
EW Skarszów Dolny . . . . .	Skotawa	Run-of-the-river	1922/2008	1	0.2
EW Drżezewo . . . . .	Łupawa	Run-of-the-river	1925/2006	1	0.2
EW Pruszcz I . . . . .	Radunia	Run-of-the-river	1921/2000/2011	1	0.1
EW Łupawa . . . . .	Łupawa	Run-of-the-river	1925/1982	1	0.08
EW Poganice . . . . .	Łupawa	Run-of-the-river	1938/1991	1	0.08
EW Ciecholub . . . . .	Studnica	Run-of-the-river	1910/1981/1998	1	0.07
EW Łebień I . . . . .	Łupawa	Run-of-the-river	1933/1997	1	0.05
EW Łebień II . . . . .	Łupawa	Run-of-the-river	1990	1	0.05
EW Biesowice II . . . . .	Wieprza	Run-of-the-river	1985	1	0.04

Source: Company.

On 19 February 2013, ENERGA Hydro acting in a consortium with PGE executed a preliminary agreement for the purchase of shares in the companies comprising the on-shore wind assets of Dong Energy Wind Power A/S in Poland. The transaction was finalised on 28 June 2013, after receiving merger approval from the AMO President. As a result of the acquisition of shares, the Group obtained one operating 51.0 MWe wind farm in Karcino (see “—Material agreements—Share purchase agreements—Agreement on the purchase by ENERGA Hydro of shares in certain DONG Energy Wind Power A/S subsidiaries”).

On 26 February 2013, ENERGA Hydro in consortium with PGE, entered into a preliminary agreement for the purchase of shares in Iberdrola Renewables Polska sp. z o.o. (currently: EPW Energia sp. z o.o.). After completing the conditions precedent, the transaction was finalised on 31 July 2013. As a result of the transaction ENERGA Hydro holds 67.3% of the shares in Iberdrola Renewables Polska sp. z o.o. (currently: EPW Energia sp. z o.o.), and upon completing Iberdrola’s demerger, the Group will become the sole owner in the following wind farms: Karścino with the capacity of 90.0 MWe and Bystra with the capacity of 24.0 MWe (see “—Material agreements—Share purchase agreements—Agreement on the purchase of shares in Iberdrola Renewables Polska sp. z o.o. (subsequently: EPW Energia sp. z o.o.) by ENERGA Hydro”). On 28 October 2013 a demerger plan for EPW Energia sp. z o.o. was signed by the management boards of the companies participating in the demerger, i.e. EPW Energia sp. z o.o. (to be de-merged) and EPW Parsówek sp. z o.o. and PGE Energia Natury sp. z o.o. (the acquiring companies).

Under the transactions discussed above, we also acquired a portfolio of wind projects at varying stages of implementation. The aggregate planned capacity of these projects is 1,438 MW. The Company is planning to commission between 180 MW and 200 MW under these projects by 2020. The projects are part of our strategic investment plan.

The table below presents selected information on our wind farms: Karcino, Karścino and Bystra, including information on the gross electricity generation in the periods indicated. The data presented in the table also refers to those historical periods in which the assets were not part of the Group. Therefore, the data gives no information on the historical generation of the Group and does not affect the financial results of the Group achieved before the Group acquired control of the wind farms.

Wind farm	Installed capacity (MW)	Year commissioned	Turbine manufacturer	Gross generation (GWh) <sup>(2)</sup>			
				Nine-month period ended 30 September	Year ended 31 December		
					2013	2012	2011
Karścino . . . . .	90.0	2009	Führlander	101.4	179.8	189.0	163.7
Karcino . . . . .	51.0	2010	Vestas	68.8	113.3	114.3	66.1
Bystra <sup>(1)</sup> . . . . .	24.0	2012	Gamesa	26.2	25.2	—	—

(1) The Bystra wind farm was commissioned in June 2012.

(2) In the first year of operation, a wind farm is in the start-up phase, thus the volume of electricity generated during that time may not be considered indicative of the future generation of the farm.

Source: Company.

## OUR BUSINESS

We are eligible to obtain one green certificate of origin for every MWh of electricity generated by our wind farms. As at the date of this Offering Circular, the agreement is signed for the sale of electricity and property rights (certificates) from the Karścino wind farm to ENERGA-OBRÓT. Furthermore, negotiations are underway with ENERGA-OBRÓT regarding the execution of an agreement for the sale of electricity and property rights (certificates) from the Bystra wind farm and the Karcino wind farm. We estimate that the operating costs of our wind farms are at a level typical for wind farms in Poland.

### *System power plants*

Our biggest electricity generation asset is ENERGA Elektrownie Ostrołęka, which is the largest electricity and heat generator in north-eastern Poland. As at 30 September 2013, the aggregate electricity generation capacity installed at ENERGA Elektrownie Ostrołęka was 740.5 MWe, and the aggregate installed heat generation capacity was 417.2 MWt. ENERGA Elektrownie Ostrołęka is made up of two plants: Elektrownia Ostrołęka B and Elektrociepłownia Ostrołęka A (a CHP plant). ENERGA Elektrownie Ostrołęka is the sole system power plant in north-eastern Poland that is obliged to supply electricity to balance the KSE (the “must-run generation”). The table below sets forth information on the volume of must-run generation in relation to the total net volume of electricity generation at Elektrownia Ostrołęka B.

Elektrownia Ostrołęka B	Nine-month period ended 30 September				Year ended 31 December					
	2013		2012		2012		2011		2010	
	(GWh)	(%)	(GWh)	(%)	(GWh)	(%)	(GWh)	(%)	(GWh)	(%)
Must-run generation . . . . .	1,713.4	68.0	1,273.3	55.2	1,624.1	57.4	1,407.4	45.4	1,798.0	67.3
Total net generation . . . . .	2,519.9	100.0	2,305.2	100.0	2,828.1	100.0	3,097.7	100.0	2,671.9	100.0

Source: Company.

As at the date of this Offering Circular, the largest customers for electricity generated by ENERGA Elektrownie Ostrołęka are PSE (formerly PSE Operator) and ENERGA-OBRÓT. The sales of electricity to PSE accounted for 75.1% of the sales of ENERGA Elektrownie Ostrołęka in the nine-month period ended 30 September 2013 and 52.3%, 35.8% and 75.4% of the sales of ENERGA Elektrownie Ostrołęka in the years ended 31 December 2012, 2011, and 2010, respectively. The sales of electricity to ENERGA-OBRÓT accounted for 18.9% of the sales of ENERGA Elektrownie Ostrołęka in the nine-month period ended 30 September 2013 and 41.8%, 59.5% and 22.3% of the sales of ENERGA Elektrownie Ostrołęka in the years ended 31 December 2012, 2011, and 2010, respectively.

### *Elektrownia Ostrołęka B*

Elektrownia Ostrołęka B was commissioned in 1972 and subsequently modernised in 1990-2013. As at 30 September 2013, the aggregate electricity generation capacity installed at Elektrownia Ostrołęka B was 647 MWe. In connection with electricity generation through the co-combustion of biomass, Elektrownia Ostrołęka B obtains green certificates confirming the generation of electricity from renewable sources (see “Regulatory Matters”).

Elektrownia Ostrołęka B generates only electricity. In 2012, the efficiency of generation units at Ostrołęka B was 36.4% gross and 33.2% net, respectively. In the nine-month periods ended 30 September 2013 and 2012 the net electricity generation at Elektrownia Ostrołęka B amounted to 2.7 TWh and 2.5 TWh respectively (of which 0.5 TWh and 0.4 TWh respectively was generated through biomass co-combustion), and in years ended 31 December 2012, 2011, and 2010, the net electricity generation at Elektrownia Ostrołęka B reached 3.1 TWh, 3.4 TWh and 2.9 TWh, respectively (of which 0.5 TWh, 0.3 TWh and 0.3 TWh, respectively was generated through biomass co-combustion).

At typical operating conditions, the maximum annual electricity generation in the biomass co-combustion process is 679 GWh, with an average annual share of the biomass’ weight in the weight of all the fuel used reaching approximately 25-26%.

The table below sets forth selected operational data of Elektrownia Ostrołęka B in the periods indicated.

	Nine-month period ended 30 September		Year ended 31 December		
	2013	2012	2012	2011	2010
<b>Elektrownia Ostrołęka B</b>					
Coal consumption (thousand metric tons) . . . . .	994.3	934.9	1,135.2	1,389.4	1,184.2
Biomass consumption (thousand metric tons) . . . . .	306.6	240.4	330.6	180.8	159.6
Forced-outage ratio (%) . . . . .	2.7	8.1	8.8	8.5	6.7
Availability ratio (%) . . . . .	85.2	90.5	82.3	87.0	79.2
Capacity utilisation ratio (%) . . . . .	64.8	59.4	54.6	59.6	51.7

Source: Company.

Elektrownia Ostrołęka B is the only system power plant located in north-eastern Poland, and therefore it plays a crucial role from the point of view of the safety of the KSE. Elektrownia Ostrołęka B is a system power plant with three centrally dispatched generation units (CDGU) which ensure the safe operation of the KSE and the maintenance of the voltage levels in the north-eastern region to the Transmission System Operator (PSE). If a CDGU operates upon PSE's request, for the purpose of balancing the power system, the price received by the CDGU for the electricity distributed to the system amounts to 105% of the variable.

Elektrownia Ostrołęka B operates under licences granted to ENERGA Elektrownie Ostrołęka and the transmission services agreement signed with the TSO.

Thanks to the planned installation of NO<sub>x</sub> reduction systems in three generating units in 2014-2016, we expect that Elektrownia Ostrołęka B will be able to continue to operate for an indefinite period.

In 2014 the project for the addition of heat capture capacity to the units at Elektrownia Ostrołęka B will be completed and Elektrownia Ostrołęka B will also commence heat generation (see “—Investment programme—Core investment projects—Generation”).

In 2013-2015 ENERGA Elektrownie Ostrołęka has and will continue to pursue a range of initiatives to improve the cost-effectiveness of the plant. The key initiatives include: (i) renegotiation of agreements with coal and biomass suppliers to reduce the fuel purchase costs and ultimately, to change coal suppliers with a view to reducing the coal transportation costs; (ii) increasing the income from ancillary regulatory services provided to the TSO (PSE Operator); (iii) improving the plant's availability and performance ratios, also to improve the fuel consumption rate; (iv) waste management optimisation; (v) employment structure optimisation, also by outsourcing some of the tasks to separate entities and in the area of administration; (vi) reduction of repair and maintenance costs by reviewing the terms of maintenance agreements; (vii) sale of non-operating assets, which will also help reduce the amount of local taxes.

#### *Elektrociepłownia Ostrołęka A*

Elektrociepłownia Ostrołęka A was commissioned in 1956. It has four generating units and five power boilers. As at 30 September 2013, the aggregate electricity generation capacity installed at Elektrociepłownia Ostrołęka A was 93.5 MWe, and the aggregate installed heat generation capacity was 417.2 MWt.

Elektrociepłownia Ostrołęka A generates electricity in combination with heat. In the nine-month periods ended 30 September 2013 and 2012 (in each of the two periods), net electricity generation at Elektrociepłownia Ostrołęka A amounted to 0.04 TWh, and in the years ended 31 December 2012, 2011, and 2010, net electricity generation at Elektrociepłownia Ostrołęka A amounted to 0.1 TWh, 0.2 TWh and 0.2 TWh, respectively. In the nine-month periods ended 30 September 2013 and 2012, the gross heat generation at Elektrociepłownia Ostrołęka A amounted to 1,038.5 TJ and 1,147.9 TJ, respectively, and in the years ended 31 December 2012, 2011, and 2010 the gross heat generation at Elektrociepłownia Ostrołęka A amounted to 1,603.8 TJ, 1,449.5 TJ and 3,316.2 TJ, respectively. In the years ended 31 December 2012, 2011 and 2010, the net heat generation at Elektrociepłownia Ostrołęka A amounted to: 1,187.5 TJ, 1,197.1 TJ and 2,644.1 TJ, from coal, and 290.8 TJ, 132.0 TJ and 529.9 TJ from biomass, respectively.

The table below presents selected operational data of Elektrownia Ostrołęka A in the periods indicated.

	Nine-month period ended 30 September		Year ended 31 December		
	2013	2012	2012	2011	2010
<b>Elektrownia Ostrołęka A</b>					
Coal consumption (thousand metric tons) . . . . .	88.3	77.1	112.8	161.0	226.6
Biomass consumption (thousand metric tons) . . . . .	37.1	68.4	72.1	69.0	74.2
Forced outage ratio (%) . . . . .	3.2	1.2	0.9	0	0.7
Availability ratio (%) . . . . .	74.9	98.2	98.6	97.8	94.8
Capacity utilisation rate (%) . . . . .	5.8	9.1	10.1	24.0	32.5

Source: Company.

The heat generated by Ostrołęka A is used both by industrial and municipal customers from the city of Ostrołęka.

Due to the use of technological processes that do not guarantee compliance with environmental protection standards, Elektrociepłownia Ostrołęka A CHP plant will be decommissioned before the end of 2015 and the generation of heat needed to meet the demand of Ostrołęka customers will be moved to Elektrownia Ostrołęka B (see “—Investment programme—Core investment projects—Generation”).

### CHP

Our core activity in the CHP subsegment is pursued by ENERGA Kogeneracja. The CHP subsegment’s generation facilities include: Elbląg CHP plant, Kalisz CHP plant, Zychlin heating plant, Wyszogród heating plant and Winnica CHP plant. As a result of modernisation carried out between 1998 and 2011, as at the date of this Offering Circular, our CHP subsegment’s generation facilities meet all the relevant technical, technological and environmental standards.

#### *Elbląg CHP plant*

The Elbląg CHP plant was commissioned in 1928 and subsequently modernised in 2012. As at 30 September 2013, the aggregate electricity generation capacity installed at Elbląg CHP plant was 49.0 MWe, and the aggregate installed heat generation capacity was 293.0 MWt.

The Elbląg CHP plant generated 1,280.3 TJ of heat gross and 0.09 TWh of electricity in the nine-month period ended 30 September 2013 and 1,849 TJ, 1,818 TJ and 2,103 TJ of heat and 0.13 TWh, 0.12 TWh, and 0.13 TWh of electricity in the years ended 31 December 2012, 2011, and 2010, respectively.

ENERGA Kogeneracja is currently constructing a biomass-fired generating unit at the Elbląg CHP plant. The system will include a 25 MWe and 30 MWt turbine/generator set and a steam boiler with a grate, with a capacity of 90 metric tons of steam per hour. The planned annual electricity and heat generation is approximately 165 GWh and 796 TJ, respectively.

The Elbląg CHP plant operates on the local market, supplying heat to the city of Elbląg and process steam to local industries.

#### *Kalisz CHP plant*

The Kalisz CHP plant was commissioned in 1932 and subsequently modernised in 1960-1984. As at 30 September 2013, the aggregate electricity generation capacity installed at the Kalisz CHP plant was 8.0 MWe, and the aggregate installed heat generation capacity was 128.0 MWt.

The Kalisz CHP plant generated 348.7 TJ of heat and 0.01 TWh of electricity in the nine-month period ended 30 September 2013 and 485.2 TJ, 474.4 TJ and 549.0 TJ of heat and 0.02 TWh, 0.02 TWh and 0.02 TWh of electricity in the years ended 31 December 2012, 2011, and 2010, respectively.

The Kalisz CHP plant operates on the local market, supplying heat to the city of Kalisz and process steam to local industries.

*Żychlin heating plant*

The Żychlin heating plant was commissioned in 1971 and subsequently modernised in 1988. As at 30 September 2013, the aggregate heat generation capacity installed at the Żychlin heating plant was 27.1 MWt.

The Żychlin heating plant generated 83.9 TJ of heat in the nine-month period ended 30 September 2013 and 153.1 TJ, 148.7 TJ and 164.9 TJ of heat in the years ended 31 December 2012, 2011, and 2010, respectively.

Żychlin heating plant is the main heat supplier for the town of Żychlin.

*Wyszogród heating plant*

The Wyszogród heating plant was commissioned in 1991 and subsequently modernised in 2001 and 2013. As at 30 September 2013, the aggregate heat generation capacity installed at the Wyszogród heating plant was 0.9 MWt.

The Wyszogród heating plant generated 3.4 TJ of heat in the nine-month period ended 30 September 2013 and 5.3 TJ, 5.2 TJ and 5.7 TJ of heat in the years ended 31 December 2012, 2011, and 2010, respectively.

The heat source located at the Wyszogród heating plant is characterised by year-round heat generation for district heating purposes, as well as warm utility water.

*Winnica CHP plant*

The Winnica CHP plant was commissioned in 2001 and subsequently modernised in 2013. As at 30 September 2013, the aggregate heat generation capacity installed at the Winnica CHP was 0.9 MWt.

The Winnica CHP plant generated 1.8 TJ of heat in the nine-month period ended 30 September 2013 and 3.3 TJ, 2.9 TJ and 3.3 TJ of heat in the years ended 31 December 2012, 2011, and 2010, respectively.

At the Winnica CHP plant, heat is generated seasonally for district heating purposes. The purchaser of heat for district heating purposes is the Winnica commune.

*Sales*

Our sales segment is responsible for trading on the domestic and international wholesale electricity markets and for sales of electricity to households and business customers. ENERGA-OBRÓT acts as the decision-making centre with regard to trading in electricity, certificates of origin and CO<sub>2</sub> emission allowances and ensures the supply of electricity to cover network losses of the DSO. The sales segment also comprises our lighting sub-segment, within which ENERGA Oświetlenie sp. z o.o. provides comprehensive road, street, square and park lighting services as well as the floodlighting of buildings and structures.

To a limited extent, we also operate in foreign markets and cooperate with companies in Germany, the Czech Republic, the UK and Slovakia. ENERGA-OBRÓT is a participant on the key European energy exchanges, such as the German European Energy Exchange, EPEX SPOT, the Scandinavian Nord Pool and the London InterContinental Exchange. Our active presence on the energy market is reflected in the level of sales of electricity, significantly exceeding the level of the Group's generation capacity.



## OUR BUSINESS

The table below presents selected financial information related to our sales segment.

	Nine-month period ended 30 September		Year ended 31 December		
	2013	2012	2012	2011	2010
	(PLN million)				
Sales to external clients . . . . .	4,919.9	4,780.2	6,534.8 <sup>(1)*</sup>	6,100.5 <sup>(1)*</sup>	5,117.0 <sup>(1)*</sup>
Inter-segment sales . . . . .	328.9	434.1	643.8 <sup>(1)*</sup>	703.9 <sup>(1)*</sup>	529.0 <sup>(1)*</sup>
Total segment revenues . . . . .	5,248.8	5,214.3	7,178.6 <sup>(1)*</sup>	6,804.4 <sup>(1)*</sup>	5,646.0 <sup>(1)*</sup>
EBITDA <sup>(1)</sup> . . . . .	188.0	201.2	264.5 <sup>(1)*</sup>	167.5 <sup>(1)*</sup>	242.7 <sup>(1)*</sup>
Adjusted EBITDA <sup>(1)*</sup> . . . . .	188.4*	212.0*	267.6*	207.4*	245.1*
Net profit/(loss) for the period . . . . .	158.5	154.0	191.8 <sup>(1)*</sup>	130.4 <sup>(1)*</sup>	199.3 <sup>(1)*</sup>
Capital expenditure . . . . .	20.5*	17.5*	30.4 <sup>(1)*</sup>	30.2 <sup>(1)*</sup>	20.9 <sup>(1)*</sup>

(1) The Company changed the presentation of the segments in the Condensed Interim Consolidated Financial Statements (see: “Operating and Financial Review—Reporting by segments” and “Important Information—Financial information and operating data—Changes in the presentation”). With reference to these changes, in order to ensure the comparability of financial information for the segments between the Condensed Interim Consolidated Financial Statements and the Consolidated Financial Statements, the relevant items are presented in accordance with the manner adopted for the Condensed Interim Consolidated Financial Statements.

(2) We define and calculate EBITDA as operating profit/(loss) (calculated as net profit/(loss) on continued operations for the period/year adjusted for (i) income tax, (ii) share in profit (loss) of associates, (iii) finance income and (iv) finance costs) adjusted for depreciation and amortisation (as disclosed in the income statements). We define Adjusted EBITDA as EBITDA adjusted for non-recurrent events. A calculation of Adjusted EBITDA is presented in detail in “Important Information—Financial information and operating data—Financial information not based on GAAP (Generally Accepted Accounting Principles)”. Neither EBITDA nor Adjusted EBITDA are IFRS measures and should not be treated as alternatives to IFRS measures. Moreover, neither EBITDA nor Adjusted EBITDA are uniformly defined. The method of calculating EBITDA and Adjusted EBITDA used by other companies may differ significantly from that used by us. In consequence, the EBITDA and Adjusted EBITDA presented in this section cannot, as such, be relied upon for the purpose of comparisons to other companies. A reconciliation of net profit/(loss) for the period/year and EBITDA and Adjusted EBITDA, is presented in “Important Information—Financial information and operating data—Financial information not based on GAAP (Generally Accepted Accounting Principles)”.

Source: Financial Statements; \*Company (unaudited).

The table below presents the structure of electricity sales to external customers by the sales segment.

	Nine-month period ended 30 September*				Year ended 31 December					
	2013		2012		2012		2011		2010	
	(GWh)	(PLN million)	(GWh)	(PLN million)	(GWh)	(PLN million)	(GWh)	(PLN million)	(GWh)	(PLN million)
Retail energy sales . . . . .	13,630.6	3,656.8	15,078.8	4,183.7	20,482.0	5,676.7	19,339.3	5,255.9	18,552.0	4,919.1
Wholesale energy sales, including: . . . . .	7,756.0	1,353.6	4,019.5	736.4	5,434.2	1,001.7	4,685.7	962.6	2,240.2	412.1
<i>Sales of electricity to foreign customers . . . . .</i>	<i>186.6</i>	<i>35.8</i>	<i>144.9</i>	<i>29.4</i>	<i>216.6</i>	<i>44.1</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
<i>Sales of electricity on the balancing market . . . . .</i>	<i>598.9</i>	<i>82.2</i>	<i>383.6</i>	<i>62.1</i>	<i>536.7</i>	<i>85.4</i>	<i>376.0</i>	<i>68.5</i>	<i>227.0</i>	<i>40.6</i>
<i>Other wholesale . . . . .</i>	<i>6,970.5</i>	<i>1,235.6</i>	<i>3,491.0</i>	<i>644.9</i>	<i>4,680.9</i>	<i>872.1</i>	<i>4,309.7</i>	<i>894.0</i>	<i>2,013.2</i>	<i>371.5</i>
<b>Total electricity sales . . .</b>	<b>21,386.5</b>	<b>5,010.3</b>	<b>19,098.3</b>	<b>4,920.1</b>	<b>25,916.2</b>	<b>6,678.3</b>	<b>24,025.0</b>	<b>6,218.4</b>	<b>20,792.2</b>	<b>5,331.2</b>

\* Excluding electricity sales to external customers by generators from the Group.

Source: Company (unaudited data).

### Wholesale trade

Wholesale trade in electricity to external entities by the sales segment accounted for 15.9% of the Group’s consolidated revenue in the nine-month period ended 30 September 2013 and for 9.0%, 9.3% and 4.4% of the Group’s revenue in the years ended 31 December 2012, 2011, and 2010, respectively.



On the Polish market, wholesale trade in electricity, both in the short and long-term, is mostly done through bilateral transactions with other market participants (ENERGA-OBRÓT cooperates with generators and companies trading on the electricity market), and also through the Polish Power Exchange, Internet trading platforms and brokerage platforms. Additionally, ENERGA-OBRÓT trades in electricity-related products, including certificates of origin and CO<sub>2</sub> emissions allowances.

ENERGA-OBRÓT is responsible for taking decisions related to wholesale trade in products both within the Group and on external markets and is responsible for ensuring the purchase or sale of appropriate products to the Group companies taking part in the Energy Flow Model (“Model Przepływu Energii” or “MPE”) which governs issues related to trade in electricity, property rights (certificates of origin) and CO<sub>2</sub> emission allowances. The transactions on the wholesale markets are entered into by ENERGA-OBRÓT on its own behalf and its own account, taking into account its obligations towards all Group companies taking part in the MPE.

ENERGA-OBRÓT sells electricity to end-customers and, as such, is required to purchase and redeem certificates of origin. As at the date of this Offering Circular, this obligation concerns green, purple and white certificates. ENERGA-OBRÓT has different ways of acquiring green certificates, both under bilateral contracts and in spot transactions. Additionally, ENERGA-OBRÓT cooperates with numerous small generators operating small-scale units. Additional certificates required in order to comply with the statutory obligation are purchased from Group companies which are entitled to green certificates, in particular from ENERGA Hydro and ENERGA Elektrownie Ostrołęka. Transactions between the related companies are an element of the MPE. Purple certificates are purchased in bilateral transactions or on the Polish Power Exchange. With respect to white certificates, for which no market exists, it is planned to pay a substitute fee. With respect to the red and yellow certificates there are no pertinent secondary regulations in force (see “Regulatory Matters—Energy sector regulation—Regulations Related to Energy from Renewable Sources and Cogeneration (CHP)”).

Purchases of electricity on the wholesale market are based on multi-variant annual contracting strategies, aimed at building an optimal structure of the contract portfolio and managing trade risk. Electricity purchases diversify the sources of supply, spread the process overtime and take advantage of various electricity products available on the market. The volume of contracted energy is constantly monitored and must at all times remain between the minimum and maximum level set for each day of the year on the basis of market liquidity. In order to hedge the risk of price volatility on the market, in addition to spreading the contracts over time, the contracts are concluded not only with fixed prices but also with prices reflecting various energy valuation criteria, including coal prices.

In concluding electricity purchases on the wholesale market, both in forward and spot transactions, ENERGA-OBRÓT relies on forms of general agreements prepared by the European Federation of Energy Trading and other types of general agreements. All of the general agreements set out the general rules of cooperation, with detailed terms set out individually in the concluded transaction contracts.

ENERGA-OBRÓT has concluded general agreements with the majority of the major wholesale market participants, both generators and traders. The group of entities with whom ENERGA-OBRÓT has general agreements and with whom it trades includes both Polish and foreign companies.

#### *Risk management*

The company hedges against energy price fluctuations by diversifying its purchases through contracting various products in appropriate proportions. The purchasing process is spread over time in such way as to better match the average portfolio price and the market environment. The portfolio optimisation (contracting by end users and additional transactions with other market participants) is based on acceptable levels of contracting before and after the delivery period lets the company lower the final price paid by the end users. The position and performance on previous purchases against stress variant forecasts are continuously monitored.

The current position and contracting levels are monitored on each business day. After new contracts are added, the current level of contracting is calculated and compared to stress scenarios. If the contracting level exceeds the optimal band (below or above), relevant information is sent to the persons overseeing trading on the wholesale market. In addition to registering data on exceeding a band (i.e. the date, volume and limits) also a date for mandatory restoration of the optimal band is set. Additionally, at 12 checkpoints

## OUR BUSINESS

during each year, information regarding the contracting level is sent to the persons overseeing trading on the wholesale market. At the beginning of every quarter, the same information is provided to the Management Board.

The implemented mechanism prevents brokers from keeping unsound (given the liquidity and volatility of the market) volumes for the spot market. All of these actions are intended to diversify the risk of volatility of fixing prices on the spot market.

### Retail sales

Retail sales of electricity to entities outside the Group accounted for 42.8% of the Group's consolidated income in the nine-month period ended 30 September 2013 and 50.8%, 50.7%, and 52.0% of the Group's consolidated income in the years ended 31 December 2012, 2011, and 2010, respectively.

A vast majority of electricity is sold by us through the distribution network operated by ENERGA-OPERATOR. However, since the third-party access ("TPA") rule was introduced, allowing energy consumers in Poland to choose their electricity supplier (see "Regulatory Matters—Energy sector regulation—Right to choose the seller and third-party access (TPA rule)"), ENERGA-OBRÓT has been vigorously widening the scope of sales outside our distribution network, i.e. by selling electricity to customers connected to distribution networks other than those operated by ENERGA-OPERATOR. Such efforts have resulted in the significant growth in electricity sales both by volume and value in recent years.

The table below presents the structure of our electricity sales in the periods indicated, broken down into customers who are party to the comprehensive agreements and customers who rely on the TPA principle.

	Nine-month period ended 30 September				Year ended 31 December					
	2013		2012		2012		2011		2010	
Energy sales by ENERGA-OBRÓT	(number of customers)*	(GWh)**	(number of customers)*	(GWh)**	(number of customers)*	(GWh)**	(number of customers)*	(GWh)**	(number of customers)*	(GWh)**
Comprehensive agreement . . . . .	2,837,130	10,273.8	2,835,506	10,390.0	2,835,164	14,270.7	2,854,525	15,340.0	2,841,703	16,136.5
Unbundled agreements . . . . .	70,895	3,355.1	53,610	4,779.4	59,056	6,288.1	32,838	3,987.7	35,857	2,415.7
<b>Total . . . . .</b>	<b>2,908,025</b>	<b>13,628.9</b>	<b>2,889,116</b>	<b>15,169.4</b>	<b>2,894,220</b>	<b>20,558.8</b>	<b>2,887,363</b>	<b>19,327.6</b>	<b>2,877,560</b>	<b>18,552.3</b>

\* The numbers of customers in the years 2012-2013 are calculated based on reports submitted to the ERO President as at the end of the preceding month.

\*\* The volume breakdown into comprehensive and unbundled agreements in the years 2012-2013 is estimated on the basis of the volume structure for the preceding month.

Source: Company.

Since 2007, the market for sales of electricity to institutional customers (consisting of tariff groups A, B and C) has been fully competitive and electricity sales tariffs do not have to be submitted to the ERO President for approval. The market for sales in tariff group G remains regulated and the tariffs require the approval of the ERO President. According to an announcement by the ERO President, liberalisation of electricity prices in tariff group G is planned, however, as at the date of this Offering Circular, no particular date for this change has been confirmed.

The table below presents information on the value of electricity sold by ENERGA-OBRÓT to individual tariff groups in the periods indicated.

Value structure	Nine-month period ended 30 September				Year ended 31 December					
	2013		2012		2012		2011		2010	
	value (PLN million)	share (%)	value (PLN million)	share (%)	value (PLN million)	share (%)	value (PLN million)	share (%)	value (PLN million)	share (%)
Tariff Group A (HV) . . . . .	381.1	10.4	522,2	12.4	714.6	12.6	590.4	11.2	508.5	10.3
Tariff Group B (MV) . . . . .	1,259.4	34.4	1,594.8	37.9	2,180.0	38.3	1,916.7	36.5	1,636.8	33.3
Tariff Group C (LV) . . . . .	910.2	24.8	960.6	22.9	1,282.3	22.5	1,301.0	24.8	1,391.9	28.3
Tariff Group G . . . . .	1,114.0	30.4	1,126.4	26.8	1,516.7	26.6	1,447.7	27.5	1,380.6	28.1
<b>Total</b> . . . . .	<b>3,664.7</b>	<b>100.0</b>	<b>4,204.0</b>	<b>100.0</b>	<b>5,693.5</b>	<b>100.0</b>	<b>5,255.8</b>	<b>100.0</b>	<b>4,917.9</b>	<b>100.0</b>

Source: Company (unaudited data).

The table below presents information on the volume of electricity sold by ENERGA-OBRÓT to individual tariff groups in the periods indicated.

Volume structure	Nine-month period ended 30 September				Year ended 31 December					
	2013		2012		2012		2011		2010	
	volume (GWh)	share (%)	volume (GWh)	share (%)	volume (GWh)	share (%)	volume (GWh)	share (%)	volume (GWh)	share (%)
Tariff Group A (HV) . . . . .	1,717.6	12.6	2,137.0	14.1	2,905.3	14.1	2,426.2	12.6	2,163.9	11.7
Tariff Group B (MV) . . . . .	4,968.0	36.5	6,018.3	39.7	8,215.1	40.0	7,324.0	37.9	6,279.3	33.8
Tariff Group C (LV) . . . . .	2,944.7	21.6	2,983.9	19.7	4,019.5	19.6	4,132.6	21.4	4,554.9	24.6
Tariff Group G . . . . .	3,998.7	29.3	4,030.2	26.6	5,418.9	26.4	5,444.8	28.2	5,554.2	29.9
<b>Total</b> . . . . .	<b>13,628.9</b>	<b>100.0</b>	<b>15,169.4</b>	<b>100.0</b>	<b>20,558.8</b>	<b>100.0</b>	<b>19,327.6</b>	<b>100.0</b>	<b>18,552.3</b>	<b>100.0</b>

Source: Company.

The table below presents the number of customers in individual tariff groups, to whom we sold electricity in the periods indicated.

Tariff groups of ENERGA-OBRÓT	Nine-month period ended 30 September		Year ended 31 December		
	2013	2012	2012	2011	2010
	number of customers*				
Tariff Group A (HV) . . . . .	58	66	68	49	44
Tariff Group B (MV) . . . . .	6,074	6,368	6,379	6,185	5,827
Tariff Group C (LV) . . . . .	296,828	297,921	297,360	300,022	312,771
Tariff Group G . . . . .	2,605,065	2,584,761	2,590,413	2,581,107	2,558,918
<b>Total</b> . . . . .	<b>2,908,025</b>	<b>2,889,116</b>	<b>2,894,220</b>	<b>2,887,363</b>	<b>2,877,560</b>

\* The number of customers for the period based on the data for the month preceding the last month of the period.

Source: Company.

In the nine-month period ended 30 September 2013 and in the years ended 31 December 2012, 2011 and 2010 the volume of electricity sold to any single customer never exceeded 3% of the total volume of electricity sold.

ENERGA-OBRÓT holds a 100% stake in ENERGA Obsługa i Sprzedaż, a company responsible for providing services to mass customers of both ENERGA-OPERATOR and ENERGA-OBRÓT and for settlements within the Group. ENERGA Obsługa i Sprzedaż runs 25 modern customer service centres located in the biggest towns and cities in the area in which the Group operates and offers telephone and online services to ENERGA-OPERATOR and ENERGA-OBRÓT customers. Services provided to other Group companies constitute almost the exclusive source of revenue of ENERGA Obsługa i Sprzedaż.

## OUR BUSINESS

### Receivables

The receivables of ENERGA-OBRÓT for energy supplies constitute nearly 89% of our total receivables as at 30 September 2013. Due to the risk of a potential lack of enforcement of the some of the receivables (for example due to the lack of liquidity of a given client), we closely monitor the age structure thereof.

The table below sets forth the age structure of ENERGA-OBRÓT's receivables as the dates indicated.

	Nine-month period ended 30 September				Year ended 31 December					
	2013		2012		2012		2011		2010	
	(PLN million)	(%)	(PLN million)	(%)	(PLN million)	(%)	(PLN million)	(%)	(PLN million)	(%)
<b>Total external receivables</b> . . . . .	1,246.8	100	1,383.2	100	1,420.0	100	1,425.6	100	1,326.8	100
current receivables . . . . .	858.4	68.9	1,001.6	72.4	1,003.0	70.6	1,074.6	75.4	1,065.5	80.3
overdue up to 3 months . . . . .	191.2	15.3	238.7	17.3	256.6	18.1	234.4	16.4	188.7	14.2
overdue over 3 months up to 6 months . . . . .	21.5	1.7	30.2	2.2	26.7	1.9	22.5	1.6	16.8	1.3
overdue over 6 months up to 12 months . . . . .	10.5	0.8	14.5	1.1	13.2	0.9	15.8	1.1	12.4	0.9
overdue over 12 months . . . . .	165.2	13.3	98.2	7.1	120.5	8.5	78.3	5.5	43.4	3.3
<b>Allowance for bad debts, including:</b> . . . . .	182.2	14.6	136.3	9.9	146.3	10.3	99.1	7.0	69.3	5.2
provision for disputable receivables . . . . .	160.1	12.8	94.3	6.8	116.9	8.2	73.6	5.2	45.0	3.4
provision for overdue receivables . . . . .	22.1	1.8	42.1	3.0	29.4	2.1	25.5	1.8	24.3	1.8
<b>Total receivables (net value)</b> . . . . .	1,064.6	—	1,246.8	—	1,273.7	—	1,326.5	—	1,257.5	—

Source: Company (unaudited data).

Disputed receivables accounted for approx. 12.8% as at 30 September 2013 and approx. 8.2%, 4.9% and 3.4% as at 31 December 2012, 2011, and 2010, respectively. We create provisions against all disputed receivables, all doubtful receivables and receivables more than 12 months overdue. Provisions against receivables more than 6 months overdue are established at 50%.

### Reorganisation efforts

As at the date of this Offering Circular, efforts are underway to implement a new business model in the sales segment, designed to enhance the cost and quality effectiveness of our services. These efforts include first of all, changes in the structure and areas of responsibility of the sales segment companies, optimisation of employment (mainly through the implementation of individual redundancy schemes and terms), changes in the structure of positions, optimisation and standardisation of processes, centralisation of support functions, as well as an increased emphasis on maintaining the cost discipline. We estimate that as a result of the optimisation efforts, the employment in the sales segment companies may decrease by approximately 30% by 2016. The model also provides for changes in the customer relations area, including among others, limitation of the customer service function of traditional customer service desks in favor of alternative and remote channels and establishment of specialized sales centers/points.

### Other activities

In addition to the three core business areas (distribution, generation and sales of electricity), an important element of the Group's structure are shared services centres managed by ENERGA CUW and ENERGA ITE. These centres provide the Group companies with services that, following the optimisation of the Group's model, were divested from individual companies and centralised in order to improve efficiency and generate economies of scale. The savings relating to the centralisation of IT services procurement reached approximately PLN 60.0 million in 2009-2012. ENERGA CUW provides accounting, HR, payroll, and administrative services to the Group companies. ENERGA ITE provides IT services to the Group companies, comprising, among other things, the development and maintenance of IT infrastructure, eWorkplace, IT Service Desk, new technology services relating to automation, telematics and telemetrics, as well as IT support for the investment process. Furthermore, ENERGA Serwis sp. z o.o. is responsible for repairs and servicing of equipment used by the Group's generation businesses. ENERGA Invest S.A. is dedicated to the preparation of investment projects and acts as a substitute investor.

Additionally, certain Group entities also engage in non-core business activities such as training, transportation and hotel services. Transportation services are provided by ZEP-MOT sp. z o.o. and ZEP-AUTO sp. z o.o. Międzynarodowe Centrum Szkolenia Energetyki sp. z o.o. w likwidacji (in liquidation) provides training services, including specialist power generation training at a designated facility, targeted at employees of energy sector services. Kongres sp. z o.o. w likwidacji (in liquidation) organises business meetings, training programmes and provides hotel services. We intend to withdraw from transportation services (by the end of first half of 2014), the hotel business (by the end of 2014) and property management (by the end of 2014).

Additionally, some of our investment projects are carried out by special purpose vehicles responsible for their implementation. If a decision is made to discontinue a certain investment project, we analyse the possibility of selling such a special purpose vehicle or its assets. As at the date of this Offering Circular, in connection with suspending the implementation of the Ostrołęka C project for the construction of a new 1000 MW power unit in Ostrołęka, we are contemplating the possibility of selling the shares in Elektrownia Ostrołęka S.A.—a special purpose vehicle formed to implement the project.

### Key suppliers

Our key suppliers are the suppliers of the fuels used in our generation activities, i.e. coal and biomass. In the nine-month period ended 30 September 2013, we generated 63% of our gross electricity from coal, the respective ratios for the years ended 31 December 2012, 2011, and 2010 being 68%, 72% and 66%. In the nine-month period ended 30 September 2013 we generated 14% of our gross electricity output from (wood and agricultural) biomass, the respective figures for the years ended 31 December 2012, 2011, and 2010 being 14%, 7% and 6%.

### Coal

The main fuel used in our electricity generation activity is hard coal. The key criteria for the selection of coal suppliers are price and security of supply. In the case of our largest coal-fired plant, ENERGA Elektrownie Ostrołęka, a key factor is also its distance from the suppliers, a factor which significantly affects the terms of coal supply. We satisfy our demand for this fuel on the Polish market, securing shipments under long-term general contracts which guarantee stable supplies, with only a fraction of purchases made on the spot market. The general long-term contracts are supplemented with annual contracts specifying coal quantities and prices for the given year, determined through annual negotiations, which translate into volumes of coal purchased from individual suppliers. Our procurement policy reflects the general trend of moving away from long-term contracts with a pre-defined price path and supply volumes, which are less attractive for us given the decreasing coal prices on the Polish market. However, the continuation of this trend could in the future result in our dependence on temporary price fluctuations and trends on the global markets.

The table below presents information on the total levels of coal purchased by ENERGA Elektrownie Ostrołęka (largest coal consumer in the Group) in the periods indicated, also showing the given supplier's percentage share of total coal shipments.

	Nine-month period ended 30 September				Year ended 31 December					
	2013		2012		2012		2011		2010	
	(thousand metric tons)	(%)	(thousand metric tons)	(%)	(thousand metric tons)	(%)	(thousand metric tons)	(%)	(thousand metric tons)	(%)
1 . . . . .	380.1	39.2	513.3	51.2	706.5	55.9	597.6	37.4	679.9	51.1
2 . . . . .	375.9	38.8	367.3	36.6	405.1	32.1	479.3	30.0	597.7	44.9
3 . . . . .	213.2	22.0	122.1	12.2	152.0	12.0	348.4	21.8	13.9	1.0
Others . . . . .	—	—	—	—	—	—	173.6	10.9	38.6	2.9
<b>Total . . . . .</b>	<b>969.2</b>	<b>100.0</b>	<b>1,002.7</b>	<b>100.0</b>	<b>1,263.6</b>	<b>100.0</b>	<b>1,598.8</b>	<b>100.0</b>	<b>1,330.1</b>	<b>100.0</b>

Source: Company.

The total coal purchases ENERGA Elektrownie Ostrołęka amounted to 287 million PLN in the nine-month period ended 30 September 2013 and PLN 399 million, PLN 470 million and PLN 348 million in the years ended 31 December 2012, 2011 and 2010, respectively.



The Management Board believes that as at the date of this Offering Circular, the Group is not dependent on any single coal supplier.

### *Biomass*

We generate electricity from renewable sources, e.g. through co-combustion of biomass. In the nine-month period ended 30 September 2013 we utilised 343.8 thousand metric tons of biomass, and in the years ended 31 December 2012, 2011, and 2010, we utilised 403.4 thousand metric tonnes, 249.8 thousand metric tonnes and 233.8 thousand metric tonnes of biomass, respectively.

Since 1 January 2011, the sole biomass supplier delivering this fuel to ENERGA Elektrownie Ostrołęka has been the Group company Ekologiczne Materiały Grzewcze sp. z o.o. (“EMG”). As at the date of this Offering Circular, it supplies biomass both to Elektrociepłownia Ostrołęka A and Elektrownia Ostrołęka B. EMG obtains biomass from its own sources and from the market. Purchases of biomass on the market which cover approximately 96% of our aggregate demand for the fuel are based on annual contracts signed with biomass producers and traders. The remaining volumes of biomass, depending on the needs, are purchased in spot transactions. Purchases of raw materials for biomass production are effected by EMG based on orders placed with more than ten local suppliers with whom we have already cooperated for several years.

The Management Board believes that as at the date of this Offering Circular, the Group is not dependent on any single biomass producer.

### **Acquisitions**

As at the date of this Offering Circular we do not plan any significant acquisitions. However, we intend to monitor opportunities for RES acquisitions, in particular acquisitions of wind farms. Nonetheless, we intend to keep our disciplined approach to such investment opportunities and apply thorough financial analyses aimed at ensuring that the investment projects meet or exceed our internal rate of return requirements. Additionally, if we identify attractive targets for acquisitions or potential joint ventures or strategic alliances, we will only consider such projects that would create added value to the Group and its shareholders. In particular, every decision on the implementation of a strategic investment project will be preceded by an assessment of its commercial viability in the prevailing economic, technical and legal conditions, including the positive result of Internal Rate of Return (IRR) analyses and the positive result of the Net Present Value (NPV) method.

In the recent period we have made a number of acquisitions on the wind energy and CHP markets.

On 31 July 2013, ENERGA Hydro finalised the purchase of 67.3% of shares in Iberdrola Renewables Polska sp. z o.o. (currently EPW Energia sp. z o.o.) from Iberdrola Renovables Energia S.A.U. and the European Bank for Reconstruction and Development. The remaining shares were acquired by PGE. The aggregate value of the transaction was PLN 1.12 billion based on Enterprise Value, of which ENERGA Hydro’s share accounted for more than PLN 750 million. After the completion of the demerger of Iberdrola Renewables Polska sp. z o.o. (currently EPW Energia sp. z o.o.) and subsequent mergers with ENERGA Hydro, ENERGA Hydro will own FW Karścino and FW Bystra wind farms with a capacity of 90 MW and 24 MW respectively as well as a portfolio of 33 wind farm projects with an aggregate planned capacity of 1,186 MW (see “—Material agreements—Share purchase agreements—Agreement for the purchase of shares in Iberdrola Renewables Polska sp. z o.o. (currently EPW Energia sp. z o.o.) by Energa Hydro”).

On 28 June 2013, ENERGA Hydro and PGE signed definitive agreements on the acquisition from DONG Energy Wind Power A/S of a portfolio of DONG wind farms in Poland. The aggregate value of the transaction based on Enterprise Value was over PLN 1 billion, of which ENERGA Hydro’s share was PLN 335 million. As a result of the transaction, ENERGA Hydro acquired 100% of the shares in DONG Energy Karcino sp. z o.o. (subsequently operating as EPW Karcino sp. z o.o.) the sole owner of the wind farm with an installed capacity of 51 MW (FW Karcino) and a portfolio wind farm projects at the development stage with an aggregate planned capacity of 252 MW (see “—Material agreements—Share purchase agreements—Agreement for the purchase of shares in certain subsidiaries of DONG Energy Wind Power A/S”). On 31 October 2013 the merger of EPW Karcino sp. z o.o. with the acquiring company, ENERGA Hydro was registered.



On 9 April 2013, ENERGA Kogeneracja signed an agreement with the city of Kalisz on the acquisition of 90% of shares in Ciepło Kaliskie sp. z o.o. Ciepło Kaliskie sp. z o.o. manages an integrated district heating system in Kalisz and has a natural monopoly on that market. The company does not engage in heating activity; it leases heating assets to Przedsiębiorstwo Energetyki Ciepłej S.A. in Kalisz, which currently operates the company's assets. The value of the transaction based on Equity Value was PLN 45.7 million.

The table below presents selected information concerning our significant acquisitions for the periods under review.

Acquisition target	Date	Transaction value (Enterprise Value)	Financing**	Key operating data
Iberdrola Renewables Polska sp. z o.o. (currently EPW Energia sp. z o.o.)	31.07.2013	PLN 1,120 million (ENERGA: PLN 754 million)	30% equity 70% external financing	ENERGA assets: Capacity—114 MW Output (gross)—163.7 GWh (2010), 189.0 GWh (2011), 205.0 GWh (2012), 143.3 GWh (3Q 2012), 127.6 GWh (3Q 2013) Projects—1186 MW
DONG Energy—farmy wiatrowe w Polsce	28.06.2013	PLN 1,018 million (ENERGA: PLN 335 million)	30% equity 70% external financing	ENERGA assets: Capacity—51 MW Output (gross)—66.1 GWh (2010), 114.3 GWh (2011), 113.3 GWh (2011), 123 GWh (2012), 80.0 GWh (3Q 2012), 68.8 GWh (3Q 2013) Projects—252 MW Heat supplies to 56,000 Kalisz inhabitants
Ciepło Kaliskie	09.04.2013	PLN 45.7 million (equity value)	100% equity	Length of the heat distribution system 61.2 km (2009)*

\* Assets leased to Przedsiębiorstwo Energetyki Ciepłej S.A.

\*\* The financing structure for the purchase of wind assets from DONG Energy and for the purchase of the shares in Iberdrola Renewables Polska sp. z o.o. (currently EPW Energia sp. z o.o.) is presented on the Group level. This means that ENERGA, as a holding entity, in which the Group's finance raising function is centralised, raised 70% of the funds for the purchase of the above listed assets on the debt instrument market while the remaining 30% were financed from its own funds. The pool of funds thus raised was subsequently transferred (in the form of bonds) to ENERGA Hydro, which was a party to the above mentioned transactions.

Source: Company (unaudited).

### Material agreements

Presented below is a review of material agreements to which we were party in the two-year period immediately preceding the date of this Offering Circular, and material agreements entered into prior to that period, to the extent that such agreements contain any provisions under which any Group company has any material rights or obligations as at the date of this Offering Circular.

We regard agreements as material from the point of view of the Group when: (i) they are entered into outside the ordinary course of business, e.g. concern acquisitions of shares or interests, (ii) they are entered into within the ordinary course of business and their value exceeds PLN 600 million (or equivalent in another currency), which corresponds to approximately 7.6% of the Company's equity as at 30 September 2013, as disclosed in the Condensed Interim Consolidated Financial Statements or if they are vital to our business, irrespective of their value, e.g. electricity transmission agreements, emergency generation agreements, fuel supply agreements with external contractors and (iii) financing agreements with a value of no less than PLN 200 million (or equivalent in another currency), which corresponds to approximately 2.5% of our equity as at 30 September 2013, as disclosed in the Condensed Interim Consolidated Financial Statements.

As at the date of this Offering Circular we are not dependent on any commercial or financial agreements.

### *Agreements for the provision of electricity transmission services*

ENERGA-OPERATOR, ENERGA-OBRÓT, ENERGA Elektrownie Ostrołęka and ENERGA Hydro entered into four agreements on the provision of electricity transmission services: the agreement on the provision of electricity transmission services between ENERGA-OPERATOR and PSE of 29 August 2007, the agreement on the provision of electricity transmission services between ENERGA-OBRÓT and PSE of 9 October 2007 and the agreement on the provision of electricity transmission services between ENERGA Elektrownie Ostrołęka and PSE of 23 February 2012 and an electricity transmission services agreement between ENERGA Hydro and PSE of 2 August 2007.

The agreements set forth the principles for the provision of domestic transmission services and cross border electricity exchange by PSE. Additionally, the agreement executed by ENERGA Elektrownie Ostrołęka covers the supplies and offtake of electricity within the framework of the participation of ENERGA Elektrownie Ostrołęka in the balancing of the system and the management of system-wide limitations. The domestic transmission services provided by PSE to ENERGA-OPERATOR and ENERGA Elektrownie Ostrołęka include: (i) the transmission of electricity by high-voltage lines; (ii) the balancing of electricity offtaken and distributed to the domestic power grid, and (iii) services consisting in maintaining the continuity of supply and offtake of electricity, the reliability of such supplies and of the electricity quality parameters, whereas pursuant to the agreement executed by ENERGA-OBRÓT the services comprise settlement of the imbalance of electricity volumes distributed to and offtaken from the domestic power grid. Additionally, the agreements contain provisions concerning the cross border electricity exchange services, comprising, among other things, the booking of transmission capacity for intersystem exchange. The terms of providing system services by ENERGA Elektrownie Ostrołęka to PSE are defined in an understanding of 21 December 2012, being a separate part of the electricity transmission agreement.

The terms of the provision of transmission services, including the methods and dates of payment, are specified in the tariff and the Transmission Network Operation and Maintenance Manual. In the event of non-performance or inadequate performance of the provisions of agreements, the injured parties are entitled to discounts, rebates and fees as specified in the tariffs. Furthermore, in certain circumstances, PSE may limit or suspend the provision of services without incurring any liability for it. The proper performance of the agreement executed by ENERGA-OPERATOR with PSE with regard to settlements on the balancing market was secured by a promissory note for the amount of PLN 3.5 million issued by ENERGA-OPERATOR.

The agreements were executed for an indefinite term. Either party to the agreement executed by ENERGA-OPERATOR may terminate it subject to six-months' notice, effective on 31 December of the year in which the termination notice was served, while the agreements executed by ENERGA Elektrownie Ostrołęka, ENERGA-OBRÓT and ENERGA Hydro may be terminated by each party subject to three-months' notice. In certain circumstances, the notice period may be shortened to one month. In the event of a change of the Transmission Network Operation and Maintenance Manual by PSE, ENERGA-OPERATOR, ENERGA-OBRÓT, ENERGA Elektrownie Ostrołęka and ENERGA Hydro may terminate their agreements with ten-days' notice, effective from the day preceding the date of the revisions to the Transmission Network Operation and Maintenance Manual.

### *Peak-load generation agreement of 28 August 2009 between ENERGA Hydro and PSE*

Under this agreement, ENERGA Hydro agreed to make its generation units available to PSE for the purpose of peak-load balancing of real and reactive power, and to manage the electricity distribution in the network, in order to ensure the day-to-day safety of the operation of the KSE. The peak-load services comprise a peak-load reserve of real power and the regulation of voltage and reactive power.

Payments related to the peak-load balancing services are based on prices specified in the agreement for: (i) maintaining a readily available peak-load reserve of real power; (ii) automatic regulation of voltage and reactive power; and (iii) compensating operation (*praca kompensatorowa*). PSE covers all fixed costs relating to the provision of peak load balancing services incurred by ENERGA Hydro, save for depreciation.

The period for providing peak-load services lasts until 31 August 2016. In certain special instances, the agreement also permits immediate termination by one of the parties. Moreover, the agreement will expire if the electricity transmission agreement of 2 August 2007 between ENERGA Hydro and PSE is terminated. At PSE's request, the agreement may be extended for a further period.

***Long-term steam coal agreement of 14 December 2010 between ENERGA Elektrownie Ostrołęka and Lubelski Węgiel „BOGDANKA” S.A.***

According to the agreement, Lubelski Węgiel „Bogdanka” S.A. agrees to supply to ENERGA Elektrownie Ostrołęka with the quantities of steam coal agreed for each year. The parties annually agree a detailed timetable for supplies. If such a timetable is not agreed, 25% of the volume of coal contracted for the given year should be distributed every quarter. Prices of the steam coal are set on the basis of a formula provided in the agreement, reflecting the total of the product of the net price of the chemical energy embedded in the coal and its calorific value and the net cost of transport to a railway siding of ENERGA Elektrownie Ostrołęka. The steam coal price was fixed in the agreement until the end of 2011. For each subsequent year the price is negotiated by the parties. If the parties do not agree the price for the following year, the price from the fourth quarter of the preceding year is provisionally applied, but in no event for longer than until 31 March. After the final price has been agreed, the provisional price is adjusted accordingly. If the steam coal price is not agreed by 31 March and one of the parties exercises the right to terminate the agreement pursuant to its provisions, a special algorithm is provided for the purpose of settlement of the steam coal supplied for the provisional price. Also, according to the agreement, the steam coal price may change at the request of one of the parties in the event of significant fluctuations of global coal prices, costs of transport, terms of pricing for energy generators and other important factors affecting the prices of coal or electricity. The agreement also sets out provisions concerning post-transaction settlements for substandard steam coal supplies. The agreement has been concluded for a definite period of time—until 31 December 2015. Either of the parties may terminate it subject to a 12-month notice period. If an annual quota is not utilised due to the fault of one of the parties, the other party may demand liquidated damages. The agreement may be terminated by either party with immediate effect if force majeure affects the other party for a period longer than five consecutive months. ENERGA Elektrownie Ostrołęka may also terminate the agreement if the coal does not satisfy the requirements set out in the agreement for a period of more than three months.

***Steam coal purchase agreement of 10 February 2012 between ENERGA Elektrownie Ostrołęka and Kompania Węglowa S.A.***

According to the agreement, Kompania Węglowa S.A. agreed to supply to ENERGA Elektrownie Ostrołęka the agreed annual volumes of steam coal for electricity purposes until the end of 2013. The coal supplies are effected on the basis of monthly orders placed by ENERGA Elektrownie Ostrołęka and a timetable of supplies determined by the parties in bilateral consultations. The price of the supplied coal depends on its quality parameters (calorific value and sulphur content), and is determined on the basis of a price list attached to the agreement. The agreement also sets out provisions concerning post-transaction settlements of substandard steam coal supplies. In the event of a failure to deliver or offtake coal in quantities exceeding the agreed tolerance limits, being 10% of the contracted annual volume, the defaulting party pays liquidated damages of 10% of the net value of the coal so not delivered or not offtaken.

***Long-term steam coal supply agreement of 9 December 2008 between ENERGA Elektrownie Ostrołęka and Jastrzębska Spółka Węglowa S.A.***

According to the agreement, Jastrzębska Spółka Węglowa S.A. agreed to sell and supply the agreed volumes of steam coal to ENERGA Elektrownie Ostrołęka in the period from 1 January 2009 to 31 December 2013. The supplies are effected on the basis of monthly orders placed by ENERGA Elektrownie Ostrołęka on the basis of an annual timetable of sales set out in the agreement. The price of the steam coal is determined pursuant to a contractual formula reflecting the calorific value of the coal and the price of the embedded chemical energy, negotiated by the parties and determined for consecutive delivery periods in separate annexes to the agreement. If no price is agreed for subsequent periods, the coal supplies are suspended. The agreement also sets out provisions concerning post-transaction settlements of substandard steam coal supplies. Pursuant to the agreement, the party which fails to supply or offtake, respectively, the contracted volume of coal, may incur liquidated damages.

***Suretyship agreement of 19 April 2013 between ENERGA and PGE Polska Grupa Energetyczna S.A.***

On 19 April 2013, the Company executed a suretyship agreement with PGE, pursuant to which the Company undertook to PGE to pay the cash receivables up to the aggregate amount of PLN 500 million arising from the framework electricity sale agreement of 21 December 2007 between PGE and ENERGA-OBROT and the sale agreements executed thereunder, in the event of ENERGA-OBROT failing to make such payment by the specified deadline. The suretyship remains valid until 30 June 2016, and beyond that date the Company's obligations remain in force in relation to specified sale agreements. The Company may revoke the suretyship.

***General agreement of 18 February 2010 between ENERGA-OBROT and Bank Polska Kasa Opieki S.A.***

On 18 February 2010, ENERGA-OBROT executed a general agreement with Bank Polska Kasa Opieki S.A., pursuant to which from 18 February 2010 to 31 January 2014 the bank is obliged to issue bank guarantees with a maximum validity until 31 July 2015, and to open letters of credit whose foreseeable final day of enforcement and payment to the beneficiaries falls no later than 31 January 2015. Any amounts disbursed by the bank under guarantees or letters of credit should be returned by ENERGA-OBROT within 7 days of the receipt of a written request. The guarantees and letters of credit could be denominated in PLN, USD or EUR. The aggregate amount of the bank's exposure on account of the guarantees issued and the letters of credit opened may not exceed the amount of PLN 150 million. The bank's claims are secured by the authorisation to set off the receivables under guarantees and the opened letters of credits against the receivables of ENERGA-OBROT from a bank account kept in the bank and a representation by ENERGA-OBROT on the voluntary submission to enforcement. The agreement contains provisions obliging ENERGA-OBROT, among other things, to (i) maintain material permits, consents and licences, (ii) inform the bank forthwith of any changes in its constitutional documents or the register of entrepreneurs, (iii) not to make, except with the bank's consent, any changes in the executed contracts, which could alter the scope of the bank's responsibility, (iv) provide the bank with certain reporting documents, including financial statements accompanied by a statutory auditor's opinion, (v) treat the bank's receivables as at least equal in every respect to ENERGA-OBROT's current and future, secured and unsecured, receivables towards other creditors. The agreement was executed for a defined term, with an extension option, with each party being authorised to terminate it subject to a 30-day notice period. Furthermore, in some instances specified in the agreement, such as a deterioration of the financial or legal position of ENERGA-OBROT, the expiry of a security or failure of ENERGA-OBROT to meet its obligations arising from other agreements (*cross default*), the bank will be authorised to terminate the agreement in its entirety or in part and demand the establishment of an additional security. After the termination of the agreement, the guarantees issued or letters of credit opened on its basis remain in force.

***Framework agreement on the issuance of bank guarantees of 27 November 2008 between ENERGA-OBROT, Nordea Bank Polska S.A. and Nordea Bank AB (publ)***

On 27 November 2008 Nordea Bank Polska S.A., Nordea Bank AB (publ) and ENERGA Trading S.A. entered into a framework agreement on the issuance of bank guarantees, pursuant to which Nordea Bank Polska S.A., acting at the request of ENERGA Trading S.A. (currently ENERGA Invest S.A.) and Nordea Bank AB (publ) granted bank guarantees by issuing letters of comfort (*listy gwarancyjne*). On 28 May 2009, Nordea Bank Polska S.A., Nordea Bank AB (publ), ENERGA Trading S.A. and ENERGA-OBROT executed an annex to the framework agreement, pursuant to which ENERGA-OBROT entered into the rights and obligations of Energa Trading S.A. ensuing from the framework agreement. Under an annex to the framework agreement of 10 November 2009, Nordea Bank Finland Plc took over the rights and obligations of Nordea Bank AB (publ) under the framework agreement. Under the agreement, a cap on bank guarantees was assigned in favour of ENERGA-OBROT for the period from 27 November 2008 to 26 November 2013 (with regard to timely payments and due performance of liabilities) up to the aggregate amount of PLN 120 million. These guarantees could also be denominated in EUR. The term of the guarantees issued under this cap could not exceed 16 months from the date of issue of each guarantee and could not run beyond 26 March 2015. The bank's claims are secured by the authorisation to offset receivables under the guarantee against ENERGA-OBROT's receivables on certain bank accounts maintained by the bank. In the event of a lack of sufficient funds on the bank accounts to be set off against the receivables under guarantee, the bank will treat the ensuing indebtedness as an overdue debt. The agreement contains provisions requiring ENERGA-OBROT, among other things, to (i) inform the bank



forthwith about any changes to the agreements/transactions which the guarantees concern and provide the bank with any information concerning the utilisation of such guarantees, (ii) inform the bank about incurring new credits or loans or about signing other agreements resulting in similar liabilities, (iii) inform the bank of any changes to the legal status, composition of the management board, decisions and circumstances that could impact the guarantees and also any changes in the shareholding structure, (iv) provide the bank with certain reporting documents, including quarterly and annual financial statements accompanied by a statutory auditor's opinion, (v) channel any settlements under agreements/contracts which the agreement concerns via specified bank accounts, (vi) treat the bank's receivables as at least equal in every respect to current and future unsecured senior liabilities of ENERGA-OBRÓT towards other creditors (with the exception of liabilities ensuing from enforcement), and (vii) maintain monthly inflows to a specified bank account at a level not below PLN 120 million.

### *Share purchase agreements*

*Agreement on the purchase of shares in Ostrołęckie Przedsiębiorstwo Energetyki Ciepłej sp. z o.o. (currently ENERGA OPEC sp. z o.o.)*

On 25 February 2009, the Company and ENERGA Elektrownie Ostrołęka entered into a share purchase agreement with the city of Ostrołęka concerning 23,662 shares in Ostrołęckie Przedsiębiorstwo Energetyki Ciepłej sp. z o.o. involved in the distribution and sale of heat in the city of Ostrołęka and its vicinity, accounting for 85% of its share capital for the price of PLN 39 million. Pursuant to the agreement, the Company and ENERGA Elektrownie Ostrołęka are obliged to implement an investment programme aimed at the development of heat engineering in Ostrołęka. Until the end of 2018, not less than PLN 320 million is to be spent on the construction of a new heat source and the modernisation of the heat distribution network. On 3 July 2012, ENERGA Elektrownie Ostrołęka signed an agreement on the execution of an investment project titled "Investment undertakings towards ENERGA OPEC sp. z o.o.—Construction of a heat source for the city of Ostrołęka". The completion of the construction of a new heat source with a hot water capacity of 174 MW is planned for the first quarter of 2014. The value of the agreement is expected to total PLN 160 million. For additional information see "—Investment programme—Core investment projects—Generation". Until 30 September 2013, the aggregate value of capital expenditures incurred by Energa Elektrownie Ostrołęka under the agreement was PLN 68.6 million, while the value of capital expenditures incurred by Energa OPEC was PLN 29.9 million. Furthermore, the Company and ENERGA Elektrownie Ostrołęka undertook that, except with the seller's consent, they will not stop supplying heat to customers in the city of Ostrołęka until the end of the implementation period of the investment project.

### *Share sale agreement between ENERGA-OPERATOR and ENERGA Elektrownie Ostrołęka*

On 31 May 2011 ENERGA concluded an agreement with the State Treasury of Poland concerning a sale of shares, pursuant to which the Company acquired the shares of ENERGA-OPERATOR and ENERGA Elektrownie Ostrołęka held by the State Treasury as at 30 April 2011. In particular, pursuant to the agreement, the Company acquired 87,811,853 shares of ENERGA-OPERATOR for PLN 6.47 per share, the price being determined on the basis of the book value as at 31 December 2010, for a total price of PLN 568.1 million. Additionally, pursuant to the agreement, the Company acquired 977,347 shares of ENERGA Elektrownie Ostrołęka for PLN 17.88 per share, the price being determined on the basis of the book value as at 31 December 2010, for a total price of PLN 17.5 million. The total price for the shares of both companies was PLN 585.6 million. Also, on the basis of the agreement of 19 October 2011, the State Treasury accepted an offer from the Company to purchase 13,238 shares of ENERGA-OPERATOR for a total price of PLN 85,649.86. The transactions were conducted in furtherance of the consolidation process and the streamlining of the Group's structure. The transaction concerned minority shareholdings in key companies of the Group held by the State Treasury as a result of, among other things, the conversion of the shares pursuant to the Act of 7 September 2007 on the terms of acquisition of shares from the State Treasury in the processes of consolidation of energy sector companies (*Dz. U.* of 2007, No. 191, item 1367, as amended) and the Ordinance of the Minister of State Treasury of 19 February 2008 on the method of determining the number of shares of consolidating companies being exchanged, and the process of the exchange of shares or rights to shares in consolidated companies for the shares of the consolidating company (*Dz. U.* of 2008, No. 41, item 250, as amended).

### *Agreement on the purchase of shares in certain DONG Energy Wind Power A/S subsidiaries*

On 19 February 2013, ENERGA Hydro and PGE Polska Grupa Energetyczna S.A. signed a preliminary agreement with DONG Energy Wind Power A/S on the purchase of shares in the share capital of DONG Energy Wind Power A/S subsidiaries. Pursuant to the agreement, ENERGA Hydro undertook to purchase: (i) 100% of shares in DONG Energy Karcino sp. z o.o. (subsequently operating as EPW Karcino sp. z o.o. which was merged into ENERGA Hydro on 31 October 2013), (ii) 100% of shares in DONG Energy Tuszyn sp. z o.o. (currently EPW 1 sp. z o.o.), (iii) 100% of shares in DONG Energy Pancierzyn sp. z o.o. (currently EPW 3 sp. z o.o.), (iv) 100% of shares in DONG Energy Gąsiorowo sp. z o.o. (currently EPW 2 sp. z o.o.), (v) 100% of shares in DONG Energy 3 sp. z o.o. (currently: EPW Parsówek sp. z o.o.) and (vi) 19% of shares in DONG Energy Olecko sp. z o.o. (currently EPW Energia Olecko sp. z o.o.). PGE Polska Grupa Energetyczna S.A. undertook to purchase the remaining 81% of shares in DONG Energy Olecko sp. z o.o. (currently EPW Energia Olecko sp. z o.o.) and other assets specified in the agreement, for the price determined in the agreement, adjusted accordingly for the net indebtedness and net working capital. The agreement was contingent on obtaining a permit for the concentration from the AMO President. Such a permit was granted on 4 June 2013. The final share purchase agreements were signed on 28 June 2013. The final settlement of the transaction occurred on 9 September 2013.

### *Agreement on the purchase of shares in Iberdrola Renewables Polska sp. z o.o. (currently EPW Energia sp. z o.o.) by Energa Hydro*

On 26 February 2013, ENERGA Hydro and PGE Polska Grupa Energetyczna S.A. signed a preliminary agreement with Iberdrola Renewables Energia, S.A.U. on the purchase of shares in the share capital of the Iberdrola Renewables Polska sp. z o.o. (currently EPW Energia sp. z o.o.), in which a 75% stake was held by Iberdrola Renewables Energia, S.A.U. and the remaining 25% by the European Bank for Reconstruction and Development. Pursuant to the agreement, ENERGA Hydro undertook to purchase 67.3% of shares in the Iberdrola Renewables Polska sp. z o.o. (currently EPW Energia sp. z o.o.) owned by Iberdrola Renewables Energia, S.U.A. (PGE Polska Grupa Energetyczna S.A. undertook to purchase the remaining 32.7%). The agreement is contingent on obtaining a permit for the concentration from the AMO President. Such permit was issued on 4 June 2013. On 21 June 2013, ENERGA Hydro and PGE Polska Grupa Energetyczna S.A. signed a preliminary agreement with the European Bank for Reconstruction and Development on the sale of the remaining 25% of shares in the share capital of Iberdrola Renewables Polska sp. z o.o. (currently EPW Energia sp. z o.o.) in such proportions as those agreed in the agreement with Iberdrola Renewables Energia, S.A.U. In accordance with these agreements, the shares were purchased for a price adjusted accordingly for the net indebtedness and net working capital. The final share purchase agreements were signed on 31 July 2013. As at the date of this Offering Circular, the transaction is planned to be settled in the 4<sup>th</sup> quarter of 2013.

## **Financing agreements**

### *Introduction*

As at the date of this Offering Circular, we use the following sources of financing: (i) loans and borrowings mainly from financial institutions; (ii) bonds issues; and to a lesser degree (iii) financial leases.

As a rule, our financing agreements contain provisions typical for the given kind of agreements, such as : (i) clauses concerning a change in the core business (preventing us and some of our Group companies from changing the overall nature and scope of our business as conducted on the date of the agreement); (ii) *pari passu* clauses (which reflect the obligation of the Company and some of our Group companies to ensure equal treatment of their debts under certain financing agreements and other existing or future unsecured debts, subject to certain debts which are preferred pursuant to the mandatory provisions of law); (iii) negative pledge clauses (preventing us and some of our Group companies from committing to establish, establishing and permitting other Group members to establish any encumbrances on existing or future assets, except for permitted encumbrances under the given agreement); and (iv) change of control clauses (stating that we may be required to prepay our indebtedness in the event of significant changes of the ownership structure, resulting in a change of control over that company). The credit agreements also contain provisions which require the maintenance of certain financial covenants, such as the net indebtedness to EBITDA, equity to balance sheet amount, or cash flow-based ratios.



Details of our financial indebtedness are provided in “Operating and Financial Review—Indebtedness”.

#### *Financing of the investment programme of ENERGA OPERATOR*

In the years 2009-2013, we concluded facility agreements with the Nordic Investment Bank, the European Bank for Reconstruction and Development and the European Investment Bank, for the purpose of financing the investment programme of ENERGA OPERATOR related to the development and modernisation of the distribution network of the total amount of PLN 3,850 million. As at 30 September 2013, the total amount of the financing disbursed under these agreements was PLN 2,050 million.

#### *Credit facility agreement with the European Investment Bank of 16 December 2009*

On 16 December 2009 the Company and ENERGA-OPERATOR, as borrowers, concluded a PLN 1,050 million credit facility agreement (“EIB 2009 Loan”) with the European Investment Bank. The facility bears interest depending on the terms of individual tranches, at a fixed or variable rate, with the variable rate being a total of WIBOR and the bank’s margin for the PLN tranche. The final repayment date is 15 December 2025. The repayments are to be made in quarterly instalments. A grace period for the first tranche of PLN 630.0 million ended on 17 December 2012, and for the second tranche of PLN 420.0 million will end on 16 December 2013. The agreement contains clauses ranking the indebtedness thereunder *pari passu* with other financial liabilities of the Company. The agreement also imposes certain restrictions on the Company with respect to: (i) changing the scope of business; (ii) disposing of certain assets; (iii) incurring liabilities; and (iv) establishing encumbrances. These restrictions also apply to certain Group companies. In the agreement the Company agreed to maintain, over the whole contract period, an agreed level of certain ratios, such as the net indebtedness to EBITDA and EBITDA to net interest. In the event of default, the European Investment Bank may call in the loan, together with interest and other fees. As at 30 September 2013, all funds available under the agreement had been utilised and the outstanding indebtedness thereunder was PLN 998.6 million.

#### *Credit facility agreement with the Nordic Investment Bank*

On 30 April 2010 the Company and ENERGA-OPERATOR as borrowers, concluded a credit facility agreement with the Nordic Investment Bank regarding a credit facility of PLN 200.0 million (“NIB 2010 Facility”). The facility bears interest at a variable rate being the total of WIBOR and the bank’s margin. The final repayment date is 15 June 2022. The repayments are to be made in quarterly instalments, with a grace period until 17 June 2013. The agreement contains clauses ranking the indebtedness thereunder *pari passu* with other financial liabilities of the Company and certain Group companies, and imposing restrictions as to encumbering the assets of the Company and certain Group companies. In the event of a change of control over the Company or ENERGA-OPERATOR, and in the event of cross default under other agreements governing financial liabilities of the Company or selected Group companies, the Nordic Investment Bank may terminate the loan and demand its immediate repayment. Additionally, the agreement imposes certain restrictions on the Company with respect to, among other things: (i) the allocation of profits; (ii) concluding management agreements; (iii) disposing of certain assets; (iv) incurring liabilities; and (v) granting guarantees. These restrictions also apply to certain Group companies. In the agreement the Company agreed to maintain, over the whole contract period, an agreed level of the net indebtedness to EBITDA and the interest coverage ratio levels. In the event of default, the Nordic Investment Bank may call in the loan, together with interest and other fees. As at 30 September 2013 all funds available under the agreement had been utilised and the outstanding indebtedness thereunder was PLN 189.2 million.

#### *Credit facility agreement with the European Bank for Reconstruction and Development of 29 April 2010*

On 29 April 2010 the Company, as the borrower, and ENERGA-OPERATOR concluded a PLN 800.0 million credit facility with the European Bank for Reconstruction and Development (“EBRD 2010 Facility”). The facility bears interest at a variable rate being the total of WIBOR and the bank’s margin. The final repayment date is 18 December 2021. The repayments are to be made in quarterly instalments, with a grace period until 18 March 2013. The agreement contains clauses ranking the indebtedness thereunder *pari passu* with other financial liabilities of the Company and change of control restrictions. The agreement also imposes certain restrictions on the Company with respect to:

(i) concluding management agreements; (ii) changing the scope of business; (iii) disposing of certain assets; and (iv) incurring liabilities. These restrictions also apply to certain Group companies. Additionally, in the agreement the Company agreed to maintain, over the whole contract period, an agreed level of the net indebtedness to EBITDA, equity to balance sheet amount and certain cash flow ratios. In the event of default, the European Bank for Reconstruction and Development may call in the loan, together with interest and other fees. As at 30 September 2013 all funds available under the agreement had been utilised and the outstanding indebtedness thereunder was PLN 712.5 million.

### *Facility agreement with the European Bank for Reconstruction and Development of 26 June 2013*

On 26 June 2013 the Company and ENERGA-OPERATOR, as the borrowers, concluded a PLN 800.0 million unsecured credit facility agreement with the European Bank for Reconstruction and Development (“EBRD 2013 Facility”). According to this agreement, the European Bank for Reconstruction and Development will make available PLN 400.0 million, and the balance of PLN 400.0 million will be made available by two commercial banks: Powszechna Kasa Oszczędności Bank Polski S.A. and ING Bank Śląski. The facility bears interest at a variable rate being the total of WIBOR and the bank’s margin, but the borrowers may elect a fixed rate in certain circumstances and on the rules specified in the agreement. The facility should be utilised in tranches of no less than PLN 50.0 million each. The term of availability is until 29 February 2016, but if no funds are utilised by 20 December 2013, their availability may be cancelled or suspended. The facility should be repaid in 36 quarterly instalments, from 18 March 2016 to 18 December 2024. The facility is to be used for the financing of: (i) connection of renewable sources of energy, (ii) construction and repairs of high-voltage lines and high- and medium-voltage pylons, (iii) reinforcement of the distribution network, (iv) modernisation of the metering system; and (v) soliciting new customers under the investment programme of ENERGA-OPERATOR. The agreement contains clauses ranking the indebtedness thereunder *pari passu* with other financial liabilities of the Company. The agreement also imposes certain restrictions on the Company with respect to: (i) changing the scope of business; (ii) disposing of certain assets; (iii) incurring liabilities; and (iv) establishing encumbrances; (v) granting guarantees; (vi) allocation of profits; (vii) dealing in derivatives; and (viii) merging and demerging companies. The credit agreements also contain provisions which require the maintenance of certain financial parameters, such as the net indebtedness to EBITDA, cash flows on operating activity to interest expense, and equity to consolidated total assets. In, the event of, among other things (i) a default under certain obligations set out in the agreement; (ii) a change of control over ENERGA-OPERATOR, (iii) suspending the implementation of the aforesaid investment programme; or (iv) any cross default under other financing agreements of the Company or selected Group companies, the European Bank for Reconstruction and Development may call in all or part of the facility with interest and other fees. The bank may also call in all or part of the facility if, among other things, any disposal of the company’s assets results in their value decreasing by more than 25%, or in the event of prepayment of certain indebtedness referred to in the agreement. The agreement is governed by English law. As at 30 September 2013 no funds available under the EBRD 2013 facility have been utilised.

### *Credit facility agreement with the European Investment Bank of 10 July 2013*

On 10 July 2013 the Company and ENERGA-OPERATOR, as the borrowers, concluded a PLN 1,000.0 million unsecured credit facility agreement with the European Investment Bank (“EIB 2013 Facility”). In the circumstances set out in the agreement the facility may be utilised in EUR. The facility bears interest depending on the terms of each tranche, at the borrower’s choice, at a fixed or variable rate. The variable rate is the total of WIBOR—for PLN-denominated tranches, or EURIBOR—for EUR-denominated tranches, and the bank’s margin. Each tranche is to be prepaid within four to fifteen years from the utilisation date which should occur on or before 10 May 2015. The facility should be drawn in no more than ten tranches of no less than PLN 100.0 million each. According to the agreement, the funds from the facility are to be used for financing the investment programme of ENERGA—OPERATOR which aims at the development and modernisation of the distribution network in both central and northern Poland. The agreement contains clauses ranking the indebtedness thereunder *pari passu* with other financial liabilities of the Company and a clause incorporating by reference limitations provided for in other financing agreements, if not expressly included in the agreement with EIB. The agreement also imposes certain restrictions on the Company with respect to: (i) changing the scope of business; (ii) disposing of certain assets; (iii) incurring liabilities; and (iv) establishing

encumbrances. In the event of default, the European Investment Bank may call in all or part of the loan, together with interest and other fees. The Bank may also call in part of all of the facility if, among other things (i) the expenditures under the investment programme fall to such level that the facility amount will exceed half of the programme expenditures, (ii) any indebtedness referred to in the agreement is prepaid, (iii) the entity controlling the Company or any of the Company's material subsidiaries (the relevant criteria are set out in the agreement) change, (iv) the Company or ENERGA-OPERATOR forfeit any of the licences or other permits to transmit and distribute electricity (or these licences or permits are otherwise modified), or (v) certain ratings fall below a designated level. These limitations also apply to certain group companies. The agreement is governed by the laws of England and Wales. As at 30 September 2013, the Company had not drawn any funds made available under the EIB 2013 Facility.

#### *Bond issues*

##### *Domestic Bonds Programme*

On 21 September 2012 the Company concluded a bond programme agreement with Bank Polska Kasa Opieki S.A. ("Pekao") as agent, payment agent, broker and depositary, and with BRE Bank S.A. ("BRE Bank") as subagent, payment subagent, broker and subdepository, with respect to a PLN 4,000.0 million five-year domestic bonds programme (the "Domestic Bonds Programme"). The funds from the bonds issue are to be designated for the Company's statutory activities. The programme provides for numerous issues of bonds on the terms set out in the bonds programme agreement, the relevant invitation to acquire bonds, and the indenture applicable to that series of bonds. The bonds are to be listed in an alternative trading system or on a regulated market. Pursuant to the agreement, the Company appointed Pekao and BRE Bank as the arrangers of the bonds programme, with a stipulation that the Company would not be obligated to issue further series of bonds with the participation of or through these banks. Neither Pekao nor BRE Bank, nor any other entity providing services under the agreement are required to acquire the bonds from the Company. Additionally, the agreement obliges the issuer to ensure that the financial liabilities related to the bonds rank *pari passu* with other liabilities of the Company. In the event of the Company's default under any provision of the agreement, the other party may suspend the provision of its services for a certain period, or terminate the agreement with immediate effect.

The first issue of series A bonds under the Domestic Bonds Programme, amounting to PLN 1,000.0 million, was effected on 19 October 2012, with the repayment date on 18 October 2019. The bonds were offered in a private placement and are not secured. The bonds bear variable interest, determined quarterly based on 3M WIBOR plus a margin of 1.50p.p. On 19 November 2012 the series A bonds were listed on one of the Catalyst markets—the Alternative Trading System (*Alternatywny System Obrotu*—ASO), operated by BondSpot S.A. The indenture of the series A issue provides, among other things, that in the event of a change of control over the Company resulting in a deterioration of its rating, the Company may convene a bondholders meeting in order to adopt a resolution precluding early repayment of the bonds. If such a resolution is not passed, each bondholder will have the right to request the early repayment of its bonds. Additionally, the indenture for the series A bonds imposes certain additional obligations on the Company, such as an obligation to maintain the financing leverage at an appropriate level. In the event of default under the indenture, each bondholder will have the right, among other things, to demand that a bondholders meeting be convened in order to pass a resolution on special protective measures for the bondholders' rights, including a resolution on the immediate repayment of the bonds. As at 30 September 2013 the total nominal value of the bonds issued under the Domestic Bonds Programme is PLN 1,000 million, and the total indebtedness under the outstanding bonds is PLN 1,000 million.

##### *EMTN Programme*

A Euro medium-term notes programme ("EMTN Programme") for no more than EUR 1,000.0 million was established on 15 November 2012. As part of the EMTN Programme, Energa Finance AB (publ), a subsidiary of the Company registered under Swedish law, may issue euro notes with the repayment term from one to ten years, based on the following agreement concluded on 15 November 2012: (i) an agency agreement between Energa Finance AB (publ) as the issuer, the Company as the guarantor and BNP Paribas Securities Services, branch in Luxembourg as the payment agent and the transfer agent; (ii) a dealer agreement concluded between Energa Finance AB as the issuer, the Company as the guarantor and

BNP Paribas, HSBC Bank Plc and Merrill Lynch International as the arrangers and brokers; (iii) a deed of guarantee, wherein the Company unconditionally and irrevocably agreed to guarantee the liabilities of Energa Finance AB (publ) relating to the euro notes up to EUR 1,250.0 million, until 31 December 2024; and (iv) a *deed of covenant*, wherein Energa Finance AB (publ) as the issuer and the Company as the guarantor agreed to satisfy certain claims related to the bonds directly to their holders. These agreements and the notes issued under the EMTN Programme are governed by English law. The notes issued under the EMTN Programme were admitted to trading on a regulated market in Luxembourg, on the basis of a base prospectus approved by the Luxembourg financial regulator (*Commission de Surveillance du Secteur Financier*) on 15 November 2012.

The first EUR 500.0 million issue of the notes under the EMTN Programme was effected on 19 March 2013, with a redemption date set for 19 March 2020. Five thousand notes were issued with a nominal value of EUR 100.0 thousand each. The notes bear fixed interest at 3.250% p.a. Interest on the notes is payable in annual interest periods. On the issue date the notes were listed on the Luxembourg exchange. In relation to the issuance of the notes, on 15 March 2013, Energa Finance AB (publ) as the issuer, the Company as the underwriter, and BNP Paribas, HSBC Bank Plc and Merrill Lynch International as the joint lead managers, concluded a subscription agreement. The funds obtained by Energa Finance AB (publ) from the issuance of notes under the EMTN Programme were transferred to the Company under a loan agreement of 21 March 2013 for EUR 250 million, and a loan agreement of 25 March 2013 for EUR 249 million.

### **Licences**

Our key business in the segments of generation, distribution and sales of electricity and heat is licensed and regulated by the ERO president (see “Regulatory Matters—Energy sector regulation—Licences”). In the circumstances defined in the relevant provisions of law, the ERO President may, depending on the circumstances, withdraw our licences by issuing an appropriate administrative decision. As at the date of this Offering Circular, we hold all licences required by law.

The licences that we hold have been granted for definite periods. Before the expiry date of a licence, within the terms prescribed by law, we file an appropriate application for its extension or for a new licence. Although old licences are not automatically extended or replaced with new licences, we are confident that we will be able to extend or replace expiring licences in a timely manner.

The following table provides an overview of our licences as at the date of this Offering Circular.

	Licence type	Expiration date
ENERGA-OPERATOR . . . . .	distribution of electricity	31 December 2020
ENERGA-OBRÓT . . . . .	trading in electricity	30 June 2017
	generation of electricity	16 August 2031
	trading in gas fuels	31 December 2030
	cross-border trading in gas	31 December 2030
ENERGA Elektrownie Ostrołęka . . . . .	heat generation	31 December 2025
	generation of electricity	31 December 2025
	trading in electricity	15 January 2014
ENERGA Kogeneracja . . . . .	generation of electricity	1 December 2020
	heat generation	31 October 2018
	heat transmission	31 October 2018
ENERGA Invest. . . . .	trading in gas fuels	10 September 2015
	cross-border gas trading	10 September 2015
	electricity generation licence promise	5 March 2018
ENERGA Hydro . . . . .	generation of electricity	31 December 2030
ENERGA Oświetlenie. . . . .	trading in electricity	31 December 2025
Iberdrola Renewables Polska sp. z o.o. (currently EPW Energia sp. z o.o.) . . . . .	generation of electricity	31 December 2025
Ciepło Kaliskie . . . . .	promise of a licence for generation, transmission and distribution of electricity, and trading in heat	15 May 2017
ENERGA Elektrociepłownia Kalisz. . . . .	generation of electricity	31 December 2025
	heat transmission	31 December 2025
	heat generation	31 December 2025
ZEP-MOT sp. z o.o. . . . .	trading in liquid fuels	11 December 2027
ENERGA Ostrołęckie Przedsiębiorstwo Energetyki Ciepłej . . . . .	transmission of heat	15 October 2025
	trading in heat	15 October 2025

*Source: Company.*

### Environmental matters

Our activities are subject to significant environmental laws and regulations affecting the operation of our business. See “Regulatory Matters” and “Risk Factors—Risks related to regulation of the Polish power industry”. We are subject to various regulations in the area of environmental protection which mean we may have to bear substantial compliance costs and/or apply for new environmental permits resulting from environmental regulations becoming more stringent and from implementation of best industrial practices”.

Our business operations have a material impact on the environment, in particular due to emissions of air pollutants, generation of waste, discharge of sewage to waters or ground, or emissions of noise by power lines or stations, all of which are subject to environmental regulations. During recent years there has been a significant increase in environmental regulation on the market on which we operate, including regulations in relation to CO<sub>2</sub> emissions and limitations on pollutant emissions from large facilities. Compliance with environmental laws and regulations requires, among other things, that we commission environmental impact studies for future projects and that we obtain licences, permits and other authorisations required to construct and operate our projects.



We also conduct our business in protected environment areas, including those covered by the Natura 2000 programme. New investments and overhauls in the protected environment areas which may be deemed to affect the protected area may be subject to environmental impact assessment procedures.

As at the date of this Offering Circular, we hold all legally required permits and believe that our business is conducted in compliance with all material environmental regulations.

### *Permits*

Our power plants and CHPs generating electricity and heat from conventional sources operate under permits which will expire in the years 2014-2026. In particular, they hold integrated permits which usually cover the type and parameters of the systems, the terms of releasing substances and energy into the environment, the permitted types and volumes of gases and dust, water management issues (drawing water, emission and discharge of waste water), waste management, the determination of permitted noise levels, methods of achieving a high degree of environmental protection, methods for preventing and mitigating the results of malfunctions, and an obligation to report malfunctions, as well as those setting out monitoring duties with respect to water, sewage and air pollution. The Group companies engaging in the production of electricity also obtain relevant sectoral permits.

Our hydro power plants, including our pumped-storage power plant, operate under permits which will expire in the years 2013-2032. In particular, they hold water management permits for retaining water, discharging waste water and water offtake.

The Group companies operating in the distribution and sale segments hold the required permits and authorisations that are necessary for their core business. In particular, with respect to the electricity distribution business, they hold water management permits to discharge waste water to waters or ground, to discharge purified household sewage to ground, and to produce waste, including hazardous and non-hazardous waste. The validity periods of these authorisations and permits cover the years 2013-2023.

Before any of these permits expire, we will be required to apply for their extension or replacement. However, we are confident that we will be able to extend such permits or have them replaced with newly issued ones.

### *Environmental fees*

The highest fees for the industrial use of the natural environment are incurred by generation companies (system power plants). The total annual fees for the use of the natural environment paid by these companies (coal-fired and hydro power plants) were PLN 13.2 million (of which ENERGA Elektrownie Ostrołęka—PLN 12.0 million), PLN 13.8 million (of which ENERGA Elektrownie Ostrołęka—PLN 12.6 million) and PLN 12.9 million (of which ENERGA Elektrownie Ostrołęka—PLN 11.6 million) in the years ended 31 December 2012, 2011, and 2010, respectively. The greatest proportion of these costs relates to SO<sub>2</sub> emissions (approximately 36%). Environmental fees of approximately PLN 1.5 million annually are paid by ENERGA Elektrownie Ostrołęka for offtake of water from the river Narew, which is then sold to a company outside the Group.

The total fees for the use of the natural environment paid by ENERGA OPERATOR were PLN 0.04 million, PLN 0.06 million and PLN 0.07 million in the years ended 31 December 2012, 2011, and 2010, respectively. The greatest proportion of these fees relates to emissions into the atmosphere (approximately 70%).

Additionally, the Group companies incur operating expenses related to the neutralisation of waste by external service providers, supplies of water and sewage collection by utility companies, and outlays related to land rehabilitation and soil decontamination.

In the nine-month period ended 30 September 2013 and in the years ended 31 December 2012, 2011, and 2010, we were not penalised for any environmental non-compliance, save for an administrative fine of PLN 10 thousand imposed on ENERGA Elektrownia Ostrołęka in a decision of the Environmental Protection Inspector for the Mazowieckie Province of 16 August 2012 for engaging in the collection, recovery or neutralisation of waste in breach of a decision permitting the recovery or neutralisation of waste.



*Emission of pollutants*

Our power plants are required to comply with the relevant provisions of law governing the emission of gas pollutants, in particular CO<sub>2</sub>, SO<sub>2</sub>, NO<sub>x</sub>, dust and other substances. As at the date of this Offering Circular, all of our power plants satisfy the terms of these permits and satisfy the standards of CO<sub>2</sub>, SO<sub>2</sub>, NO<sub>x</sub>, dust and other substances' emissions.

*CO<sub>2</sub> emissions*

Our power plants participate in the CO<sub>2</sub> EU Emission Trading System (EU ETS) based on valid administrative decisions.

According to EU regulations, the individual electricity generators are allotted, free of charge, transferable CO<sub>2</sub> emission allowances (EUA). Since 2013 the emission allowances for the generation of electricity are no longer free of charge. However, according to the EU-ETS Directive and relevant decisions of the European Commission, Polish power plants may exercise transitional exceptions which make part of the emission allowances free of charge (until 2019). With respect to heat generation, power plants may obtain partial (decreasing over time) free of charge allotments, on terms which are uniform across the EU.

The table below presents the level of CO<sub>2</sub> emissions in the Group in the periods indicated.

	Nine-month period ended 30 September		Year ended 31 December		
	2013	2012	2012	2011	2010
	(thousand metric tons)				
ENERGA Elektrownie Ostrołęka . . . . .	2,037.6	1,980.5	2,402.1	3,028.9	2,574.7
<i>Elektrociepłownia Ostrołęka A</i> . . . . .	32.9	33.4	48.7	172.6	167.5
<i>Elektrownia Ostrołęka B</i> . . . . .	2,004.7	1,947.1	2,353.3	2,856.3	2,407.3
ENERGA Kogeneracja* . . . . .	71.5	68.8	87.3	84.5	79.4
ENERGA Elektrociepłownia Kalisz . . . . .	5.2	5.6	8.3	7.4	7.9
<b>Total CO<sub>2</sub> emissions related to electricity generation . . .</b>	<b>2,114.2</b>	<b>2,054.9</b>	<b>2,497.6</b>	<b>3,120.8</b>	<b>2,662.0</b>
ENERGA Elektrownie Ostrołęka . . . . .	145.4	121.7	181.7	157.8	309.0
ENERGA Kogeneracja* . . . . .	148.2	138.1	210.0	206.8	239.4
ENERGA Elektrociepłownia Kalisz . . . . .	39.1	37.0	53.0	51.5	59.5
<b>Total CO<sub>2</sub> emissions related to heat generation . . . . .</b>	<b>332.8</b>	<b>296.8</b>	<b>444.8</b>	<b>416.1</b>	<b>607.9</b>
<b>Total CO<sub>2</sub> emissions in the Group . . . . .</b>	<b>2,447.0</b>	<b>2,351.6</b>	<b>2,942.2</b>	<b>3,537.0</b>	<b>3,269.9</b>

\* Data for ENERGA Kogeneracja concern only the facilities participating in the European system of trading in CO<sub>2</sub> emission allowances, without emissions from the Wyszogród heating plant and Winnica CHP.

Source: Company.

The table below presents the number of free of charge CO<sub>2</sub> emission allowances granted to our power plants in the years ended 31 December 2012, 2011, and 2010. We are eligible for free of charge CO<sub>2</sub> allowances in 2013-2019. As at the date of this Offering Circular, free of charge CO<sub>2</sub> emission allowances have been published as part of the NAP for 2013. They can be obtained subject to completing certain investment tasks included in the National Investment Programme and to using the related capital expenditures for the settlement of the granted allowances. As at the date of this Offering Circular, the document has been notified as public aid to the Directorate General of the European Commission for Competition. Once the European Commission issues the decision, the Council of Ministers will adopt an ordinance containing a list of the electricity generation equipment covered under the EU ETS system in

## OUR BUSINESS

the settlement period of 2013-2020, together with the number of emission allowances granted to such equipment.

	Year ended 31 December		
	2012	2011	2010
	(thousand metric tons)		
ENERGA Elektrownie Ostrołęka	2,712.0	2,712.0	2,712.0
<i>Elektrociepłownia Ostrołęka A</i>	421.4	421.4	421.4
<i>Elektrownia Ostrołęka B</i>	2,290.6	2,290.6	2,290.6
ENERGA Kogeneracja	298.1	298.1	298.1
ENERGA Elektrociepłownia Kalisz	70.2	70.2	70.2
<b>Total free of charge CO<sub>2</sub> emission allowances of the Group</b>	<b>3,080.4</b>	<b>3,080.4</b>	<b>3,080.4</b>

Source: Company.

For additional information regarding CO<sub>2</sub> emission allowances see “Regulatory Matters” and “Operating and Financial Review—Key factors and significant market trends affecting our results of operations—CO<sub>2</sub> emission allowances”.

As at the date of this Offering Circular, our power plants comply with the terms of the permits and the CO<sub>2</sub> emission standards.

### *Emission of SO<sub>2</sub>, NO<sub>x</sub> and other substances*

In addition to the limitations concerning CO<sub>2</sub> emissions, we are required to comply with regulations concerning other gases, including NO<sub>x</sub>, SO<sub>2</sub>, as well as dust and other substances. As at the date of this Offering Circular, we hold all material permits concerning the issuance of pollutants other than CO<sub>2</sub> and we comply with the requirements of the LCP Directive.

The table below sets forth NO<sub>x</sub> emissions in the Group in the periods indicated.

	Nine-month period ended 30 September		Year ended 31 December		
	2013	2012	2012	2011	2010
	(thousand metric tons)				
ENERGA Elektrownie Ostrołęka	4,226.8	4,313.8	5,258.7	5,650.3	4,892.1
<i>Elektrociepłownia Ostrołęka A</i>	353.6	308.3	452.0	598.3	870.2
<i>Elektrownia Ostrołęka B</i>	3,873.2	4,005.5	4,806.7	5,052.0	4,021.9
ENERGA Kogeneracja	393.5	430.0	603.3	565.6	596.6
ENERGA Elektrociepłownia Kalisz	66.9	67.9	98.6	91.2	141.2
<b>Total NO<sub>2</sub> emission</b>	<b>4,687.2</b>	<b>4,811.7</b>	<b>5,960.6</b>	<b>6,307.1</b>	<b>5,629.9</b>

Source: Company.

The table below sets forth SO<sub>2</sub> emissions in the Group in the periods indicated.

	Nine-month period ended 30 September		Year ended 31 December		
	2013	2012	2012	2011	2010
	(thousand metric tons)				
ENERGA Elektrownie Ostrołęka	7,207.8	6,871.3	8,277.8	10,091.1	9,773.1
<i>Elektrociepłownia Ostrołęka A</i>	1,484.1	1,425.7	2,039.9	3,210.9	3,300.2
<i>Elektrownia Ostrołęka B</i>	5,723.7	5,445.6	6,237.9	6,880.2	6,472.9
ENERGA Kogeneracja	777.2	809.0	1,146.0	1,245.1	1,242.7
ENERGA Elektrociepłownia Kalisz	184.3	193.6	265.9	296.1	289.8
<b>Total SO<sub>2</sub> emission</b>	<b>8,169.3</b>	<b>7,873.9</b>	<b>9,689.7</b>	<b>11,632.3</b>	<b>11,305.6</b>

Source: Company.

The table below sets forth dust emissions in the Group in the periods indicated.

	Nine-month period ended 30 September		Year ended 31 December		
	2013	2012	2012	2011	2010
	(thousand metric tons)				
ENERGA Elektrownie Ostrołęka . . . . .	327.3	323.9	426.8	471.6	388.4
<i>Elektrociepłownia Ostrołęka A</i> . . . . .	171.9	161.5	244.2	265.5	207.7
<i>Elektrownia Ostrołęka B</i> . . . . .	155.4	162.4	182.6	206.1	180.7
ENERGA Kogeneracja . . . . .	71.3	82.6	121.1	116.0	116.8
ENERGA Elektrociepłownia Kalisz . . . . .	26.3	31.5	41.9	40.8	324.7
<b>Total dust emission</b> . . . . .	<b>424.9</b>	<b>444.0</b>	<b>589.8</b>	<b>628.4</b>	<b>829.9</b>

Source: Company.

With respect to emissions into the atmosphere and the requirements of the LCP Directive, our Group companies exercise (i) natural derogations (20 thousand hours in the period from 1 January 2008 to 31 December, 2015) granted to Elektrownia Ostrołęka A (for three OP-100 boilers) and Elektrownia Kalisz (for two boilers: SR-10 K1 and SR-10 K2); and (ii) treaty-based derogations granted to Elektrownia Ostrołęka B with respect to SO<sub>2</sub> (for two OP650 boilers—until the end of 2015 and one OP650 boiler for the years 2016-2017 with respect to NO<sub>x</sub>) and Elektrownia Kalisz with respect to dust (three WR-25 boilers and one OSR-32 boiler until 31 December, 2017) and Elektrownia Elbląg with respect to SO<sub>2</sub> (for three OP130 boilers and one WP120 boiler)) emissions until 31 December 2015.

In relation to the new IED Directive which significantly tightens the emission standards for power sources and reinforces the Best Available Techniques, we have initially reported our systems, for the purpose of derogations, to the National Transitional Plan (Elektrownia Ostrołęka B with respect to SO<sub>2</sub> and dust and ENERGA Kogeneracja with respect to SO<sub>2</sub>, NO<sub>x</sub> and dust).

We are analysing the risks and assessing the threats related both to the implementation of the new IED Directive standards and to the third period in the emission allowances trading system. We are planning investments that will adjust our units to the more stringent emission standards, in particular with respect to NO<sub>x</sub>. In addition, we adjust our investment programmes to the changing environment and guidelines of the low-emission economy. The need to adhere to the new emission standards in the existing facilities might result their limited use after 1 January 2016 if no additional investments and modernisations are made. With this in mind we are taking actions aimed at limiting the emission of pollutants in order to continue the operation of these facilities in compliance with the environmental regulations.

As at the date of this Offering Circular, our power plants comply with the permits and satisfy the emission standards for SO<sub>2</sub>, NO<sub>x</sub>, dust and other substances.

### Research and development

Our research and development efforts focus on the projects characterised by the lowest emissions of CO<sub>2</sub> and those related to the effectiveness in the distribution and use of energy.

In relation to the pending research and development projects, we cooperate, among others, with Instytut Energetyki w Gdańsku, Gdański Parki Naukowo—Technologiczny, Pomorski Park Naukowo—Technologiczny, the Gdańsk University, Gdańsk Technical University, Instytut Maszyn Przepływowych PAN and Uniwersytet Warmińsko—Mazurski.

ENERGA OPERATOR is implementing the most extensive smart metering project in Poland which is of strategic importance for the Group. As part of a pilot programme for this project, as at the date of this Offering Circular, 27 thousand remotely accessed meters were installed at industrial offtakers and 225 thousand in households. The cost of one municipal smart meter (for which the depreciation rate is 12.5% per year) with the accompanying infrastructure was approximately EUR 70 in 2012. With the development of our distribution network, we are planning to significantly reduce the SAIDI ratio in line with international standards.

As a member of a consortium comprising, among others, the Gdańsk Technical University, Instytut Maszyn Przepływowych PAN and Uniwersytet Warmińsko—Mazurski we participate in a research programme financed by Narodowe Centrum Badań i Rozwoju w Warszawie, aimed at developing a pilot co-generation system with a combustion engine and a syngas purification system. An important element of the project is to devise a concept and conditions for cooperation between renewable energy sources and distribution networks.

As at the date of this Offering Circular we are also involved in the following research and development initiatives: (i) a new technologies research and development project implemented in a consortium, aimed at creating an intelligent building management system that actively manages energy demand, (ii) SmartToruń—a consortium project aimed at demonstrating and promoting the advantages of intelligent network solutions and Smart Grid components, (iii) a project pursued in consultation with the ERO and PSE aimed at probing clients' reactions to new AMI-based products and services and dynamic pricing programmes; the project is expected to determine openness to new products and the possible reactions of clients in terms of energy consumption; and (iv) a research and development project related to electric vehicles, aimed at developing charging and discharging stations for electric cars and creating conditions for the development of an EV market in Poland, and the creation of an electricity storage system using mobile energy accumulators—EV.

The research and development efforts made by the ENERGA Group bring about technological innovations, new products, organisations and processes to be implemented and commercialised by Group companies. The solutions devised, in particular in the area of distribution and sales of electricity, will become a permanent part of the products offered by our trading and distributing companies.

ENERGA-OPERATOR has two registered patents concerning the replacement of insulator chains.

### **Intellectual property**

We own protective rights to the ENERGA trademark (the basic trademark) and derivative trademarks (such as ENERGA-OBRÓT, ENERGA-OPERATOR, ENERGA Obsługa i Sprzedaż). These trademarks are registered with the Polish Patent Office and the Office of Harmonisation for the Internal Market and, consequently, they enjoy legal protection in the territory of Poland and the EU. The company licences the right to use these trademarks to Group companies.

As at the date of this Offering Circular, we are not materially exposed to any patents, industrial agreements or new technological processes.

### **Internet domains**

As at the date of this Offering Circular we have registered approximately 1,150 internet domains, with [energa.pl](http://energa.pl), [grupaenerga.pl](http://grupaenerga.pl), [energa-operator.pl](http://energa-operator.pl), [energaobrot.pl](http://energaobrot.pl), [smarteco.pl](http://smarteco.pl), [in.pl](http://in.pl), and [ze.slupsk.pl](http://ze.slupsk.pl) being the most prominent ones.

### **Information technology**

We use numerous IT solutions in support of key areas of our activity. The use of IT systems is monitored and confronted with other public utility enterprises. This approach allows us to react swiftly to any actual business needs and competitive developments in our industry, while standardising the solutions applied Group-wide.

We use IT solutions on the basis of licences for professional software designated for the power sector, such as: (i) the unit and auxiliary systems automation system Ovation (DCS) by EMERSON (ii) the production management system SCADA by Mikronika and Elkomtech, (iii) the network property management system SID by Apator Rector, (iv) the remote metering management and SmartGrid systems AMI by ATM Software, CONVERGE by Landis & Gyr, (v) the energy market management systems CMS, SURE, WIRE by Sygnity, (vi) the billing systems SAP IS-U, Selen by EITE, AUMS by Asseco, (vii) CRM systems Microsoft Dynamics, and (viii) Enterprise-class systems: SAP ERP, IFS ERP, FileNet by IBM, Oracle Hyperion, SAP Business Warehouse.

According to our IT strategy, we implement open, scalable solutions which may be replaced as needed by more modern technologies. In our view, subject to technical issues and the related expenses, both the

standard operating systems and the tailored software are replaceable and may be substituted by other systems and software available on the market from other vendors that offer at the very least similar functionality. Such action would require the development of appropriate migration strategies to the new platforms, relying on the application and data integration solutions available in our organisation.

#### *IT infrastructure architecture*

As one of the largest energy groups in Poland, we have a complex IT infrastructure in place, comprising approximately 8.5 thousand workstations and 500 servers. We rely to a great extent on virtual servers which significantly reduces the costs of their maintenance and speeds up the implementation of new systems, while minimising expenses related to potential hardware failures. Our wide area network (WAN) is a broad telecommunication network covering large areas in northern Poland. Our Group companies and business segments use the WAN to transfer data between employees, clients, offtakers and suppliers from various locations. Our WAN has been modernised and expanded. The modernised WAN runs central applications supporting our business processes. In order to mitigate expenses related to traditional phones, we are migrating to VoIP systems and convergent solutions (with numerous types of media transmitted over one physical link). Our WAN network offers a high degree of security for our processed business data, transactions, and communications across business segments. For the purposes of controlling and supervising the distribution grid, smart metering and the construction of a smart grid ENERGA-OPERATOR, is the first DSO in Poland to launch an independent technical IT network TAN.

#### *Application architecture*

Our applications satisfy the key needs related to the processes within our organisation as well as the data flows in the dispersed environment. The key applications we use include: (i) operating support applications (such as Apator Rector SID, SCADA by Elkomtech and Mikronika, CONVERGE by Landis & Gyr, AMI by ATM Software, WIRE/UR, SURE, CMS by Sygnity, SMPP by ABB), (ii) business support applications (such as the public utility enterprise management system Asseco Utility Management System, billing system SELEN Billing by EITE, billing system SAP-ISU Billing), (iii) ERP systems (including SAP, IFS, Document Circulation System based on IBM FileNet, Strategic Management Support System Oracle Hyperion, Oracle data warehouse and analytical tools SAP Business Objects). We have commenced the implementation of a sales support system to successively replace other customer service systems.

#### **Insurance**

We purchase insurance coverage with respect to our companies and operations against substantially all associated risks and in the amounts which are customary for power companies operating in Poland.

Currently, the Group companies do not have any joint insurance policies in place. There is however an insurance programme that is uniform in respect of insurance products with standardised coverage for the risks included, which contains individual provisions extending the coverage, negotiated for the specific needs of the power industry. Our companies are free to decide on the subject and scope of the insurance contracts available under the programme, and the solutions employed in these contracts reflect the individual needs of the companies. They base their choice on the risk specifics and their previous experience with respect to insurance needs, in particular related to their historical claims experiences. The insurance programme is implemented and handled with the assistance of brokerage companies.

Our companies are required to observe the Public Procurement Law in case of industry-wide contracts to purchase insurance services, following the procedure set forth therein, and if the Public Procurement Law does not need to be applied, to observe their internal rules governing the procurement process.

We enter into insurance contracts with leading insurance companies, such as: Powszechny Zakład Ubezpieczeń S.A., Towarzystwo Ubezpieczeń i Reasekuracji Warta S.A., Towarzystwo Ubezpieczeń i Reasekuracji Allianz Polska S.A., Sopockie Towarzystwo Ubezpieczeń Ergo Hestia S.A., Generali TU S.A., AIG Europe Limited sp. z o.o. Oddział w Polsce, ACE European Group Limited sp. z o.o. Oddział w Polsce.

As a rule, our key insurance policies (with the highest insurance amount and covering the most significant risks) are concluded with syndicates of insurance companies, comprising two or more insurance companies. The key insurance policies, providing coverage against the main risks incurred by the companies from our

## OUR BUSINESS

Group, were entered into under master agreements for a three-year term (1 July 2011 to 30 June 2014.), with one-year policy periods.

As a the date of this Offering Circular, we maintain the following insurance policies: (i) third-party liability insurance covering the business activities conducted, property in possession or use, including third party product/service liability, and also third-party liability for the failure to supply electricity, for interruptions in the supply or for supplying electricity that does not meet the required parameters, damage resulting from emissions, leakage or another form of pollutant transmission to air, water or soil; the insurance coverage also extends to third-party liability for the possession, administration, maintenance of dams, weirs, water reservoirs or other hydrologic structures, (ii) professional liability insurance of the executive officers of the companies from our Group, (iii) property insurance against fire and other perils, for material subsidiaries from the generation, renewable energy sources and distribution segments, (iv) insurance against electrical damage to electrical machinery and equipment (for material subsidiaries from the distribution and generation segments), (v) insurance against damage to machinery and equipment (for material subsidiaries from the generation segment).

As a the date of this Offering Circular, insurance policies with the highest insured amounts include: (i) property insurance against fire and other perils of the distribution, and generation segments, (ii) insurance against damage to machinery and equipment for the generation segment, (iii) third-party liability insurance for our companies, with the overall guaranteed sum of PLN 100 million for one and all insurance incidents, (iv) professional liability insurance for executive officers of the companies from our Group with the overall guarantee sum of PLN 200 million for one and all insurance events.

We believe that the scope of our insurance coverage is consistent with the practices of other energy sector companies in Poland.

### Employment

As at the date of this Offering Circular, we employ nearly 10.2 thousand employees and, in terms of employment, are one of the largest capital groups in Poland. The table below provides an overview of employment in our Group, broken down by operating segments, as at the dates indicated.

Segment *	As at 30 September		As at 31 December		
	2013	2012	2012	2011	2010
Electricity distribution . . . . .	6,525	6,939	6,954	7,337	7,977
Generation . . . . .	1,578	1,662	1,661	1,683	1,887
Sales . . . . .	1,455	1,472	1,425	1,467	1,588
Services . . . . .	645	683	681	589	347
Other . . . . .	238	345	288	350	382
<b>Total</b> . . . . .	<b>10,441</b>	<b>11,101</b>	<b>11,009</b>	<b>11,426</b>	<b>12,181</b>

Source: Company.

The table below presents our employment, broken down by age as at the dates indicated.

	As at 30 September 2013
Below 20 years of age . . . . .	0
20-29 . . . . .	851
30-39 . . . . .	2,796
40- 49 . . . . .	3,273
50-59 . . . . .	3,181
above 60 years of age . . . . .	340
<b>Total</b> . . . . .	<b>10,441</b>

Source: Company.



The table below presents our employment, broken down by occupation, as at the dates indicated.

	As at 30 September		As at 31 December		
	2013	2012	2012	2011	2010
Blue collar .....	3,886	4,350	4,302	4,694	5,458
White collar .....	6,555	6,751	6,707	6,732	6,723
<b>Total</b> .....	<b>10,441</b>	<b>11,101</b>	<b>11,009</b>	<b>11,426</b>	<b>12,181</b>

Source: Company.

In the period from the beginning of 2010 to 30 September 2013, employment increased only in the segment of services, mainly as a result of transferring administrative, financial, accounting, HR and payroll functions to ENERGA CUW, included in this segment.

The decrease in the number of employees in the nine-month period ended 30 September 2013 and in the years ended 31 December 2012, 2011, and 2010 resulted mainly from individual redundancy programmes and schemes implemented in the Group as well as other restructuring efforts. The individual redundancy programmes and schemes were adopted pursuant to the social agreement of 19 July 2007 concerning the security of employees' rights and interests in the process of the consolidation and restructuring of the Group (the "Social Agreement"). Under the Social Agreement, our employees were given, among other things, employment guarantees until 31 July 2017.

Pursuant to the Social Agreement, which is binding with respect to the majority of companies from the Group, an employment relationship can be terminated by mutual consent of the parties and upon payment of compensation, solely on the terms set forth in the voluntary redundancy programme agreed between the Group employers and the trade unions that are parties to the Social Agreement. It is also possible, if such agreement is not reached, that employees could voluntarily terminate their employment relationships pursuant to voluntary redundancy rules or terms, unilaterally defined by the employers and individually agreed with interested employees. All the above solutions related to voluntary redundancy are in place in the Group. The voluntary redundancy programmes were also, where possible, agreed with trade unions while in some other cases the individual redundancy terms were introduced or individual agreements were entered into, pursuant to the applicable legal provisions. The individual redundancy terms introduced are not identical in all companies from the Group and the formulas for calculating benefits paid to employees in connection with the termination of the employment relationship depend, among other things, on the average remuneration rate of a given employer from the Group. In most cases, the benefits related to the termination of an employment contract may be paid in installments. As at the date of this Offering Circular, in 18 companies from the Group, including in all the Material Subsidiaries, there are agreements or regulations in place based on which voluntary redundancy schemes are introduced or employees may terminate their employment under individual agreements. In 10 out of 18 companies, the employees may express their intention to terminate their employment in consideration for certain benefits.

In the nine-month period ended 30 September 2013 and in the years ended 31 December 2012, 2011, and 2010 a total of approximately 2,300 employees used the opportunity to terminate their employment based on the individual redundancy schemes, voluntary redundancy programmes and individual agreements (with 640 employees in the first year, and more than 1,600 employees in the following years), and the total costs incurred in relation to the programme were approximately PLN 381 million. We are planning to achieve cost savings of at least PLN 1,200.0 million on the implementation of individual redundancy schemes and the voluntary redundancy programmes in the years 2010-2017, assuming the annual increase of employment costs of 4.5%.

The employment relations in the Group are governed by both the peremptory provisions of law, in particular the Labour Code, company bargaining agreements, the industrial bargaining agreement as well as the Working Rules and Regulations. Additionally, individual employment relations in the Group are not only governed by the particular employment contracts, but also by social accords, including social packages which modify the ultimate shape of the employment relationships of the individual employees and employers in the Group. As a result of the unique characteristics of our business segments, individual Group companies may implement different regulations to shape their employment relationships.

### *Remuneration system*

Our remuneration system and social benefits system are decentralised and differentiated. They are governed not only by the Labour Code but also by the Industrial Bargaining Agreement for Power Sector Employees (*Ponadzakładowy Układ Zbiorowy Pracy dla Pracowników Przemysłu Energetycznego*) of 13 May 1993, enterprise bargaining agreements, remuneration regulations and social agreements concluded with workers' unions. In the nine-month period ended 30 September 2013 our costs of employee benefits amounted to PLN 697.9 million and in the years ended 31 December 2012, 2011, and 2010 respectively PLN 999.7 million, PLN 1,097.0 million PLN 1,051.3 million. Details regarding employee benefits and their costs are provided in Notes 11.7 and 27 to the Consolidated Financial Statements.

As at 31 December 2012, the amount of provisions against post-employment benefits amounted to PLN 458.9 million, including long-term provisions of PLN 443.8 million and short-term provisions of PLN 15.1 million. As at 30 September 2013 the amount of provisions against post-employment benefits amounted to PLN 410.0 million, including the long-term provision of PLN 394.5 million and short-term provision of PLN 15.5 million.

### *Unions; employee councils*

As at 30 September 2013, trade unions had close to 6.5 thousand members among our employees. There were 48 trade union organisations in the Group, including 17 internal and 31 intercompany unions, operating in more than one company. Most of the organisations belong or are affiliated to the following three trade unions or trade union federations, which have the right to be represented at national level: NSZZ Solidarność (the Independent Self-Governing Trade Union "Solidarność"), Związek Zawodowy Inżynierów i Techników (the Trade Union of Engineers and Technicians) and Kolegium Związków Zawodowych (the Trade Union Council). In particular, our material subsidiaries had the following number of unions in operation: ENERGA-OPERATOR—23 unions, ENERGA-OBRÓT—11 unions, ENERGA Hydro—11 unions, ENERGA Kogeneracja—3 unions and ENERGA Elektrownie Ostrołęka—3 unions. Some of these unions are representative union organisations, within the scope of the Labour Code. We assess that these data will not have changed significantly at the date of this Offering Circular.

Furthermore, in accordance with the Act on Labour Information and Consultation Requirements of 7 April 2006 (Dz. U. of 2006 No. 79 item 550, as amended) ENERGA Elektrownie Ostrołęka has employee councils in place which are elective bodies in enterprises employing no less than 50 employees. An employee council is entitled to obtain information from the employer regarding the activity and business standing of the company and the expected changes in these areas. The employee council may also participate in consultations regarding the terms, structure and contemplated changes of employment, as well as activities aimed at conserving the existing employment level and actions which may cause significant changes of the organisation of work or the basis of employment.

### *Collective bargaining agreements and social agreements*

We are very committed to a social dialogue policy. This policy encompasses, among other things, the unification of collective bargaining agreements and annual negotiations of collective agreements regarding pay rises.

Each of our material subsidiaries is bound by the provisions of the industry-wide collective bargaining agreement for Power Sector Employees, and enterprise-level collective bargaining agreements. Based on these regulations, the employees of ENERGA-OBRÓT, ENERGA-OPERATOR, ENERGA Kogeneracja, ENERGA Elektrownie Ostrołęka and ENERGA Hydro are not only entitled to the benefits available to them under the peremptory provisions of law, but also to such benefits as, among other things, allowances for work in hazardous conditions, availability for service, cash equivalents for coal allowances, length of service bonuses, long-service awards, and annual bonuses.

On 19 July 2007, the unions and the Group concluded the Social Agreement which took effect as of 1 August 2007. Its provisions concern mostly our obligations towards the employees related to employment guarantees for 120 months from its effective date. The Social Agreement also boasts other provisions protecting the rights and interests of the employees of the Group companies which are parties to the Social Agreement, in relation to a process of consolidation and restructuring of the Group. These privileges

include the right to appoint one member of the supervisory board in each of the Group companies, other than the Company, and to appoint one member of the management board in certain Group companies.

Additionally, on 1 August 2007, a separate social agreement was signed between ENERGA Elektrownie Ostrołęka and certain union organisations, securing the rights of the company's employees in the process of the consolidation and privatisation of the power sector. According to this agreement, the employer agreed to extend employment guarantees for a period of 10 years following the date of execution of the agreement, and to maintain the terms and conditions of labour and pay for particular positions at a level no less favourable than that existing on the execution date.

A separate social agreement was also concluded for the employees of ENERGA OPEC sp. z o.o. on 27 November 2008. This agreement relates to the protection of the rights and interests of employees in connection with the acquisition of shares in that company by the Company and ENERGA Elektrownie Ostrołęka and provides for, among other things, a six-year employment guarantee.

### *Social dialogue, labour disputes, strikes*

Labour disputes with unions may impede our business, and result in outages of generating assets and lead to increases in e.g. payroll costs, which in consequence may adversely affect the Group's business, financial condition, results or development prospects.

As at the date of this Offering Circular, approximately 62% of all employees are members of over 48 both internal and intercompany trade union organisations. Some of the trade unions operating in the Group are 'representative trade union organisations' within the meaning of the Labour Code. The position of trade unions in the power sector is particularly strong due to the number of persons employed in the sector and its strategic importance for the country's economy. Despite making continuous efforts to maintain good relations with employees and to resolve any problems on an on-going basis, the emergence of collective bargaining disputes in the future cannot be ruled out.

As at the date of this Offering Circular some of the Group companies, as distinct employers, are a party to a collective bargaining dispute initiated by the trade unions on 23 January 2013 concerning salary increases and the Group's pending restructuring processes. The trade unions' demands concern the maintenance of the current headcount level, guaranteeing continuity of employment relationships, safeguarding the interests of employees acquired in the process of restructuring and setting the level of pay increases in 2013. The dispute was filed at 8 of the Group's employers, five of which concluded the dispute by signing the respective collective agreements. Additionally, employees of ENERGA-OPERATOR are also a party to the class action instituted by the trade unions on 20 September 2013, in connection with the transfer of the employees of 7 employers from ENERGA-OPERATOR group to special purpose vehicles providing services relating to the operation, maintenance and management of ENERGA-OPERATOR'S properties unrelated to the energy business (see "Organisational Structure—Distribution of electricity—Restructuring" above). The dispute concerns the trade union's demand for the employers to accept joint and several liability vis-a-vis the transferred employees, for breaching the Social Agreement, in excess of the existing employer's liability under the provisions of the Labour Code and the demand for the companies providing the Facility Management services to join the Collective Bargaining Agreement for Power Industry Employees and the Social Agreement.

### *Occupational health and safety*

In compliance with the Labour Code and secondary regulations thereto, and in order to protect employees' life and health, we provide introductory and periodic health and safety training as well as mandatory medical examinations for our employees. We also employ appropriately qualified staff and provide them with appropriate personal protection gear, including protective boots and overalls. In accordance with the binding regulations, we have our own OHS services (and a Commission for Occupational Health and Safety where required), acting as OHS advisory and inspection bodies. We have also a number of volunteer OHS inspectors, and our employees have the right to refuse to engage in dangerous work.

In the nine-month period ended 30 September 2013 and in the period covered by the Consolidated Financial Statement, there were in total, 6 fatal occupational accidents in our Group companies.

### *Employees' participation in the Company's equity*

As a result of the commercialisation of ENERGA-OPERATOR and ENERGA Elektrownie Ostrołęka completed in 2008, the State Treasury granted 15% of each company's shares to the employees of ENERGA-OPERATOR and ENERGA Elektrownie Ostrołęka, respectively. In 2009 we embarked on a process of exchanging the shares of ENERGA- OPERATOR and ENERGA Elektrownie Ostrołęka for the shares of the Company, according to the Act on Exchange of Employee Shares and the Shares Exchange Ordinance. This process was completed by 13 August 2010.

In total, 15,098 persons were entitled to exchange their shares and to obtain, in aggregate, 726,841,669 of the Company shares with a nominal value of PLN 1 each (refers to the status before Reverse Stock Split). The share exchange agreements were performed from 21 September 2009. As at 30 September 2013 the shares of ENERGA-OPERATOR and ENERGA Elektrownie Ostrołęka had been exchanged for the Company shares by 13,643 persons who acquired, in aggregate, 668,408,326 shares of the Company (refers to the status before Reverse Stock Split). Although the exchange process has formally been concluded, shares may still occasionally be exchanged by the heirs of entitled persons who filed inheritance applications in court before 13 August 2010.

### **Legal and administrative proceedings**

In the ordinary scope of our business activity, we are involved in a number of court proceedings which are mostly typical, repetitive and, individually, not of material importance for Group companies. The proceedings which might individually affect our financial condition or business in the period of 12 months preceding the date of this Offering Circular are described below, and their aggregate value is approximately PLN 250 million.

As at 30 September 2013, we are party to 4,605 court proceedings. We were acting in the capacity of the claimant in 2,944 cases with a total value in dispute of approximately PLN 92.9 million and we were the defendant in 1,678 cases with a total value in dispute of approximately PLN 480.5 million.

Typical court proceedings involving Group companies are mainly proceedings regarding payment for electricity or other products and services. Additionally, an important part of litigation proceedings to which we are a party are claims for payment for the non-contractual use of another party's land for the location of power equipment and demands for the establishment of a transmission easement for a consideration. Following regulatory changes that created the conditions required for clearing up the legal status in this area, in the years 2009-2012 certain owners and perpetual usufructuaries of real properties occupied by elements of our power infrastructure filed claims in court against ENERGA-OPERATOR for compensation in relation to our alleged use of these properties without legal title, and for the establishment of transmission easements for a consideration.

As at 30 September 2013, the aggregate value of claims related to the location of power equipment on third-party land without legal title with regard to which a judgment has been passed totalled PLN 6.2 million in 1,050 cases, while the value of the value in dispute in 1,858 cases pending in court is PLN 215.2 million. Based on the available data concerning the value of the proceedings now under way, we assume that the realistic amount we could be obliged to pay following the processing of these claims may reach PLN 79.8 million, although this may change if new proceedings are initiated against ENERGA-OPERATOR regarding power equipment located on other land without legal title.

In the ordinary course of our business activity, we are also a party to numerous administrative proceedings, including, among others, proceedings before the AMO President and the ERO President regarding Energy Law issues, including the performance of the obligations imposed on Group companies under the Energy Law and imposing penalties, and proceedings concerning permits, consents and other administrative decisions required in the course of our regular business.

The proceedings which individually may have or have recently had a material impact on our financial condition or operations in the period of 12 months preceding the date of this Offering Circular are described below and in the Financial Statements. Other than the proceedings described below and the proceedings described in the Financial Statements, in the period of the last 12 months the Group companies were not a party to or participant in any material administrative, court or arbitration



proceedings which might have or have recently had a material influence on our profitability or financial situation.

***Court proceedings initiated by PSE Operator against ENERGA-OPERATOR and by ENERGA-OPERATOR against PKN ORLEN***

In July 2003, PSE S.A. (at that time PSE Operator S.A.) filed a lawsuit against ENERGA-OPERATOR (at that time Zakład Energetyczny Płock S.A.) for payment of PLN 62.5 million for transmission services. In response to the lawsuit, ENERGA-OPERATOR moved for the inclusion of PKN ORLEN S.A. (“**PKN ORLEN**”) as a defendant. On 30 June 2004, ENERGA-OPERATOR filed a lawsuit against PKN ORLEN with the Regional Court in Warsaw for the payment of PLN 46.2 million representing a system charge.

On 25 June 2008 the court dismissed the lawsuit of ENERGA-OPERATOR against PKN ORLEN. As a result of an appeal filed by ENERGA-OPERATOR, the Appellate Court in Warsaw passed a judgment on 10 September 2009 reversing the first instance court’s judgment in such way that it adjudged to ENERGA-OPERATOR the amount of PLN 46.2 million with statutory interest, and a reimbursement of the cost of the proceedings. PKN ORLEN paid the adjudged amount to ENERGA-OPERATOR. PKN ORLEN filed a cassation appeal against this judgment with the Supreme Court. On 28 January 2011 the Supreme Court repealed the Appellate Court’s judgment and returned the case for re-consideration. Upon the reconsideration of the court, in a judgment of 4 August 2011, the Appellate Court reversed the verdict of the Regional Court repealing the lawsuit of ENERGA-OPERATOR and returned the case for reconsideration. As at the date of this Offering Circular, proceedings are pending before the Regional Court.

In relation to a demand from PKN ORLEN for payment received by ENERGA-OPERATOR on 25 August 2011, ENERGA-OPERATOR paid the amount of PLN 46.2 million with statutory interest to PKN ORLEN. PKN ORLEN’s request was related to the Supreme Court’s judgment of 28 January 2011, which overturned the final and non-appealable judgment of the Appellate Court dated 10 September 2009 and as a result the basis disappeared for the payment by PKN ORLEN of the amount awarded in the decision of the Appellate Court and of the costs, which became an undue obligation until the final closing of the case.

In a case brought to court by PSE Operator against ENERGA-OPERATOR, on 25 March 2008 the Regional Court in Warsaw adjudged from ENERGA-OPERATOR to PSE Operator the amount of PLN 62.5 million with accrued interest. ENERGA-OPERATOR appealed against this judgment but on 19 March 2009 the Appellate Court in Warsaw issued a verdict dismissing the appeal. As a result of a cassation appeal against this verdict filed by ENERGA-OPERATOR on 30 July 2009, the Supreme Court, in its judgment of 26 March 2010, reversed the Appellate Court’s decision and returned the case for reconsideration. On 21 September 2011, after having reconsidered the case in view of the Supreme Court’s guidelines, the Appellate Court reversed the judgment of the Regional Court of 25 March 2008 and dismissed PSE Operator’s lawsuit entirely, adjudging from PSE Operator to ENERGA-OPERATOR the amount of PLN 123.0 million as reimbursement of ENERGA-OPERATOR’s performance based on the judgment of 25 March 2008. This judgment was the subject of cassation appeals to the Supreme Court by both parties. On 11 January 2013 the Supreme Court: (i) dismissed the cassation from ENERGA-OPERATOR, (ii) granted the cassation appeal by PSE Operator, repealed the judgment of the Appellate Court of 21 September 2011, and returned the case to that court for reconsideration. Upon joint request of the parties, the Appellate Court suspended proceedings in this case. The parties, taking into account the course of the dispute to date, the time consumed by the dispute and the remote prospects of its resolution decided to enter into negotiations to reach an amicable settlement. As a result of entering into negotiations, PSE S.A. and ENERGA-OPERATOR applied to the Court for the suspension of the proceedings until the conclusion of the negotiations related to the possible settlement. On 2 August 2013, the parties signed an Agreement on the Terms of Settlement with PSE S.A., whereby on 9 August 2013 ENERGA-OPERATOR paid PSE S.A. the amount of PLN 95.5 million (the principal of PLN 62.5 million and statutory interest of PLN 33.0 million). In connection with entering into the agreement, ENERGA-OPERATOR and PSE applied to the Appellate Court for resumption of the suspended proceedings. By the decision of 17 September 2013, the Court decided to resume the suspended proceedings. No date for the hearing has been scheduled as at the date of this Offering Circular.

***Kronospan's lawsuit against ENERGA-OBRÓT for the return of unjustifiably obtained benefit of PLN 34.2 million***

By its statement of claim of 25 June 2009, Kronospan Szczecinek sp. z o.o. (“**Kronospan**”) filed a suit against ENERGA-OBRÓT, demanding payment of PLN 34.2 million with statutory interest, representing a return of unjustifiably obtained benefits, as it challenged the validity of ENERGA-OBRÓT's actions after 2007 which formed a basis for revised prices and rates for electricity. In a default judgment of 1 September 2009, the Regional Court in Gdańsk adjudged from ENERGA-OBRÓT to Kronospan the amount of PLN 34.2 million with statutory interest. ENERGA-OBRÓT appealed against this judgment. On 19 June 2012, the Regional Court in Gdańsk repealed the default judgment of 1 September 2009 and dismissed Kronospan's lawsuit, adjudging to ENERGA-OBRÓT the court costs. On 27 August 2012 Kronospan appealed against this judgment. On 29 January 2013, the Appellate Court in Gdańsk dismissed Kronospan's appeal. Kronospan filed a cassation appeal against that judgment, which has not been processed as at the date of this Offering Circular. On 29 January 2013 the Appellate Court in Gdańsk dismissed the appeal in the case brought to court by Kronospan. On 1 July 2013 ENERGA-OBRÓT filed a cassation appeal with the Supreme Court in Warsaw.

***Proceedings initiated by ERGO ENERGY sp. z o.o. against ENERGA-OBRÓT and the counter-claim of ENERGA-OBRÓT against ERGO ENERGY sp. z o.o.***

On 12 November 2012 ERGO ENERGY sp. z o.o. (“**ERGO ENERGY**”) filed a suit against ENERGA-OBRÓT demanding, among other things, that ENERGA-OBRÓT cease to disseminate information of an alleged default by ERGO ENERGY under an electricity sale agreement concerning the shopping mall Galeria Mokotów in Warsaw, and for payment of PLN 190,907.21 as damages for lost opportunities to conclude electricity supply contracts with other electricity distribution and trading companies by ERGO ENERGY as a result of the dissemination of untrue information by ENERGA-OBRÓT as to ERGO ENERGY's unfair actions in its contractual relations. In response, ENERGA-OBRÓT filed a counter-claim against ERGO ENERGY for payment of monies related to the sale of electricity to the shopping mall Galeria Mokotów in Warsaw. Due to the lack of payment of the sale price, ENERGA-OBRÓT terminated the agreement with immediate effect. ENERGA-OBRÓT challenged the entire claim of ERGO ENERGY and demanded the payment of its full claim under the agreement in the amount of PLN 13.0 million. On 28 January 2013 ERGO ENERGY expanded the claim to include lost profits of PLN 1.5 million (up to a total of PLN 1.7 million). In a decision of 8 February 2013 the Regional Court in Gdańsk ordered the parties to mediate. ENERGA-OBRÓT did not consent to mediation. The Regional Court in Gdańsk scheduled the first hearing in this case for 23 September 2013. On 18 September 2013, the Regional Court in Gdańsk adjourned the hearing in connection with the letter submitted by ERGO ENERGY, which contained a request for the dispute to be referred to mediation. On 23 September 2013 ENERGA OBRÓT refused its consent to the mediation.

***Application to invite the Company to a settlement attempt***

In 2012 Konrad Węglewski conducting business activity under the business name Czarny Tulipan Konrad Węglewski filed motions to invite 15 Group companies to settlement negotiations with respect to the payment of claims related to infringements of copyrights and derivative rights. The applications concerned the following companies: (i) ENERGA—value in dispute: PLN 50 million, (ii) ENERGA-OPERATOR—value in dispute: PLN 50 million, (iii) Zakład Budownictwa Energetycznego Koszalin sp. z o.o.—value in dispute: PLN 1 million, (iv) Przedsiębiorstwo Budownictwa Energetycznego ENBUD Słupsk sp. z o.o.—value in dispute: PLN 1 million, (v) Zakład Transport Energetyki sp. z o.o.—value in dispute: PLN 1 million, (vi) Zakład Transport Energetyki ENTRANS sp. z o.o.—value in dispute: PLN 1 million, (vii) Multiserwis sp. z o. o.—value in dispute: PLN 1 million, (viii) Zakład Budownictwa Energetycznego Koszalin sp. z o.o.—value in dispute: PLN 1 million, (ix) ZEP-MOT sp. z o.o.—value in dispute: PLN 1 million, (x) ENERGA Operator Eksploatacje i Inwestycje Płock sp. z o.o.—value in dispute: PLN 1 million, (xi) ENBUD sp. z o. o.—value in dispute: PLN 1 million, (xii) Zakład Energetyczny Płock—Centrum Handlowe sp. z o.o.—value in dispute: PLN 1 million, (xiii) Międzynarodowe Centrum Szkolenia Energetyki sp. z o.o.—value in dispute: PLN 1 million, (xiv) Zakład Energetyczny Płock—Centrum Wykonawstwa Specjalistycznego sp. z o.o.—value in dispute: PLN 1 million, and (xv) Kongres sp. z o. o.—value in dispute: PLN 1 million.



None of these companies have acknowledged the claims or executed any settlement. As at the date of this Offering Circular, no lawsuit based on the invitation to a settlement attempt has been filed.

***Proceedings initiated by Krupy Wind Inwest sp. z o. o. of Warsaw against ENERGA-OBRÓT***

The dispute is a result of a partial termination by ENERGA-OBRÓT of a purchase agreement regarding electricity and economic rights to certificates of origin for electricity generated in RES. In accordance with the decision of the Regional Court in Gdańsk, ENERGA-OBRÓT performs the entire originally concluded agreement for purchase of electricity and economic rights until the resolution of the dispute as to whether the partial termination of the agreement by ENERGA-OBRÓT is effective. Should the case be won, ENERGA-OBRÓT will purchase electricity and economic rights in a lesser scope or on more favourable terms. The potential difference in the value of settlements between the parties over a period of 15 years is PLN 42.9 million. On 17 July 2013 ENERGA-OBRÓT filed a protest against the court decision and requested the establishment of a security in the form of a deposit to be paid by Krupy Wind Inwest sp. z o.o. Krupy Wind Inwest sp. z o.o. filed a suit against ENERGA-OBRÓT within the prescribed time limit of two weeks. On 30 September 2013, a response to the lawsuit was filed.

***Proceedings initiated by Boryszewo Wind Inwest sp. z o.o. with its registered office in Warsaw against ENERGA—OBRÓT***

The dispute is a result of a partial termination by ENERGA-OBRÓT of a purchase agreement regarding electricity and economic rights to certificates of origin for electricity generated in RES. In accordance with the decision of the Regional Court in Gdańsk, ENERGA-OBRÓT performs the entire originally concluded agreement for purchase of electricity and economic rights until the resolution of the dispute as to whether the partial termination of the agreement by ENERGA-OBRÓT is effective. Should the case be won, ENERGA-OBRÓT will purchase electricity and economic rights in a lesser scope or on more favourable terms. The potential difference in the value of settlements between the parties over a period of 15 years is PLN 104.8 million. On 17 July 2013 ENERGA-OBRÓT filed a protest against the court decision and requested the establishment of a security in the form of a deposit to be paid by Boryszewo Wind Inwest sp. z o.o. Boryszewo Wind Inwest sp. z o.o. filed a suit against ENERGA-OBRÓT within the prescribed time limit of two weeks. On 9 October 2013, a response to the lawsuit was filed. On 29 October 2013, the court of appeals repealed the previous decision of the Regional Court in its entirety and dismissed the motion for injunction to Boryszewo Wind Inwest sp. z o.o.

***Proceedings concerning the refund of overpaid excise duty***

On 13 February 2009 ENERGA Elektrownie Ostrołęka filed corrections to excise tax declarations with the relevant customs office along with a request for the reimbursement of excise tax overpaid in the period from 1 January 2006 to 31 December 2008. The application is based on an alleged inconsistency of the Polish excise tax regulations for electricity prevailing prior to 1 March 2009 with the EU regulations, as confirmed by the EU Court of Justice on 12 February 2009 (C-475/07). In its application, ENERGA Elektrownie Ostrołęka requested a reimbursement of overpaid excise tax amounting to approximately PLN 166.9 million net of interest. A decision refusing to acknowledge of the overpayment was issued on 5 February 2010. On 21 March 2011 ENERGA Elektrownie Ostrołęka filed an application to assert the invalidity of that decision. As at the date of this Offering Circular the proceedings are pending.

***Proceedings related to the bankruptcy of Fuhrländer AG (FAG)—claim for liquidated damages for a default by FAG—Iberdrola Renewables Polska sp. z o.o. (currently EPW Energia sp. z o.o.), currently owned by ENERGA Hydro sp. z o.o.***

On 31 July 2013 ENERGA Hydro sp. z o.o. purchased 67.3% of shares of Iberdrola Renewables sp. z o.o. (currently EPW Energia sp. z o.o.) and became its majority shareholder. As a result of contractual default under an agreement between FAG and Iberdrola Renewables Polska sp. z o.o. (currently EPW Energia sp. z o.o.), the latter has a claim for liquidated damages of more than EUR 6,398,160. The amount of the damages results from measurements of capacity curve which were unsatisfactory in the second run and formed a basis for the claim for damages.

On 20 September 2012 the Management Board of FAG filed for bankruptcy. On 26 September 2012 a temporary trustee was appointed for the bankrupt and on 11 December 2012 bankruptcy proceedings were

initiated for FAG, with FAG's own management. The deadline for the registration of receivables in the bankruptcy proceedings was set for 12 January 2013 (according to the obtained opinion this is a guideline rather than a deadline and it will not preclude the registration of receivables post that date). On 4 February 2013 the creditors of FAG decided that an independent trustee should be appointed, excluding FAG's own management. On 27 February 2013 the trustee filed a report on FAG's property, stating that the available assets were not sufficient to cover the matured and future claims.

The trustee of FAG questioned the legitimacy of the claims raised and receivables registered by EPW Energia sp. z o.o., (hereinafter EPW Energia) against the bankrupt company in the period of 11 January through 13 September 2013. Furthermore, in the trustee's judgment, the claim for the payment of damages expired on 31 August 2012.

Given the questioning of the receivables registered by EPW Energia, the possibility of bringing an action for establishing the existence of EPW Energia's claim for the payment of damages is being considered. As at the date of this Offering Circular no such action has been filed.

### ***Proceedings initiated by FORTA sp. z o.o.***

On 3 September 2013 the Extraordinary General Meeting adopted, inter alia, resolution No. 23 on the share capital decrease (the "Resolution on the Share Capital Decrease") and resolution No. 24 on determining the series of the Company's shares and amending the Articles of Association (the "Resolution on Preferred Shares"). Pursuant to the Resolution on the Share Capital Decrease, the share capital of the Company was decreased to PLN 4,521,612,884.88, i.e. by PLN 447,192,483.12, by reducing the nominal value of each Share. Pursuant to the Resolution on Preferred Shares preference in respect of voting rights of series BB shares was introduced to the Articles of Association (see "Share Capital and Shares—General—The Company's share capital and types of Shares" and "Share Capital and Shares—General—Changes of our share capital"). On 16 October 2013, the Company was served with a statement of claim filed by a shareholder, i.e. FORTA sp. z o.o. for (i) the repeal of the Resolution on the Share Capital Decrease as conflicting with good practice and detrimental to the Company's interest and aimed at harming a shareholder—FORTA sp. z o.o. and (ii) annulment of the Resolution on Preferred Shares or, alternatively, repealing it as conflicting with good practice and detrimental to the Company's interest and aimed at harming a shareholder—FORTA sp. z o.o. In response, the Company filed a submission challenging the lawsuit as a whole, pointing out that there are no grounds to repeal the challenged resolutions of the Extraordinary General Meeting of the Company or to annul them. As at the date of this Offering Circular no date of court hearing has been set. On 28 November 2013 the Company was served with a motion of FORTA sp. z o.o. which contained a statement of FORTA sp. z o.o. on withdrawal of its statement of claim in the part relating to a demand for the repeal of the Resolution on the Share Capital Decrease.

### **Property, plant and equipment**

The Group's material property, plant and equipment include mainly our distribution and generating assets described in "—Electricity distribution" and "—Generation" above. The material property, plant and equipment also comprise our real properties.

A description of material property, plant and equipment that we intend to acquire is provided in "—Investment programme" above. As at the date of this Offering Circular, we have no intention to acquire any material property plant and equipment other than assets acquired or built as part of the investment programme described above.

The table below summarises the carrying value of the assets securing our indebtedness or conditional indebtedness as at the dates indicated.

Category of collateralised assets	30 September	31 December		
	2013*	2012**	2011**	2010**
		(PLN million)		
Property, plant and equipment . . . . .	50.9	78.4	92.8	117.8
Receivables . . . . .	—	0.3	3.8	20.7
Inventories . . . . .	2.4	25.3	32.0	42.7
Cash . . . . .	154.9	130.4	195.3	202.4
<b>Total collateralised assets . . . . .</b>	<b>208.2</b>	<b>234.5</b>	<b>324.0</b>	<b>383.6</b>

Source: \*Company (unaudited), \*\* Consolidated Financial Statement.

### Real property

As at the date of this Offering Circular, we use a great number of real properties based on various property rights (mainly ownership and perpetual usufruct) and limited property rights, in particular transmission easements or civil law contracts (mainly lease and tenancy agreements).

Our three main business segments (distribution, generation and sales) use real properties with a total surface area of approximately 73 thousand ha, of which the material real properties represent approximately 23.7%.

The material real properties are those used in the distribution and generation businesses. Material properties used in the distribution business are those accommodating high voltage stations. With respect to the generation business, material properties are the plots accommodating the material assets related to that segment, including in particular power plant buildings and other material generating equipment.

In most instances, the properties we use have unclear legal titles, which means that the owner cannot be established or the proceedings for establishing the owner are pending, or we use such properties without a valid legal title. It is estimated that as at 30 September 2013 these properties represent approximately 66.8% of the aggregate surface area of all our properties (see “Risk factors—Risks related to our business—Group companies use the majority of real properties without legal title, may not hold the proper legal title to certain properties, and the legal title to certain other properties may be challenged”).

The uncertain or unregulated legal status of the properties we use is related to the manner of acquiring land for the development of the power grid before the commencement of the political transformation in Poland in the 1990s. After World War II power units, including specifically power grid and heating grid components, were frequently erected on other parties’ property without obtaining the appropriate legal title from the land owners and without paying any consideration for the use of land owned by someone else. In particular, power companies had the right to install their own equipment on other parties’ properties based on building permits, with no need to confirm the legal title to the land in order to obtain such permit. As at the date of this Offering Circular, the most important properties with uncertain or unregulated legal title include the properties housing the following distribution substations: GPZ Włocławek Wschód, GPZ Drwęca, GPZ Zydowo, GPZ Barłogi and GPZ Łysomice.

The actions we take in order to resolve the legal status of the real properties accommodating electrical facilities which we use without a valid legal title depend on the nature of the given real property. In particular, our actions depend on the type of facilities located on the property, the amount of compensation demanded by the owner and the legal basis for such claims. As a rule, we take these actions after the owner files a claim, although in some instances we also act at our own initiative. If our analysis conducted after having received a claim notice indicates that the claim is legitimate, and there are no grounds to claim an easement on the grounds of usucaption, we engage in negotiations with the applicant in order to amicably settle the dispute. For the purposes of such an amicable resolution we conduct our own valuation of the compensation due for the non-contractual use of the real property, or for other forms of resolution of the dispute. If the circumstances so mandate, we establish the compensation on the basis of an expert opinion prepared in the form of a valuation report.

If our negotiations are not concluded with an agreement as to the legal status of the property accommodating electrical facilities, and the applicant takes the case to court, we participate in such court proceedings as required in order to conclude the case. As at 30 September 2013 final, non-appealable decisions have been handed down in 1,050 cases of litigation concerning claims related to installing electrical facilities on real properties that were not owned by the Company or Group Companies, and a further 1,858 cases of litigation were pending. The total amount adjudged by 30 September 2013 in these cases was PLN 6.2 million, and the value in dispute of the pending litigation cases was PLN 215.2.

Some of our properties are not used for operating business activities and are being sold in line with our policy of disposing of properties which are of no economic use to the Group.

### *Distribution*

The distribution segment uses real properties with a total surface area of approximately 56 thousand ha, including the properties that we are not entitled to use on the basis of transmission easements (this concerns mainly properties occupied by overhead and underground power lines). The total surface area of the real properties that the Group's distribution segment companies are entitled to dispose of is approximately 7.2 thousand ha.

The total surface area of the properties which we consider material for the distribution segment is approximately 254 ha. We hold these properties mainly on the basis of ownership or perpetual usufruct titles.

As at the date of this Offering Circular, the properties used by the distribution segment are not mortgaged.

### *Generation*

The generation segment uses real properties with a total surface area of approximately 17.0 thousand ha, of which approximately 17.0 ha are deemed to be immaterial and are available for sale. We own approximately 0.2 thousand ha of land and perpetually usufruct approximately 0.5 thousand ha of land. Additionally, we hold approximately 16.3 thousand ha under various other legal arrangements, such as leases. The high percentage of leased land is related to lease agreements concerning the land accommodating the recently acquired wind farms (approximately 15.8 thousand ha) (see “—Material agreements—Share purchase agreements” above).

In the system power plants and CHP segments our business is mainly conducted on the properties owned or perpetually usufructed by the Group companies. The infrastructure of our hydro power plants is mainly located on State Treasury-owned land, remaining under the permanent management of entities performing water management tasks, and used by Group companies on the basis of lease or let for use agreements concluded either for definite or indefinite periods of time. With respect to other properties related to RES generation, the Group companies either own or perpetually usufruct the properties.

The property and infrastructure of the hydro power plant in Włocławek is used by ENERGA Hydro on the basis of a lease agreement of 4 July 2013 concluded with the State Treasury—Regional Water Management Authority in Warsaw, as the lessor. The agreement concerns the properties designated for hydro power generation with a total surface area of 37,754 m<sup>2</sup> and was concluded until 2032. According to the agreement, the lessor may terminate the agreement earlier should it need the property for purposes related to its statutory activity, or if the lessee is found to be in breach of the agreement. Additionally, on 4 July 2013 ENERGA Hydro concluded a let for use agreement with the State Treasury—Regional Water Management Authority in Warsaw. This agreement concerns underwater land with a total surface area of 1,721 m<sup>2</sup> designated for hydro power generation purposes and was concluded until 2032. Termination conditions are similar to those in the lease agreement described above.

The second largest pumped storage hydro power plant in Żydowo is used by ENERGA Hydro on the basis of a let for use agreement of 29 November 2007 concluded with the Governor of the Zachodniopomorskie Province, represented by the Water Drainage and Hydro Structures Authority in Szczecin as the owner. The agreement concerns land covered by water, designated for ventures related to the generation of electricity, with a total surface area of 398 m<sup>2</sup> and was concluded for indefinite time, with a possible termination if the reasons for the let for use cease to exist, or the water management permit is forfeited, withdrawn, limited or expires, or if the lessee is found to be in breach of the agreement.

As at the date of this Offering Circular, the generation segment's property accommodating Elektrownia Ostrołęka B is mortgaged up to PLN 63.8 million in favour of NFOŚiGW (in relation to a loan for the installation of a flue-gas desulphurisation system).

*Sales segment*

The sales segment uses real properties with a total surface area of approximately 3.6 ha, including 2.8 ha of buildings.

As at the date of this Offering Circular, the properties used by the sales segment are not mortgaged.

*Head office*

The material properties used by us include property in Gdańsk at Aleja Grunwaldzka 472 which accommodates our head office. We use approximately 2,653.66 m<sup>2</sup> of surface area situated in the "Olivia Business Center" office building on that property on the basis of a lease agreement for premises concluded 20 June 2011, which we estimate at PLN 13.5 million for the five-year lease term (plus service fees).

*Other properties*

We also have investment properties including land, perpetual usufruct rights to land and buildings leased to third parties. As at 30 September 2013 the balance sheet value of investment properties was PLN 15.3 million. We are planning to dispose of the investment properties and terminate property management activities by the end of 2014.

## REGULATORY MATTERS

### General Information

Companies in the energy sector, including our Group, are subject to detailed regulatory regimes, at both domestic and European level. In particular, power sector companies must comply with laws and regulations governing the acquisition and sale of fuel, generation, sale and distribution of electricity and heat, tariffs, environmental protection, energy security, and occupational health and safety. This section provides a selective review, and not an exhaustive discussion, of selected regulations and certain anticipated changes to legislation which are material to our Group.

Since the beginning of the 1990s, energy sector regulations in Poland have undergone profound transformations. These reforms have resulted from, among other things, the need to align Polish laws with European Regulations, especially with respect to deregulation, protection of competition, environmental protection and the fundamental principles concerning the operation of companies in the energy sector, including the rules concerning TPA (Third Party Access), i.e. the right to the unconstrained selection of the seller and access to the network, and the prohibition of cross-subsidising, i.e. covering the costs of one type of activity or costs of one group of customers with revenues generated by another type of business or the revenues of another group of customers.

The general goal of the changes to the European Regulations concerning the energy sector has been to make the operation of power companies more transparent, facilitate electricity exchange between individual Member States, increase competition and improve consumer protection laws. The provisions of the European Regulations are aimed at creating a unified, liberalised electricity market across all of the Member States. For this purpose the European Union has adopted three packages of directives intended to reform domestic electricity markets.

Poland is gradually implementing the changes arising from the European Regulations in relation to the energy sector. One of the main documents implementing the provisions of the European Regulations in Poland in this respect is the Energy Law and secondary legislation.

As at the date of this Offering Circular, legislative work is being conducted on drafts of three new acts, i.e. the Energy Law, the Gas Law and the Renewable Energy Sources Law, which are to supersede the Energy Law currently in force. Currently it is impossible to define the final form of the new regulations and the date of their entry into force. Additionally, most of the provisions of the Act of 26 July 2013 amending the Energy Law act and some other acts, the “small tri-pack,” came into force on 11 September 2013 (“Amendment”).

### Energy sector regulation

#### *Introduction*

The most important piece of legislation for the operation of the energy sector in Poland is the Energy Law. The Energy Law governs, in particular (i) the powers and operating rules of the energy market regulator—the ERO President, (ii) the granting and revoking of licences for the production of fuels, electricity and heat, as well as the transmission and sale or distribution of fuels or energy; (iii) the calculation and application of heat and electricity tariffs; (iv) the operations of electricity transmission and distribution systems operators; and (v) systems supporting renewable energy and cogeneration. Important regulations concerning power companies and their operation can be also found in the secondary legislation to the Energy Law, primarily in ordinances issued by the minister in charge of for economic affairs.

Additionally, the Amendment introduced numerous changes thereto, concerning, for example, the appointing, recalling and the duties of the ERO President and the ERO Vice President, the introduction of the category of sensitive customer, speeding up of the procedure of switching to another supplier, the principles of separation of network operations from generation, the development plans of energy enterprises, the introduction of the institution of an industrial customer, the sale of gas via commodity exchanges or on a market operated by an entity operating a regulated market, the connection of the microsystems to the network, the regulations protecting the rights of end-customers, guarantees of the origin of electricity, as well as the principles of international cooperation.



Pursuant to the Amendment, the ERO President will be appointed for a five-year term following a competitive selection procedure, with the ability to seek just one additional term. Within 6 months of the date of the Amendment coming into force, the Prime Minister is obliged to announce the competitive selection procedure for the position of President of the ERO. The Amendment also sets out the premises for recalling the ERO President.

The Amendment introduced the notion of sensitive electricity and gas fuel customers. A sensitive electricity customer will be entitled to a fixed-sum energy supplement awarded by the commune head, town mayor or city president out of subsidies coming from the state budget. Additionally, at the request of a sensitive customer, an energy company dealing in electricity distribution will be obliged to install a pre-paid metering system at such customer's property at its own expense within 21 days of filing an application.

The Amendment introduced regulations aimed at accelerating the procedure of switching to another supplier of gas fuels or electricity. The transmission system operator and the distribution system operator will be obliged to enable the customer to change its supplier no later than on the 21<sup>st</sup> day from the date of notifying the relevant operator about having signed a sales agreement or a comprehensive agreement with a new seller. Pursuant to the Amendment, the procedure of switching to another seller will be specified in detail in an ordinance.

The Amendment added industrial customers to the circle of entities obtaining and submitting, among other things, the green and purple certificates for redemption or those paying the substitute fee.

The Amendment determined the principles of connecting renewable energy sources microsystems to the network. The supplier of last resort will be obliged to purchase electricity coming from microsystems for a price equal to 80% of the average electricity sale price in the preceding year, determined in accordance with the principles specified in the Act.

The Amendment also introduced a number of regulations protecting the rights of end-customers. In particular, there will be changes regarding the content of agreements signed with end-customers in households. Such agreements will have to contain additional information about the customer's rights, specified in the Act.

The Amendment also introduced regulations concerning the guarantees of the origin of electricity generated from renewable energy sources, including the keeping of a register of such sources and the recognition by the ERO President of guarantees of origin issued in other countries, listed in the Act. The system of guarantees of origin will constitute information for the end-customer regarding the proportion of electricity coming from RES delivered to such customer.

The Amendment also introduced regulations dealing with the principles of international cooperation concerning joint investment projects and the principles of international cooperation with regard to renewable energy sources.

The energy sector is also subject to European Regulations. The key European Regulations which serve as fundamentals for the operation of the electricity market in the Member States are Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC (OJ EU L 211/55 of 14 August 2009) ("**Directive 2009/72/EC**") and the regulations passed as part of the Third Energy Package. The functioning of the energy sector is also significantly influenced by the energy market transparency and integrity rules and, in particular with respect to mining, generation and distribution, international and European environment protection laws.

Additionally, the main directions of Polish energy policy are set out in documents adopted by the Council of Ministers, and specifically in the document entitled "Poland's Energy Policy until 2030", setting forth the targets, rules and priorities of Polish power policy, long-term actions to be undertaken until 2030, as well as fuel and energy demand forecasts until 2030. According to the provisions of the Energy Law, a national energy policy document is published every four years. "Poland's Energy Policy until 2030", the document currently in force, was published in 2010.

### *The regulator of the Polish energy sector*

In Poland, the ERO President is the regulator for the fuel and energy sectors and the authority charged with promoting competition in the energy sector. The ERO President is appointed and recalled by the Prime Minister for a five-year term following a competitive selection procedure, with the ability to seek just one further term of office. Upon the lapse of his/her tenure, the ERO President continues in his/her role until a successor is appointed. The ERO President may be recalled from the post by the Prime Minister before the end of his/her tenure only in the event of: (i) a gross violation of law; (ii) being sentenced by a court for a wilful offence or fiscal offence; (iii) being prohibited by a court from holding managerial posts or posts involving special responsibility in state bodies; (iv) a disease permanently disabling him/her from carrying out his/her duties; (v) his/her resignation.

The actions taken by the ERO President are aimed at achieving the goal set by the lawmakers, i.e. at creating conditions for the sustainable development of the country, ensuring energy security, the economical and rational use of fuels and energy, the development of competition, the counteracting of the negative effects of natural monopolies, the upholding of the requirements of environmental protection, the obligations ensuing from international agreements and the balancing of the interests of power companies and of the consumers of fuels and energy. The powers of the ERO President are set forth, in detail, in the Energy Law and are of a regulatory and supervisory nature. They include, *inter alia*, granting and revoking licences, approving and verifying the tariffs for fuel gas, electricity, and heat, agreeing on draft development plans for power companies, appointing transmission and distribution systems operators, settling some of the disputes between power companies and between the power companies and customers. The ERO President is also authorised to approve the Operation and Network Exploitation Manual with respect to system balancing and to manage the system's restrictions, prepare and carry out tenders for sellers of last resort (see “—Energy from renewable sources” below), and for the construction of new production capacity, or carrying out projects reducing demand for electricity and to issue and redeem certificates for energy generated from renewable sources or certificates for energy produced from cogeneration.

If a company fails to comply with the obligations imposed by the Energy Law, the ERO President may impose sanctions provided for in the Energy Law, including *inter alia*, a fine of up to 15% of a company's revenues for the last fiscal year. If the fine is related to a licensed business, the fine cannot exceed 15% of the company's revenues generated in the last fiscal year from that licensed business. In certain circumstances described in the Energy Law, the ERO President may impose an additional fine on the manager of a power company, not exceeding 300% of his/her monthly remuneration. In determining the amount of the fine the ERO President will assess the damage caused by the actions, the extent of the fault, and consider such company's or person's past behaviour and financial situation. A decision by the ERO President may be appealed against to the Regional Court in Warsaw—the Competition and Consumer Protection Court. A ruling by the Competition and Consumer Protection Court may be reviewed by the Appellate Court and the Supreme Court.

Each year, the ERO President, in cooperation with the Minister of State Treasury and the AMO President, draws up and presents to the European Commission a report on the abuse of dominant market position by power companies and on any violations of competition rules by power companies.

The ERO President's activities are supported by the *Agency for the Cooperation of Energy Regulators* (“ACER”) which aims at facilitating effective cooperation between national regulators and decides on issues related to cross-border electricity sales. ACER's competencies include, among other things, the monitoring of regional cooperation between transmission system operators, certain tasks related to the implementation of guidelines concerning trans-European energy transmission networks with respect to terms of access to cross-border infrastructure, as well as its operational safety, and the monitoring and reporting on the electricity and natural gas sectors.

### *Licences*

Pursuant to the Energy Law (save for certain exceptions set out therein), the obligation to obtain a licence applies to: (i) fuel production or energy generation, (ii) the storage of fuel gas, the condensation of natural gas and regasification of natural gas condensate in natural gas condensate units, as well as the storage of liquid fuels, (iii) transmission or distribution of fuel or energy; and (iv) sale of fuel or energy. Licences are

granted for a specified term of no less than 10 and no more than 50 years, unless the company applies for the granting of a licence for a shorter period of time. The licence sets out, in particular: (i) the name and registered office of the holder; (ii) the subject matter and scope of licensed activities; (iii) the date of commencement of the licensed business and terms of conducting such business; (iv) the licence period; (v) the terms of environmental protection during and after cessation of licensed activities; and (vi) the terms of withdrawing from the licensed business upon the lapse or revocation of the licence.

A power company may file an application to extend the licence no later than 18 months prior to its expiration. In situations described within provisions of the Energy Law, the ERO President revokes or, in certain instances, may revoke a licence or amend its scope. The ERO President will withdraw a licence if, for example, a final ruling was handed down prohibiting a power company from engaging in the business activity subject to licensing or if a power company permanently discontinued the business activity subject to licensing. The ERO President revokes a licence or amends its scope if a power company grossly breaches the terms set out in a licence or other conditions of engaging in business activity subject to licensing set forth in the provisions of the law, or if it does not remedy a factual or legal breach of the terms set out in the licence or in the regulations governing the business activity subject to licensing. The ERO President may revoke a licence or amend its scope for reasons of a threat to the defence or security of the state, in the event of a declaration of bankruptcy of the energy enterprise or in the event of its division or merger with other entities.

An enterprise which obtains a licence is required to pay annual fees to the state budget via the ERO President. The annual fee is calculated based on revenues earned by the power company from its licensed business. The fee for each type of licensed activity may not be lower than PLN 200 and may not exceed PLN 1,000,000. If the entity is engaged in more than one type of licensed activity, the fee is a sum of the fees for the individual types of activities.

## *Tariffs*

### *Introduction*

Pursuant to the Energy Law, a tariff represents the set of prices and fees, including the rules of their application, prepared by a power company and introduced as binding upon the customers specified therein. Power companies establish tariffs for fuel gas or energy, in accordance with their respective scope of business activity.

In respect to electricity tariffs, our Group is exempt from the obligation, i.e. to submit tariffs for approval by the ERO President, save for sales of electricity to tariff group G customers, mainly households, and distribution services.

The exemption from the obligation to submit tariffs for the approval of the ERO President does not refer to tariffs for heat and natural gas, except for the tariffs for the wholesale trade of fuel gas.

### *Tariff preparation and approval*

The tariff is calculated by a power company taking into consideration the principles laid down by the Energy Law and implementing regulations thereto, in particular the Tariff Ordinance, the Heat Tariff Ordinance and the Gas Tariff Ordinance.

Tariffs should be calculated to ensure the return of justified costs of the business activities of power companies and the justified return on capital invested in those activities, the elimination of cross subsidies, the return of justified costs incurred by transmission and distribution system operators, and the protection of customers from unreasonable prices and fee rates. Power companies may differentiate prices and fee rates specified in tariffs for various customer groups solely on account of justified differentiated costs, which vary depending on the specific conditions in which the services are provided.

In principle, the tariffs of power companies are subject to approval by the ERO President. A power company holding a licence issued by the ERO President submits its tariffs for the ERO President's approval at its own initiative or upon request, and proposes the term of their validity. Pursuant to the Energy Law, the tariff approved by the ERO President is valid for no longer than three years, but in practice, due to the volatility of fuel and energy prices and the rapid developments in the market environment, tariffs are approved for 12 months. This is also confirmed in the Tariff Ordinance, the Heat

Tariff Ordinance and the Gas Tariff Ordinance, which provide that the prices and fee rates included in the tariffs are calculated for a period of 12 calendar months, and in no event, longer than three years. In practice, however, there have been instances where the ERO President has extended the validity of our tariff for a period in excess of one year or a period of less than one year, as in the case of the ENERGA-OBRÓT's tariff in place as at the date of this Offering Circular for tariff group G customers, which was approved for a six-month period ending 31 December 2013.

The ERO President approves the tariff, providing for prices and fee rates as applied with the possible adjustment of the planned costs adopted for the calculation of the tariff, but not exceeding the prices and fee rates applicable prior to its submission, provided that all the following conditions are satisfied jointly: (i) the terms and conditions of price and fee rate applicability set forth in the tariff remain unchanged; (ii) the developments in the external operating environment of a power company, documented and discussed in the application, to which the tariff refers, do not justify any reduction of prices and fee rates determined in the tariff; (iii) no adjustment coefficient defining the planned operational efficiency improvement of the power company, and the change of conditions of conducting a given type of business activity by such power company was specified for the period of tariff validity or its part as proposed in the application.

Upon the expiration of the period for which the tariff is established and until the day on which a new tariff comes into force, the existing tariff is applied. This is the case, if (i) no decision has been issued by the ERO President; or (ii) the appellate proceedings against the decision of the ERO President are pending. The existing tariff is not applied when a refusal to approve a tariff is justified by the need to lower the prices or fee rates with reference to the existing tariff resulting from documented and described external conditions of conducting business activity by the power enterprise. Additionally, the ERO President may determine ex officio, in the form of a decision, adjustment coefficients which the power company will be obliged to implement and which may result in lower prices and fees than specified in a previously approved tariff. The approved tariff is published officially and is binding upon the relevant power company and its customers. The power company gives effect to the tariff no sooner than 14 and no later than 45 days after the date of its publication.

### *Exemptions from the obligation to submit tariffs for approval*

Pursuant to the Energy Law, the ERO President may exempt a power company from the obligation to submit tariffs for approval, upon determining that the company operates in a competitive environment, or revoke such exemption if the conditions for the application thereof are no longer met. The exemption may also apply to a specified part of the operations of a power company, to the extent they are carried out in a competitive market. The ERO President, from 2001 to 2008, exercised these powers and gradually exempted companies of the energy sector from the obligation to submit tariffs for approval. Therefore, as at the date of this Offering Circular in the energy sector, the obligation to submit tariffs to the ERO President for approval applies to the tariffs of power companies engaged in the transmission and distribution of electricity, and the tariffs for electricity sales to customers from tariff group G. However, in recent years a further liberalisation of the electricity market in Poland has been contemplated in connection with the ERO President's plans to exempt power companies from the obligation to submit group G tariffs for approval. In the area of other operations regarding electricity, power companies are exempted from the obligation to submit tariffs for approval.

In the heat energy sector, the ERO President has not lifted the obligation to submit tariffs for approval and the tariffs concerning all types of activity are required to be submitted to the ERO President for approval. In relation to the above, we are required to submit heat tariffs for the approval of the ERO President.

In the natural gas sales segment, the ERO President lifted the obligation to submit tariffs for fuel gas for approval, with respect to its sales to power companies buying such fuel for the purposes of fuel gas sales. We are, however, required to submit natural gas tariffs for the ERO President's approval in all other cases.

According to the Announcement of the ERO President of 22 July 2013, as of the effective date of the provisions which guarantee that a certain proportion of high-methane natural gas supplied to the transmission network will be subject to the mandatory public sale, suitable conditions will be created to exempt power companies licensed to engage in the trade of fuel gas or foreign trade of natural gas from

the obligation to submit tariffs for fuel gas to the ERO President for approval, with respect to the sales of high-methane natural gas to certain end-customers.

#### *Fees for distribution services*

The Tariff Ordinance sets out detailed rules for the calculation of fees for the distribution of electricity. The fees charged for electricity distribution services include: (i) the network fee; (ii) the quality fee; (iii) the transition fee, and (iv) the licence fee.

The network fee comprises: (i) a fixed component, calculated per unit of capacity contracted by offtakers connected to a network with a certain voltage, based on the justified fixed costs of the network operation (including the costs of capital), taking into account the permitted share of fixed distribution fees, as determined by the ERO President (excluding household customers for which the fixed component is set in PLN per month), and (ii) a variable component, calculated per unit of electricity received from the given network, based on the cost of purchasing the amount of electricity that is necessary to cover network losses, the variable cost of electricity distribution through networks of different rated voltages and networks owned by other operators, as well as the fixed costs of electricity distribution, to the extent that they are not included in the fixed costs permitted by the ERO President.

The quality fee is based on the cost of maintaining the proper quality of the system operated by the TSO and is calculated per unit of electricity consumed by all end-customers connected to the grid. It includes, among others: the cost of buying system services and the difference between the TSO's income and costs on the balancing market.

Pursuant to the PPA Act, the transition fee represents the fee for access to the national power system payable to the TSO and is used, among other things, for compensation for energy generators for the termination of long-term capacity and power purchase agreements. The ground for applying the transition fee in DSO Tariffs is the PPA Act, based on which the transition fee rates are calculated annually by the ERO President.

The quality fee and the transition fee are not set by the DSO from our Group. The level of the quality fee is fixed based on the TSO tariff, and the level of the transition fee is announced by the ERO President on an annual basis.

The licence fee is a fee for the justified costs incurred in connection with the reading and the control of the metering and billing devices. Licence fees vary depending on the tariff group and the length of the adopted settlement period.

Based on the comparative analyses of all distribution companies in Poland, the ERO President assesses the amount of operating costs, capital expenditures and the volume of the network losses (i.e. the difference between the amount of electricity distributed to the network and the amount of electricity received by offtakers from that network or transferred to other networks). Additionally, the ERO President sets the criteria for the determination of justified operating costs and network losses for each DSO.

The currently applied principles of developing distribution tariffs result in particular from two documents prepared by the ERO President and issued to distribution system operators: "DSO Tariffs for 2012" (2012 was the first year of the four-year regulatory period) and "DSO Tariffs for 2013". The assumptions presented in "DSO Tariffs for 2013" incorporate the method of determining the regulatory asset base and return on capital employed, revised in 2012. The guidelines in this respect have not been significantly changed as compared to the guidelines set out in the "DSO Tariffs for 2012".

Based on the Energy Law, a power company holding a licence submits, on its own initiative or at the request of the ERO President, its tariffs to the ERO President for approval. The filing of a formal application for the approval of a tariff commences administrative proceedings, which will end with the decision issued by the ERO President. In the course of the proceedings, the ERO President may ask the power company to revise or supplement its application. Once approved, the tariffs for gas fuels and electricity shall be published by the ERO President in *Biuletyn URE* (the ERO Bulletin) within 14 days of the approval date. The power company shall begin to implement the tariff not earlier than 14 days and not later than on the 45<sup>th</sup> day from the date of its publication. In the event of the lapse of the period for which the tariff was approved, such tariff shall continue to be applied until the date of the coming into force of a



new tariff if the ERO President had not yet issued a decision or if an appeals procedure against the ERO President's decision is underway.

The description below presents selected components of the calculation of regulated revenue based on "DSO Tariffs for 2013", and also based on such documents as "The cost of capital for power system operators for 2014" or "The position of the ERO President on detailed regulatory principles regarding the stimulation of and control over the implementation of investment in AMI".

#### *Operating costs*

Operating costs (excluding amortisation, depreciation and taxes) for the years 2012-2015 will be calculated using a comparative model, analysing the effectiveness of operating costs, in accordance with the document: "Operating costs for distribution system operators in the years 2012-2015".

If during the given regulatory period the DSO achieves operating costs that are lower than justified costs, it will not be required to return the savings (by lowering the tariff). However, the operating costs incurred during that period will be taken into account when determining the costs for the next regulatory period, which may lead to justified costs being set at a lower level.

#### *Depreciation*

$$A_t = A_{(t-2/t-1)} + r_A * (I_{t-1} + I_t) / 2$$

where:

$A_t$ —depreciation for the tariff year  $t$ ;

$A_{(t-2/t-1)}$ —sum of depreciation for the second six months of  $t-2$  and the first six months of  $t-1$ , as stated in the DTA-1 reporting sheets, which will be subject to review by the ERO President;

$r_A$ —depreciation rate: 4.0% (average);

$I_{t-1}$ —net capital expenditures planned for the year  $t-1$ ;

$I_t$ —net capital expenditures planned for the year  $t$ .

#### *Tax on network assets*

The justified costs of the distribution companies include the cost of the property tax on the network assets, including tax on power structures (calculated based on their value): power lines, stations, network equipment, tax on station buildings (calculated based on their usable area), tax on the land on which the stations and network equipment are located (calculated based on their area).

#### *Return on capital*

Return on capital is defined on the basis of the RAB and the WACC. The rules for determining WACC were presented in the document "The cost of capital for power system operators for 2014".

Presented in the below table are the parameters taken into account in the WACC calculations for the years 2011-2013, the WACC calculation for 2014 based on the foregoing principles and the standing parameters for calculating WACC for the year 2015. The risk-free rate for tariff year ( $n$ ) should be determined on the basis of yield on 10-year fixed-interest State Treasury bonds (DS), with the longest redemption date,



recorded between 1 October of the year (n-2) and 30 September of the year (n-1) on the Treasury BondSpot Poland market.

Parameter	Rules for the years 2011-2015				
	Tariff for 2011	Tariff for 2012	Tariff for 2013	Tariff for 2014	Tariff for 2015
Risk-free rate (%) . . . . .	5.878	5.958	5.421	3.996	
Risk bonus for external capital (%) . . . . .	1.00	1.00	1.00	1.00	1.00
Cost of external capital (%) . . . . .	6.88	6.96	6.42	5.00	
Asset beta . . . . .	0.40	0.40	0.40	0.40	0.40
Equity beta . . . . .	0.606	0.645	0.690	0.741	0.800
Risk bonus for own equity (%) . . . . .	5.00	4.90	4.80	4.70	4.60
Cost of own equity (%) . . . . .	8.908	9.119	8.731	7.477	
External capital involvement . . . . .	0.34	0.38	0.42	0.46	0.50
Post-tax WACC, nominal (%) . . . . .	7.774	7.796	7.249	5.899	
Pre-tax WACC, nominal (%) . . . . .	<b>9.597</b>	<b>9.624</b>	<b>8.949</b>	7.283	
Income tax, nominal (%) . . . . .	19	19	19	19	19

Source: Company, based on ERO publication entitled: "Cost of equity for power system operators for 2014".

The method of calculating the RAB and the return on capital which has been established since 2009 assumes: (i) the full return on the assets created after 31 December 2008; and (ii) the gradual achievement of the full return on the assets that existed as at 31 December 2008. Due to the considerable growth potential of the return on capital calculated on the assets that existed as at 31 December 2008, a transition path of access to full return has been applied, thus limiting the impact of the change in the way of rewarding the assets on the growth of prices of distribution services. The maximum annual growth in return on capital, applicable to assets that existed as at 31 December 2008, has been limited to 1.5% of the regulated revenue from the preceding year, decreased by the return on capital and amortisation of new assets, i.e. those generated after 31 December 2008. It is expected that in the case of ENERGA-OPERATOR the full return on assets will be achieved in 2014.

The formula below determines the value of the tariff component referred to as the "return on capital employed" for the given tariff year:

(a) for tariffs applicable until the end of 2013:

$$Z_t = \min \left\{ \begin{array}{l} RAB_t * WACC_t \\ Z(BO)_t + Z(I)_t \end{array} \right\}$$

Additionally, in the tariffs for 2012 and 2013, in accordance with the rules laid down in the documents "DSO Tariffs for 2012" and "DSO Tariffs for 2013" the Company took into account an additional return on capital at 2% of the expenditures on the AMI System.

(b) for tariffs applicable as of the start of 2014:

$$Z_t = \min \left\{ \begin{array}{l} RAB_t * WACC_t \\ Z(BO)_t + Z(I)_t \end{array} \right\} + \min(RAB_{AMI(t)} * WACC_{AMI(t)}; RAB_{AMI(t)} * WACC_t + 2\% * PR_{t-1})$$

where:

$Z_t$ —the return on capital employed reflected in the tariff for the year t;

$RAB_t$ —the regulatory asset base as at the beginning of the year t;

$WACC_t$ —the weighted average cost of capital determined for the year t;

$RAB_{AMI(t)}$ —the regulatory assets base for AMI System at the beginning of the year t calculated according to the following formula:

$$RAB_{AMI(t)} = RAB_{AMI(t-1)} + I_{AMI(t-1)} - SP_{AMI(t-1)} - AR_{AMI(t-1)} - \Delta I_{AMI(t-2)}$$

whereas the value agreed on individually by each company with the ERO President is assumed as the opening balance of RAB AMI at the beginning of 2013.

$I_{AMI(t-1)}$ —the value of capital expenditures for AMI System taken into account by the ERO President when calculating the tariff for the year t-1;

$SP_{AMI(t-1)}$ —subsidies and other sources of non-returnable financing planned to be disbursed to a network company for financing AMI System in the year t-1;

$AR_{AMI(t-1)}$ —the value of amortisation of RAB AMI in the year t-1;

$\Delta I_{AMI(t-2)}$ —the difference between capital expenditures, connection charges and subsidies and other sources of non-returnable financing;

$WACC_{AMI(t)}$ —the weighted average cost of capital for AMI System assets determined for the year t;

$PR_{t-1}$ —the regulated revenue for the year t-1 arising from the first tariff application approved for the given year (without taking into account the adjustments, if any, during the year t-1);

$Z(BO)_t$ —the return on capital employed, related to the return on the assets that existed as at 31 December 2008, calculated based on the following formula:

$$Z(BO)_t = Z(BO)_{t-1} + 1.5\% * PR(BO)_{t-1}$$

$PR(BO)_{t-1}$ —the regulated revenue for the year t-1 adjusted for the return and amortisation on investments implemented after 31 December 2008, expressed by the below formula;

$$PR(BO)_{2009} = PR_{2009} - AI_{2009}$$

$$PR(BO)_{t-1} = PR_{t-1} - Z(I)_{t-1} - AI_{t-1}$$

$Z(I)_t$ —the return on the capital employed arising from the remuneration of new projects, implemented after 31 December 2008, calculated according to the formula:

$$Z(I)_t = \left( \sum_{j=2009}^{t-1} I_j - \sum_{j=2009}^{t-1} OP_j - \sum_{j=2009}^{t-1} SP_j - \sum_{j=2009}^{t-1} AI_j - \sum_{j=2009}^{t-2} \Delta I_j \right) * WACC_t$$

where:

$I_j$ —the value of capital expenditures taken into account by the ERO President when calculating the tariff for the year j;

$SP_j$ —subsidies and other sources of non-returnable financing planned to be disbursed to a network company for financing network assets in the year j. For the years 2009 - 2010 the value of  $SP_t$  and  $SPW_t$  should be accepted as equal to zero;

$OP_j$ —the connection charges taken into account by the ERO President in calculating the tariff for the year j;

$\Delta I_j$ —the difference between capital expenditures, connection charges and subsidies and other sources of non-returnable financing;

$AI_j$ —the value of amortisation of investment projects implemented after 31 December 2008, using the formula:

$$AI_{2009} = \frac{I_{2009}}{2} * rA_{2009}$$

$$AI_t = AI_{t-1} + \frac{I_{t-1} + I_t}{2} * rA_t$$

where:

$rA_t$ —the mean amortisation rate for new capital expenditures taken into account by the ERO President when calculating tariffs for network companies for the year t.

The application of the above formula for the calculation of the return on capital employed means that the value of the return on the new RAB “opening balance sheet” estimated for 31 December 2008 will be increased annually by 1.5% of the regulated income ensuing from the tariff approved for the given network operator in the preceding year (without taking into account the growth of return on capital from projects implemented after 31 December 2008).

Once full return on capital employed has been achieved, the above formula will be replaced by the below expression:

(c)

$$Z_t = RAB_t * WACC_t + \min \left( RAB_{AMI(t)} * WACC_{AMI(t)}; RAB_{AMI(t)} * WACC_t + 2\% * PR_{t-1} \right)$$

Beginning with the tariff for the year 2024, when  $RAB_{AMI}$  will be added to  $RAB$  and the return on the AMI System will be calculated in the same manner as for any other network assets, the above formula will be changed to:

(d)

$$Z_t = RAB_t * WACC_t$$

In connection with the investment incentive system introduced for AMI, the ERO President has established principles of determining the value of  $WACC_{AMI}$  which are different from the standard principles for the calculation of WACC.

For the tariffs for the years 2014-2023, the ERO President has determined the method of calculating the value of  $WACC_{AMI(t)}$  through the following formula:

$$WACC_{AMI(t)} = r_{d(t)} \cdot D_{(t)} + \frac{r_{AMI e(t)}}{1 - t_{(t)}} \cdot E_{(t)}$$

where:

$r_{d(t)}$ —the cost of external capital in the year t, equal in terms of value to the cost of external capital used for calculating WACC for other network assets;

$D_{(t)}$ —the share of external capital in the year t, equal in terms of value to the share of external capital used for calculating WACC for other network assets;

$E_{(t)}$ —the share of own capital in the year t, equal in terms of value to the value of the share of own capital used for calculating WACC for other network assets;

$r_{AMI e(t)}$ —the cost of own capital committed to the implementation of the AMI System in the year t;

$T_{(t)}$ —the tax rate equal to the Corporate Income Tax rate in force in Poland in the year t.

The cost of own capital committed to the implementation of the AMI System will be calculated using the following formula:

$$r_{AMI e(t)} = r_{f(t)} + \beta_{e(t)}(r_{p(t)} + r_{AMI(t)})$$

where:

$r_{AMI e(t)}$ —the cost of own equity committed to the implementation of the AMI System in the year t;

$r_{f(t)}$ —the risk-free rate, equal in terms of value to the risk-free rate used for calculating WACC for the other network assets;

$\beta_{e(t)}$ —the equity beta, equal in terms of value to the equity beta used for calculating WACC for investment in other network assets;

$r_{p(t)}$ —the equity risk premium, equal in terms of value to the equity risk premium for own capital used for calculating WACC for investment in other network assets;

$r_{AMI(t)}$ —the risk premium related to the implementation of the AMI System.

The risk premium  $r_{AMI(t)}$  related to the implementation of the AMI System will be calculated as follows:

a. In the years 2014-2018, by means of the following formula:

$$\text{if } RAB_{AMI(t)} > 0 \text{ then } r_{AMI(t)} = \frac{\max(K_{RB(t-2)} + K_{KO(t-2)}, 7\% \cdot RAB_{AMI(t)}) \cdot (1 - t_{(t)})}{\beta_{e(t)} \cdot E_{(t)} \cdot RAB_{AMI(t)}}$$

$$\text{if } RAB_{AMI(t)} = 0 \text{ then } r_{AMI(t)} = \frac{7\% \cdot (1 - t_{(t)})}{\beta_{e(t)} \cdot E_{(t)}}$$

where:

$r_{AMI(t)}$ —the risk premium related to the implementation of the AMI System;

$RAB_{AMI(t)}$ —the RAB for AMI System at the beginning of the year t;

$t_{(t)}$ —the tax rate equal to the Corporate Income Tax rate in force in Poland in the year t;

$\beta_{e(t)}$ —the equity beta equal in term of value to the equity beta used for calculating WACC for investment in other network assets;

$E_{(t)}$ —the share of own capital in the year t, equal in terms of value to the share of own capital used for calculating WACC for other network assets.

$K_{RB(t-2)}$ —the benefit resulting from lower network losses calculated by means of the following formula:

$$K_{RB(t)} = C_{(t)} \cdot \left( \frac{\sum_{i=2008}^{2010} RB_{(i)}}{\sum_{i=2008}^{2010} W_{(i)}^{ED}} - \frac{\sum_{i=t-2}^t RB_{(i)}}{\sum_{i=t-2}^t W_{(i)}^{ED}} \right) \cdot W_{(t)}^{ED}$$

where:

$K_{RB(t)}$ —the benefit from lower network losses in the year t;

$C_{(t)}$ —the price of electricity for covering network losses approved by the ERO President in the tariff for the year t;

$RB_{(i)}$ —the volume of network losses for the year i for the whole area of operation of a network company;

$W_{ED(i)}$ —the volume of electricity introduced into the network at all voltage levels in the year i;

$K_{KO(t-2)}$ —the benefit from lower meter reading costs, calculated by means of the following formula:

$$K_{KO(t)} = O_{AMI(t)} \cdot \min(RPM_{2008}; RPM_{2009}; RPM_{2010}; RPM_{2011}) \cdot C_{(t)}$$

where:

$K_{KO(t)}$ —the benefit from decreasing meter reading costs in the year t;

$O_{AMI(t)}$ —the mean annual number of metering systems in tariff groups C1x and Gxx installed under the AMI System, understood as the arithmetic average of the number of metering systems operating within the AMI System at the beginning of the year t and the number of metering systems operating under AMI System at the end of the year t;

$RPM_i$ —(*Read per meter*) the average annual number of meter readings made by a network operator for each metering system in tariff groups C1x and Gxx in the year i;

$C_{(t)}$ —the cost of a single meter reading in tariff groups C1x and Gxx, defined by the ERO President for the year 2011 at PLN 4.04 per meter reading. This cost will be adjusted annually by the consumer price index (index of prices and consumption services CPI) announced in the given year by the Central Statistical Office.

b. In the years 2019-2023 on the basis of the following formula:

$$r_{AMI(t)} = \frac{\sum_{i=2014}^{2018} r_{AMI(i)}}{5}$$

where:

$r_{AMI(t)}$ —the risk premium related to the implementation of the AMI System in the year  $t$ .

Detailed rules of calculating the return on capital employed reflected in the tariff for 2013 are included in the document “DSO Tariffs for 2012”, which has been referred to in the assumptions for the calculation of DSO tariffs for 2013, and in the document “The Position of the ERO President regarding the detailed regulatory rules regarding the stimulation of and control over the implementation of investment in AMI”.

#### *Network losses*

The justified purchase price of electricity published annually by the ERO President and taken into account in calculating the regulated revenue (equal to PLN 188 /MWh in 2013) and the cost of the purchase profile of electricity, specified in the document “DSO Tariffs for 2013” to cover the network losses of 5 PLN/MWh need to be taken into account when calculating the cost of purchasing electricity to cover the network losses.

In a document titled “Network losses for distribution system operators for the years 2012-2015”, the ERO President laid down the rules for determining the justified volume of network losses. The determination of the volume of losses is based on the volume of electricity introduced into the grid and the volume of electricity offtaken by customers at medium and low voltage, as well as the value of indices which the ERO President defined individually for each DSO (for the years 2012-2015). These indices are calculated based upon the aforementioned volumes of electricity and are taken into account at the time of the annual determination of the justified volume of losses.

The formula for determining the justified level of network losses for 2013 was specified in the document “DSO Tariffs for 2013” and is as follows:

$$RB_{2013} = WRB_{(WN)U2013} * E_{W2013} + WRB_{(SN+nN)U2013} *(D_{(SN)2013} + D_{(nN)2013})$$

where:

$RB_{2013}$ —the volume of network losses in 2013;

$WRB_{(WN)U2013}$ —the justified index of network losses for high voltage for 2013, based on the average volume of electricity introduced into the grid in the years 2008-2010;

$E_{W2013}$ —the planned volume of electricity to be introduced into the grid in 2013;

$WRB_{(SN+nN)U2013}$ —the justified index of network losses for medium voltage and low voltage in 2013, based on the average medium and low voltage supplies in the years 2008-2010;

$D_{(SN)2013}$ —the planned volume of supplies at medium voltage in 2013;

$D_{(nN)2013}$ —the planned volume of supplies at low voltage in 2013.

#### *Cost of purchasing transmission services from the TSO*

These costs include the costs related to the purchase of transmission services from the TSO and follow directly from the approved Tariff and other items taken into account.

#### *Energy transit*

The level of transit charges (fees for the mutual provision of distribution services between distribution system operators at the same voltage level) are determined in accordance with the formula set forth in the Tariff Ordinance.

The above detailed rules of setting the fees for distribution services largely result from the regulatory policy of the ERO President set out in the ERO President’s guidelines, and not directly from provisions of law. Therefore, there is no assurance as to whether, based on the current rules, the process for achieving the full inclusion of the actual value of assets employed in the fees for distribution services will be indeed followed. In addition, in light of the planned changes to the regulatory model for the distribution segment in the regulatory period, which will begin in 2016, it is not possible to determine the shape of the regulatory model that will be applicable as of that date.

The regulated revenue determined based on the above elements is spread across individual fees components based on the planned structure and volumes of electricity supplies and by using the cost allocation keys employed in the enterprise. The fee rates for distribution services are calculated for individual voltage levels of the distribution network as group fees, while the structure of the fees and the relations between rates at individual voltage levels and for individual groups of customers are set on the basis of the analysis of costs related to the distribution of electricity for the given group of customers. The calculation based on justified costs determines uniform distribution fee for all the locations to which capacity and electricity is distributed to customers connected to a network at the given voltage level within the given tariff group.

Due to the fact that the calculation of the distribution fees is based on the volumes of electricity supplies determined *ex ante*, i.e. at the stage of preparing the tariff, there is a risk that the determined regulated revenue will not be reached as a result of the failure to reach the previously assumed volumes.

In accordance with a report by the ERO President dated 30 August 2013, delivered to domestic distribution system operators, a new model of regulation of DSO operations will come into force in 2016. In addition to updating the approach to the determination of the WACC and to the assessment of the efficiency of enterprises with regard to operating costs and the volume of network losses, the new rules will also take into account elements of quality regulation.

The changes being introduced, with the justified level of prices of the services provided by the DSO being preserved, should ensure the implementation of the following goals: (i) the improvement of the quality and reliability of electricity supplies; (ii) the ensuring of the optimum level of efficiency of capital investment projects; (iii) the lowering of network losses, both technical and commercial; (iv) the improvement and protection of the quality of service to customers and generators; (v) the improvement of energy efficiency.

According to the opinion supplied by the ERO President, it will be necessary to take action in the following areas: (i) the construction of smart power grids along with the determination of a timeline for their gradual implementation; (ii) tying the model of evaluation of development plans to the quality regulation and (iii) the definition of transparent criteria of evaluation of actions aimed at quality improvement. These actions would be implemented stage-by-stage beginning in 2016.

According to the opinion supplied by the ERO President, the first step in the area of building smart power networks should be the installation of balancing meters (this stage of building the smart networks should be completed in 2016), which would also measure the quality parameters of electric energy essentially in all power stations. This will make it possible to obtain precise information about the status of medium-voltage networks, and additionally to obtain part of the information about the status of low-voltage networks. Such action will make it possible to assess the quality and reliability of electricity supplies at least in the high-voltage and medium-voltage segments, and the results of this evaluation should be reflected in the calculation of network tariffs.

Due to the fact that the DSOs are currently at the stage of preparing their development plans for the years 2014-2019, according to the ERO President it will be necessary for such plans to include the installation of balancing meters, according to a timeline for the first years of the plan that would make it possible to measure the quality and reliability of medium-voltage electricity supplies starting in 2016. Once the process of agreeing on the development plans for the years 2014-2019 is completed, it will be necessary to start working on tying the model of evaluation of the development plans with quality regulation.

In addition, in order to introduce the quality regulation it is necessary to define transparent criteria for the evaluation of the actions aimed at the improvement of quality. As a first step it is possible to use the indices concerning interruptions in the energy supply defined in the Ordinance of the Minister of Economy of 4 May 2007 on detailed conditions of the operation of the power system (Dz. U. of 2007, No. 93, Item 623, as amended). Due to the fact that these indices only cover part of the quality regulation area, further indices have to be devised.

According to the opinion articulated by the ERO President, without an amendment to the statutes, the introduction of elements of the quality regulation is possible by means of taking them into account in the WACC and the indices defining the change of the conditions of conducting business activity and the projected improvement of efficiency. An enterprise implementing such quality regulations goals should have a higher rate of return or more favourable adjustment coefficients ( $X_n$ ) than a passive enterprise which is not taking appropriate action in this regard. The adjustment coefficients ( $X_n$ ) serve as the determination of the annual change in justified operating costs based on the formula ( $RPI - X_n$ ), supplied in the Tariff Ordinance.



*Electricity supply prices*

Pursuant to the Tariff Ordinance, a tariff for electricity supply should specify the price of electricity and the method of calculating discounts for the failure to meet customer service quality requirements. To the extent that they concern the sale of electricity to households, tariffs should be based on the reasonable cost of purchasing electricity on the competitive market and costs of purchasing and redeeming certificates of origin from renewable energy sources (green certificates) and certificates of origin from cogeneration (yellow, purple and red certificates) and efficiency certificates (white certificates) (or the cost of the substitute fee), as well as the justified cost of conducting the electricity supply business. For the purposes of calculating the electricity prices for household customers, the margin approved by the ERO President shall be taken into account. Elements of the calculation of the price are presented in the table below:

<b>Margin</b> . . . . .	In the tariffs for household customers, the margin is taken into account at a level approved by the ERO President. In the tariffs for the remaining customers, the margin is determined by the power company.
<b>Transferred costs</b> . . . . .	The transferred costs include the costs of (i) purchasing electricity; (ii) purchasing and redeeming certificates of origin from renewable energy sources or the costs of the substitute fee incurred; (iii) purchasing and redeeming cogeneration certificates or the costs of the substitute fee incurred; (iv) purchasing and redeeming efficiency certificates or the cost of the substitute fee incurred; and (v) the cost of balancing of electricity on the balancing market.
<b>Own costs</b> . . . . .	A power company's own costs incurred in relation to the sale of electricity.
<b>Excise tax cost</b> . . . . .	The excise tax costs in connection with the sale of electricity to end-customers, as defined in the Excise Tax Act.

*Heat tariffs*

The rules of developing heat tariffs are set forth in the Heat Tariff Ordinance. A power company develops a tariff so as to ensure: (i) the coverage of justified costs to the extent set forth in Article 45 of the Energy Law and costs incurred to the extent specified in the Ordinance on the Certificates of Origin from RES; (ii) elimination of cross-subsidising.

In particular: (i) the tariff for heat generators includes: the price for the contracted heat output, the price of heat, the price of the heat carrier—water supplied to fill up the heating network and receiving units and to replenish the water lost outside the heat source or unreturned condensation; (ii) the tariff for heat companies (i.e. companies engaged in the generation of heat in the heat generation units they operate, in the transmission, distribution and sale of heat generated by such units or purchased from another heat company) includes the price for the contracted heat output, the price of heat, the price of the heat carrier—water supplied to fill up the heating network and receiving units and to replenish the water lost outside the heat source or unreturned condensation, fixed fees for transmission services, variable fees for transmission services; (iii) the tariff for heat distributors (i.e. a company engaged in the transmission and distribution of heat) includes fixed fees for transmission services, variable fees for transmission services and fees for connection to the grid, calculated in reference to the unit of connection length, based on one-fourth of the average annual capital expenditures for the construction of connections, specified in the development plan referred to in Article 16 Section 1 of the Energy Law; (iv) if a power company referred to in points (ii) and (iii), purchases heat from other power companies, the tariff of that company defines how the prices and fees set forth in the tariffs of companies from which it purchased the heat should be applied; (v) the tariff of a heat sales company contains customer service fees and defines the terms of applying the prices and fees set forth in tariffs of other power companies.

Prices and fees for the first year of the tariff application are determined based on the anticipated first year's: (i) reasonable annual cost of engaging in the business of heat supply; (ii) justified annual cost of modernisation and development and the cost of implementing environmental projects; (iii) justified return on capital employed in the business referred to in points (i) and (ii).

The sum of justified annual costs and justified return on capital constitutes the justified planned income of the power company from the sale of heat, which serves as the basis for the calculation of prices and fees defined in the tariff.

During the period in which a tariff is applied (of no less than two years), a power company may adjust the prices and fees fixed for the first year of the tariff's application to the changing business activity, which however may be effected no earlier than 12 months after the prices and fees become effective and not more often than every 12 months. The new price or fee will be calculated based on the average annual consumer price index for the previous calendar year, as announced by the CSO President in the official journal of the Republic of Poland "Dziennik Urzędowy Rzeczypospolitej Polskiej Monitor Polski", less the adjustment coefficient defined for a given type of business activity conducted by a power company engaged in heat supply, defining the projected improvement of the operational efficiency of that company and the change in the conditions of conducting a given type of business activities in the next year as compared to the previous year of the tariff application.

For the sources of heat in which heat is generated through cogeneration, the power company may use a simplified method of calculating prices and fees in the heat tariff based on justified planned revenue from heat sales, calculated, in accordance with the Heat Tariff Ordinance, on the basis of planned revenue from heat sales for the year during which the tariff is to be in force, the volume of heat introduced to the network or sold directly to customers, and heat price adopted by the power company that does not exceed the reference price. The level of the reference price depends in particular on the type of fuel used, the average sale price of heat generated in generating units which are not cogeneration units, in which the same type of fuel is burnt, and the reference index applicable to individual types of fuel. Additionally, the index of growth of revenue from the sales of heat coming from heat sources for which the energy company uses a simplified method of calculation of prices and fee rates must not be higher than the index calculated pursuant to the Heat Tariff Ordinance. The term of the application of the tariff for heat for which the simplified method of calculation of prices and fee rates was used is one year from the date of its introduction.

On 4 April 2013, the ERO President adopted a model of the principles and manner of determining the return on capital (cost of capital) for the years 2013-2015 and of including it in heat tariffs. The model has been devised to encourage the companies that operate in the heat sector to be competitive and to improve energy security and enhance energy efficiency.

### *Independence of transmission and distribution system operators (unbundling)*

In accordance with the European Law and the Energy Law, the operator of a transmission system and the distribution system operator that is a part of a vertically integrated enterprise (i.e. an enterprise or group of enterprises which are engaged in operations in the field of the transmission or distribution of electricity as well as the generation or sales of electricity) should remain independent, in terms of legal and organisational form and of decision-making, from other operations not related to the transmission or distribution of electricity (functional and legal unbundling). This means that transmission and distribution system operators must be separate legal entities, not engaged in activities involving the generation or sale of electricity. These entities must be guaranteed independence in making decisions regarding their electricity transmission or distribution operations.

Under European Law, Member States were required to enact the provisions necessary for implementing Directive 2003/54/EC no later than 1 July 2004, with the possibility of deferring the implementation of the provisions of Directive 2003/54/EC concerning the separation of distribution system operators until 1 July 2007. In keeping with those requirements, the TSO was designated as the transmission system operator in Poland, with effect from 1 July 2004. As regards the separation of DSOs, Poland took advantage of the opportunity to defer the application of the relevant regulation until 1 July 2007. Since that date, Polish DSOs have operated as companies that do not engage in generation or sales of electricity. ENERGA-OPERATOR operates in our Group as a DSO.

A DSO which is a part of a vertically integrated enterprise, remains, both with respect to its legal and organisational form as well as to its decision making process, independent of any operations not related to the distribution of electricity.

In order to ensure the independence of operations of a DSO the following independence criteria should be jointly satisfied: (i) the persons responsible for managing the DSO may not hold management positions in a vertically integrated enterprise or a power company responsible for transmission, generation or sales of electricity, or be directly or indirectly responsible for day-to-day business operations other than those ensuing from the operator's responsibilities; (ii) the independence of persons responsible for managing the DSO is guaranteed; (iii) the DSO has the right to make independent decisions with respect to assets necessary to perform business operations concerning the distribution of electricity; (iv) an authority of a vertically integrated enterprise cannot instruct a DSO with respect to its day-to-day operations nor can it make decisions with respect to the construction of a network or its modernisation, unless such instructions and decisions concern the operations of the DSO which would go beyond the approved financial plan or any similar document.

DSOs cannot carry out business operations consisting in manufacturing, generating or selling electricity or perform the same on the basis of an agreement to the benefit of other power companies.

DSOs are obliged to devise and implement programmes defining the actions that need to be taken in order to ensure that the users of a given system are treated in a non-discriminatory manner, including the defining of the detailed obligations of the employees ensuing from these programmes (compliance programmes), and also to prepare annual reports on the implementation of these programmes.

#### *Principles of designating TSO and DSOs*

Pursuant to the provisions of the Energy Law, the following entities may act as operators of the transmission or distribution system: (i) the owner of a transmission or distribution grid who holds a licence to engage in business activity involving the use of that network; (ii) a power company holding a licence to engage in business activity in the scope of the transmission or distribution of fuel gas or electricity, with whom the owner of a transmission or distribution network signed an agreement entrusting to that company the discharge of the duties of an operator using the networks owned by it.

Just one power transmission system operator or one combined power system operator will be designated in the territory of Poland.

The entrusting of the discharge of the obligations of a distribution system operator to an entity that does not own the network may concern the performance of business activity in the scope of the distribution of electricity if the number of customers connected to the electricity grid of the energy company that owns that network does not exceed one hundred thousand. Therefore, if the number of customers is higher, only the owner of the distribution system may be its operator.

The owner of a distribution network files an application with the ERO President for the designation of a distribution operator within 30 days of: (i) the date of being served the ERO President's decision on granting such owner the licence to engage in business activity involving the use of the network, or (ii) the date when the owner signed an agreement entrusting the performance of the operator's obligations with an energy company holding a licence to engage in business activity in the field of distribution with regard to networks owned by such owner.

The ERO President shall refuse to designate as a system operator a power industry enterprise named in the network owner's application if that enterprise, among others, lacks the adequate economic or technical means or does not guarantee the efficient management of the system or does not meet the terms or criteria of operator independence.

The ERO President will designate *ex officio* as a distribution system operator a power company holding a licence for the distribution of fuel gas or electricity if: (i) the owner of a network did not file an application for the designation of a gas or power system operator to engage in business activity by using its network; (ii) the ERO President refused to designate an operator that would engage in business activity using the network specified in the application.

When issuing such a decision, the ERO President shall define the area, systems or networks in which the operator will engage in its business activity. The network owner is obliged to provide all the information and documents indispensable for the execution of the tasks to the designated operator and to cooperate with that operator.

The network owner faces a fine, in particular, if: (i) for an unjustified reason, it does not file an application for the designation of an operator or does not meet the conditions set out in the decision designating an operator appointed by the authority; (ii) does not abide by the conditions and criteria of independence of the system operator; (iii) does not guarantee the fulfilment of the independence conditions and criteria to the operator of the system designated for its network.

### *DSO's duties*

Pursuant to Energy Law, the tasks of a DSO include, among other things: (i) operating the distribution network in an efficient manner, with adequate reliability of supply of electricity and the quality of supplying it, in cooperation with the TSO, in the area of coordinated 110 kV grid; (ii) operation, maintenance and repairs of a distribution network in a manner guaranteeing the reliability of operation of the distribution system; (iii) the ensuring of the expansion of the distribution network and, where applicable, expansion of intra-system connections in the area of its operations; (iv) cooperation with other power system operators or power companies; (v) load dispatch of generating units connected to the distribution network, except for generating units with an achievable capacity equal to or exceeding 50 MW, connected to a coordinated 110 kV network; (vi) the balancing of a system, except the balancing of current demand for electricity and the supplies of same, and managing of system limitations.

In its area of operations, a power system operator is obliged to ensure all the entities the priority of providing the services related to transmission or distribution of electricity generated from renewable energy sources and highly efficient cogeneration, combined with the maintenance of the reliability and security of the KSE.

### *Development plans*

Pursuant to Energy Law, power companies engaging in the transmission or distribution of electricity prepare development plans for the area of their operations with regard to the satisfaction of the present and future demand for electricity for a period not shorter than 3 years.

A distribution system operator shall prepare a development plan concerning the satisfaction of current and future demand for electricity for periods of not less than 5 years and forecasts of security of electricity supplies for periods of not less than 15 years. The said plan is updated every 3 years in respect of electricity demand.

The development plan shall address in particular: (i) the projected scope of delivery of electricity; (ii) undertakings related to the modernisation, expansion or construction of the network and planned new renewable energy sources; (iii) undertakings related to the modernisation, expansion or construction of links to power systems of other countries; (iv) undertakings aimed at the rationalisation of the customers' fuel and energy consumption; (v) the projected manner of financing of capital expenditures; (vi) the projected revenue indispensable for the implementation of the plans; (vii) the planned timeline of the development projects.

Furthermore, the development plan should define the level of generating capacity and reserve capacity, the preferred locations and structure of new sources of transmission or distribution capacity in the power system and the level of their utilisation, as well as actions and undertakings ensuring the security of electricity supplies.

Additionally, the development plan should guarantee the long-term maximisation of efficiency of expenditures and costs incurred by the power company, so that the expenditures and costs do not cause an excessive growth of prices and fees for electricity supplies, while guaranteeing the continuity, reliability and quality of supplies.

The drafts of development plans required to be agreed with the ERO President. Power companies are obliged to submit a report on the implementation of their development plans to the ERO President by 30 April of each year.

A power company which fails to submit such plans or reports to the ERO President shall be fined.

***Operators' duty to prepare a network operation and maintenance manual***

The transmission system operator and the distribution system operator are obliged to prepare the transmission network operation and maintenance manual or the distribution system operation and maintenance manual respectively.

The manuals prepared for gas networks as well as those for power networks shall define the detailed terms of use of these networks by the system's users and the terms and manner of the operation, maintenance and planning for the development of such networks. The minimum required content of such manuals is specified by the provisions of the Energy Law.

In the distribution network operation and maintenance manual, the distribution system operator will take into account the requirements set forth in the transmission network operation and maintenance manual prepared by the transmission system operator.

The manual prepared by the transmission system operator should also contain a separate section dealing with the balancing of the system and management of system restrictions.

The transmission system operator is obliged to submit to the ERO President for approval, by means of a decision, the entire manual together with information about the comments submitted by the system's users and the manner in which those comments were acted upon. The operator shall post these documents on its website.

Within 60 days of the date of the announcement of the approved transmission network operation and maintenance manual, the distribution system operator submits the manual, together with information about the comments submitted by the system's users and the manner in which those comments were acted upon, to the ERO President for approval. The operator shall post these documents on its website.

Pursuant to the provisions of the Energy Law, the obligation to prepare a transmission network operation and maintenance manual and a distribution network operation and maintenance manual also rests on combined system operators, to whom the provisions concerning the preparation of the manual by the transmission system operator and the distribution system operator shall apply as appropriate.

The Energy Law also sets forth that system users, including offtakers whose equipment, systems or networks are connected to the gas system operator's or power system operator's network or using the services provided by that operator, are obliged to follow the manual. This manual constitutes a part of the agreement on the provision of fuel gas or electricity transmission or distribution services or a comprehensive agreement.

***Right to choose the seller and third-party access (TPA rule)***

In keeping with the European Law requirements, the Energy Law awarded, as of 1 July 2007, the right of free choice of supplier of electricity to all Polish customers, including households. The TSO and DSOs are obliged to make the exercise of that right possible by providing transmission and distribution services to all system users (customers, generators and electricity sellers) on a transparent basis, free of discrimination. In particular, in accordance with the Energy Law, a power industry enterprise engaging in transmission or distribution of electricity is obliged, using objective and transparent rules ensuring equal treatment for system users, to make it possible for an electricity consumer connected to its power grid to switch to another supplier, on the terms and in the manner specified in the regulations. Pursuant to the Amendment TSO and DSO are obliged to enable gaseous fuels or electricity customers to change their seller, not later than on the 21st day from the date of notifying the relevant operator about having signed a sale agreement or comprehensive agreement with a new seller. Additionally, pursuant to the amended regulations, the procedure of changing the seller will be specified in an ordinance. As at the date of this Offering Circular, work was in progress aimed at implementing a general distribution agreement for household customers being parties to comprehensive agreements, enabling the sellers to provide comprehensive services to tariff group G customers, which would serve a further liberalisation of the energy market.

***Connection to the grid***

In accordance with the Energy Law, a power industry enterprise engaged in the transmission or distribution of electricity is obliged to conclude an agreement on connection to the power grid with entities



seeking connection to the power grid, on the principles of equal treatment, if it is technically and economically feasible to connect to the grid and to supply electricity and the applicant meets the requirements of being connected to the grid and taking supply. If the power industry enterprise refuses to conclude such agreement, it should immediately inform the ERO President and the party concerned in writing, providing the reason for such refusal.

The charge for connecting to a transmission grid and to a power grid with a nominal voltage higher than 1 kV but not higher than 110 kV, with the exception of the connection of generating units and grids, is determined on the basis of 25% of the costs actually incurred to establish the connection. For connection to a power grid with a nominal voltage not exceeding 1 kV, with the exception of connecting generating units and grids, the fee charged is determined on the basis of rates included in the tariffs, calculated on the basis of one-fourth of the mean annual capital expenditures on the construction of segments of the grid used for connecting such entities, specified in the development plan. For connecting generating units cooperating with the grid and the grids of power industry enterprises engaging in the transmission and distribution of electricity, the fee charged is determined based on the actual costs incurred for making the connection. With regard to renewable energy sources with an installed electric capacity of not more than 5 MW and cogeneration units with an installed electric capacity below 1 MW the fee charged amounts to 50% of the actual expenditures involved. There is no charge for connecting a power microsystem to a distribution network.

### *Ownership of equipment used for the transmission or distribution of electricity or heat*

The equipment and systems which constitute elements of transmission or electricity distribution networks are in general permanently attached to the ground. Pursuant to the CC provisions, equipment permanently attached to the ground constitutes a component part of the ground and is thus owned by the land's owner. Nonetheless, in accordance with Article 49 CC, equipment which serves to supply or channel liquids, steam, gas or electricity as well as other similar equipment does not constitute a component part of the real property if it is a part of an enterprise.

In the past it was assumed that equipment, as referred to above, located on somebody else's land was owned by the power company once physically connected to the network of that business. Simultaneously, in some cases, the costs of system construction on somebody else's real property were borne by the consumer and power companies used somebody else's real property without any agreement. Case law from recent years challenges the ability of a company to take over the ownership right to transmission or distribution systems by the very physical connection thereof to the network of a power company. Pursuant to such case law, to transfer the ownership of such equipment to a power company, it is necessary to conclude an agreement with the real property's owner. This means that the legal status of a significant amount of transmission and distribution equipment, to which the legal title was not specified in the agreement with the real property's owner, is not regulated.

In August 2008, the amended CC came into force, pursuant to which the person who incurred the construction costs of such equipment and is their owner (e.g. the customer—the real property's owner) may demand that the entrepreneur (e.g. a power company) who connected equipment to his network, acquires the ownership thereto for an adequate remuneration (unless in the connection agreement the parties provide otherwise). Furthermore, the entrepreneur may also demand the transfer of the ownership of such equipment.

### *Transmission easement*

The amended CC, which came into force in August 2008, introduced the transmission easement into Polish law. Pursuant to the new provisions, for the benefit of an entrepreneur who intends to construct or who owns equipment, as referred to in Article 49 CC (i.e. equipment to supply or channel liquids, steam, gas or electricity and other similar equipment), the real property may be encumbered with the right to use that real property in the prescribed scope, in accordance with the purpose of such equipment. A transmission easement should, as a matter of principle, be established on the basis of an agreement between the entrepreneur and the real property's owner.

If the owner of the real property refuses to conclude such agreement and the transmission easement is necessary for the proper usage of the transmission equipment, the entrepreneur is entitled to demand that



an easement be established for an adequate remuneration. The owner of the real property is entitled to a similar claim if an entrepreneur refuses to conclude an agreement to establish such easement.

#### ***TSO powers regarding energy security***

In the event of threats to: (i) Poland's energy security consisting in long-term disequilibrium on the fuels and electricity markets; (ii) the security of electricity supplies; (iii) the security of people; (iv) the occurrence of significant damage, in the territory of Poland or its part, restrictions may be introduced on the sales of solid fuels and on supply and offtake of electricity and heat for a specified period of time.

In the event of the occurrence of such threats, the Council of Ministers may, at the request of the Minister of Economy, introduce, by way of an ordinance, for a specified period of time, limitations on the sales of solid fuels and on supply and offtake of electricity and heat in the whole or a part of the territory of Poland.

Curbs on the sales of solid fuels consist in selling those fuels based on permits issued to customers to purchase a specified quantity of the fuels.

The restrictions on supply and offtake of electricity or heat consist in: (i) limiting the maximum offtake of electricity and of 24-hours electricity consumption; (ii) the reduction or interruption of heat supplies.

Pursuant to the Energy Law, in the event of a threat to the security of electricity supplies, the operator of a power transmission system or a combined power system: (i) shall cooperate with the system's users, including electricity consumers, to embark on any possible actions using the available measures aimed at removing such a threat and preventing its negative consequences; (ii) may introduce restrictions on supply and offtake of electricity in a part or the whole of the territory of Poland pending the entry into force of the provisions of an ordinance introducing curbs on the sales of solid fuels and on supply and offtake of electricity and heat, however not for longer than a period of 72 hours.

#### ***Regulation of renewable energy and cogeneration (CHP)***

##### ***Energy from renewable sources***

As stipulated by European Law, the Energy Law provides certain support mechanisms for energy from renewable sources. These mechanisms consist in (i) promoting the generation of electricity from RES through issuing special certificates of origin for such electricity, the green certificates, while simultaneously requiring entities that sell electricity to end-customers to redeem a certain number of renewable energy certificates or to pay a substitute fee and (ii) requiring sellers of last resort (i.e. power companies licensed to sell electricity or fuel gas obliged to provide comprehensive services to household customers that do not exercise their right to choose a supplier and are connected to the grid of the power company indicated in the licence of the supplier of last resort) to purchase all the renewable energy they are offered from the RES connected to the power grid in the area in which the supplier of last resort operates, at a price equal to the average electricity sale price in the preceding calendar year. Additionally, RES with a capacity not exceeding 5 MW enjoy preferential terms for the calculation of the fee for connection to the grid.

Furthermore, the Energy Law requires: (i) industrial offtakers that have consumed at least 100 GWh of energy in the preceding year and whose cost of energy consumption was at least 3% of the value of their production and who also made an appropriate statement, (ii) power companies engaged in the generation of electricity or in sale of such energy as their business operations, or selling electricity to end-customers not being industrial offtakers specified in item (i); (iii) end-customers, other than industrial offtakers specified in item (i), that are members of the commodity exchange within the meaning of the Act on Commodity Exchanges or members of an organised market managed by an entity operating on a regulated market in Poland, in respect of transactions concluded on their own behalf on the commodity exchange; and (iv) commodity brokerage houses or brokerage houses, in respect of transactions completed on behalf of end-customers, other than industrial offtakers specified in item (i), on the commodity exchange or on an organised market managed by an entity operating on a regulated market in Poland; to obtain and present to the ERO President for redemption, certificates of origin (the "green certificates", i.e. a certificates of the generation of electricity from a RES or the "brown certificates", i.e. certificates of generation of agricultural biogas and supplying the biogas to the gas distribution network) or to pay a substitute fee.

## REGULATORY MATTERS

The scope of the obligation to obtain and submit the “green certificates” to the ERO President for redemption is specified in the RES Certificates Ordinance, described below.

The support system for agricultural biogas based on transferrable certificates of origin of agricultural biogas was introduced in 2011. The scope of the obligation to generate agricultural biogas and supply such biogas to the gas distribution network is set forth by the Ordinance of the Minister of Economy of 24 August 2011 on the detailed scope of the obligation to confirm the parameters of agricultural biogas supplied to the gas distribution network (Dz. U. of 2011, No. 187 Item 1117).

Pursuant to the aforementioned RES Certificates Ordinance, the obligation to obtain and submit certificates of origin to the ERO President for redemption or to pay a substitute fee, shall be deemed to have been fulfilled if, for a given calendar year, the share by volume of electricity covered by certificates of origin, which the power company submitted for redemption or for which a substitute fee was paid by the power company in the aggregate annual completed sale of electricity to end-customers, is not less than specified in the table below.

Share by volume of electricity based on certificates of origin in the years 2012-2021

<u>Share by volume (%)</u>	<u>Year</u>
10.4 . . . . .	2012
12.0 . . . . .	2013
13.0 . . . . .	2014
14.0 . . . . .	2015
15.0 . . . . .	2016
16.0 . . . . .	2017
17.0 . . . . .	2018
18.0 . . . . .	2019
19.0 . . . . .	2020
20.0 . . . . .	2021

*Source: §3, §4 and §5 of the RES Certificates Ordinance.*

As at Offering Circular Date, the share of the total amount of electricity based on certificates of origin or on the substitute fee paid in the total completed sales of electricity is known until 2021.

Additionally, pursuant to the RES Certificates Ordinance, renewable energy that entitles a generator to obtain renewable energy certificates, i.e. the “green certificates”, includes, among other things, a portion of the energy generated in the process of the co-combustion of biomass. Energy generated in the co-combustion process may be deemed to be generated by renewable energy sources, provided that the appropriate amount of agricultural biomass has been used in its generation. The RES Certificates Ordinance provides for a gradual increase in the share of agricultural biomass as compared to the share of wood biomass in the process of co-combustion for generation units with a capacity exceeding 5 MW, so that a portion of generated electricity can be deemed as renewable energy. This is presented in the table below.

Minimum required share by weight of agricultural biomass in the co-combustion process in the years 2012-2021

<u>Required share of agricultural biomass by weight (%)</u>	<u>Year</u>
50.0 . . . . .	2012
60.0 . . . . .	2013
70.0 . . . . .	2014
80.0 . . . . .	2015–2017
85.0 . . . . .	2018–2021

*Source: § 6 Section 2 of the RES Certificates Ordinance.*

Additionally, according to the RES Certificates Ordinance, with respect to the generating units that fire only biomass with an electrical capacity exceeding 20 MW, the renewable energy is deemed to include electricity or heat representing 100% of the generating unit, provided that an adequate quantity of agricultural biomass was used in its generation process. The RES Certificates Ordinance also provides for

a gradually increasing share of agricultural biomass at the expense of wood biomass in combustion in generating units with an electrical capacity exceeding 20 MW, for the purpose of classifying the energy generated as renewable, as shown in the table below.

Minimum required share by weight of biomass in the combustion process in the years 2012-2021

<u>Required share of agricultural biomass by weight (%)</u>	<u>Year</u>
20.0 .....	2012–2015
30.0 .....	2016
40.0 .....	2017–2018
50.0 .....	2019–2021

Source: § 6 Section 4 of the RES Certificates Ordinance.

With respect to biomass-combusting generating units with electrical capacity exceeding 20 MW and commissioned before 31 December 2015, the required share of agricultural biomass for such unit, by weight, is determined pursuant to the table above, but at a level not exceeding 20%.

Certificates of origin are issued by the ERO President upon a generator's application filed through the relevant power system operator. Any property rights under certificates of origin are alienable; in particular they are traded on the Polish Power Exchange.

The substitute fee is calculated as the product of the unit substitute fee rate and the difference between the volume, in MWh, of electricity coming from the obligation to procure and submit for redemption certificates of origin and the volume of electricity, in MWh, resulting from the certificates of origin, which the power company presented for redemption in a given year. The level of the unit substitute fee contained in the formula to calculate the substitute fee is subject to annual adjustment based on the mid-year consumer price index for the calendar year preceding the year for which the substitute fee is being calculated. The amount of the unit substitute fee is specified in the table below.

Unit substitute fee in the years 2008-2013

<u>Unit substitute fee</u>	<u>Year</u>
PLN 248.46 .....	2008
PLN 258.89 .....	2009
PLN 267.95 .....	2010
PLN 274.92 .....	2011
PLN 286.74 .....	2012
PLN 297.35 .....	2013

Source: Information from the ERO President on the adjusted unit substitute fee in the years 2008-2013, available at [www.ure.gov.pl](http://www.ure.gov.pl).

As stated above, a supplier of last resort is required to purchase the entire amount of electricity offered by the generator, generated using renewable energy sources connected to the grid located in the operating area of the supplier of last resort. The supplier of last resort is obliged to buy such electricity at the average selling price on a competitive market from the previous calendar year. The price in each year is announced by the ERO President.

Renewable electricity price for the sellers of last resort in the years 2008-2013

<u>Renewable electricity price for last-resort sellers</u>	<u>Year</u>
PLN 128.80/MWh .....	2008
PLN 155.44/MWh .....	2009
PLN 197.21/MWh .....	2010
PLN 195.32/MWh .....	2011
PLN 198.90/MWh .....	2012
PLN 201.36/MWh .....	2013

Source: Information from the ERO President on the average selling price on a competitive market in the years 2007-2012, available at [www.ure.gov.pl](http://www.ure.gov.pl).

If a power enterprise engaging in generation or sales of electricity and selling electricity to end-customers fails to comply with the obligation to obtain and submit for redemption certificates of origin of electricity generated from renewable sources to the ERO President or to pay the substitute fee, the entity is subject to a fine not lower than the product of the figure 1.3 and the difference between the due and paid substitute fee. The supplier of last resort is also subject to the fines set forth in the Energy Law if it fails to satisfy the obligation to buy electricity generated from RES.

In the event of a supplier of last resort failing to abide by the obligation to purchase electricity generated from renewable energy sources, the supplier of last resort will be subject to a fine that shall not be lower than the product of the average electricity sale price on a competitive market in the previous calendar year, expressed in PLN per 1 MWh and the difference between the volume of electricity offered for purchase, generated from renewable energy sources, expressed in MWh, and the volume of electricity generated from renewable energy sources purchased during the given year, expressed in MWh.

The amount of such penalties may not exceed 15% of the revenue of the entrepreneur concerned, posted in the previous fiscal year, and if the fine is related to activity pursued under a licence, the amount of the penalty may not exceed 15% of the said entrepreneur's revenue from licensed operations in the previous fiscal year.

Irrespective of the penalties referred to above, the ERO President may impose a fine on the manager of the power company, its amount not to exceed 300% of such manager's monthly remuneration.

Furthermore, Directive 2009/28/EC of the European Parliament and of the Council of 23 April 2009 on the promotion of the use of energy from renewable sources and amending and subsequently repealing Directives 2001/77/EC and 2003/30/EC (OJ EU L 140/16 of 5 June 2009, as amended), came into force on 25 June 2009. Its main objective is to oblige Member States to promote and support investment on the renewable energy sources market. The Directive also calls for streamlining and facilitating administrative procedures related to investment in the development of renewable energy sources. The purpose of the Amendment was the implementation of the aforesaid directive.

### *Energy generated in combination with heat (cogeneration or CHP)*

Cogenerated electricity is electricity generated simultaneously with heat. As stipulated by European Law, the Energy Law also contains support mechanisms for high-efficiency cogeneration, i.e. for the generation of electricity combined with the generation of heat with an efficiency of no less than that defined in the Energy Law.

A power company engaged in the business of generation or trading in electricity and selling this electricity to end-customers not being the industrial offtakers within the meaning of Energy Law, as well as other entities specified in the aforementioned Act, are required to obtain and submit for redemption to the ERO President cogeneration certificates for electricity generated in cogeneration units located in Poland (the "yellow certificates"—for gas-fired units or for units with a total installed capacity of less than 1 MW, and the "purple certificates" for units fired by coal-bed methane recovered or captured in underground mining in active coalmines or mines that are undergoing or have undergone liquidation or with gas obtained in biomass processing, the "red certificates"—for the remaining cogeneration units), or pay a substitute fee.

Cogeneration certificates are issued separately for electricity generated in (i) a high-efficiency cogeneration process in a small cogeneration unit or fired by fuel gas; for (ii) high-efficiency cogeneration units fired by coal-bed methane recovered or captured in underground mining in active coalmines or mines that are undergoing or have undergone liquidation or with gas obtained in biomass processing; and for (iii) electricity other than that specified in items (i) and (ii) above. The cogeneration certificates are issued by the ERO President on the motion of a power company dealing with the generation of electricity using a high-efficiency cogeneration process, filed through the power system operator, to whose network the cogeneration unit specified in the motion is connected. The property rights under the certificates of origin are alienable, and in particular are subject to trading on the Polish Power Exchange.

The substitute fee equals the sum of (i) the product of the unit substitute fee rate (not lower than 15% and not higher than 110% of the average sale price of electricity on a competitive market) and the amount of electricity equal to the difference between the amount of electricity resulting from the obligation of procurement (for small cogeneration units and gas-fired units) and the amount of electricity arising from

the cogeneration certificates which the power company redeemed within the prescribed time; (ii) the product of the unit substitute fee (not lower than 30% and not higher than 120% of the average sale price of electricity on a competitive market) and the amount of electricity equal to the difference between the amount of electricity resulting from the obligation of procurement (for cogeneration units fired by coal-bed methane recovered or captured in underground mining in active coalmines or mines that are undergoing or have undergone liquidation or with gas obtained in biomass processing) and the amount of electricity arising from the cogeneration certificates which the power company redeemed within the prescribed time, and of (iii) the product of the unit substitute fee (not lower than 15% and not higher than 40% of the average sale price of electricity on a competitive market) and the difference between the amount of electricity arising from the obligation of procurement (for cogeneration units other than those referred to above) and the amount of electricity ensuing from the cogeneration certificates which the power company presented for redemption within the prescribed time.

The rates of the unit substitute fee for individual years for cogeneration certificates concerning electricity generated by small or gas-fired units (Ozg), for cogeneration certificates concerning electricity generated by cogeneration units fired by coal-bed methane recovered or captured in underground mining in operational, liquidated or closed hard coal mines or with gas obtained in biomass processing (Ozm), and for cogeneration certificates concerning electricity generated by other cogeneration units (Ozk) are set forth in the table below.

Unit substitute fees for cogeneration units in the years 2008-2013

<u>Ozg</u>	<u>Ozm</u>	<u>Ozk</u>	<u>Year</u>
PLN 117.00/MWh . . . . .	N/A	PLN 17.96/MWh	2008
PLN 128.80/MWh . . . . .	N/A	PLN 19.32/MWh	2009
PLN 128.80/MWh . . . . .	N/A	PLN 23.32/MWh	2010
PLN 127.15/MWh . . . . .	PLN 59.16/MWh	PLN 29.58/MWh	2011
PLN 128.80/MWh . . . . .	PLN 60.00/MWh	PLN 29.30/MWh	2012
PLN 149.30/MWh . . . . .	PLN 60.00/MWh	PLN 29.84/MWh	2013

*Source: Information from the ERO President regarding unit substitute fee for cogeneration units for the years 2008-2013, available at [www.ure.gov.pl](http://www.ure.gov.pl).*

In the event of failure to comply with the obligation to obtain and submit cogeneration certificates to the ERO President for redemption, the company is obliged to pay the substitute fee. In the event of failure to comply with this obligation and failure to pay the substitute fee, the company shall pay a fine which may not be lower than the product of 1.3 and the difference between the due and paid substitute fee.

The amount of such penalties may not exceed 15% of the revenue of the entrepreneur concerned, posted in the previous fiscal year, and if the fine is related to activity pursued under a licence, the amount of the penalty may not exceed 15% of the said entrepreneur's revenue from licensed operations in the previous fiscal year.

Moreover, irrespective of the penalties referred to above, the ERO President may impose a fine on the manager of the power industry enterprise, its amount not to exceed 300% of such manager's monthly remuneration.

The system of support for highly efficient cogeneration was in force until the end of 2012. The final date for meeting the obligation of obtaining and submitting the certificates of origin from cogeneration for redemption or paying a substitute fee lapsed on 31 March 2013. This does not apply to support in the form of the purple certificates, i.e. for units fired by methane released and captured during underground mining work in active coalmines or mines that are undergoing or have undergone liquidation, or with gas obtained in the processing of biomass. As per the regulations in place, this system will operate until 31 March 2019. As at Offering Circular Date, legislative work is under way to extend the support based on yellow and red certificates for a further two years. The settlement of this obligation is to be made possible until 31 March 2015. As at Offering Circular Date, however, there are no regulations governing the domestic system of support for highly efficient cogeneration units after 31 March 2013. The risks involved are examined in "Risk factors—Risks related to our business—The national support system for the generation of electricity from RES may change significantly".



## REGULATORY MATTERS

---

For the support system currently in force in relation to purple certificates, the obligation of obtaining and submitting a certificate of origin from cogeneration for redemption or of paying a substitute fee shall be deemed fulfilled if, for the given calendar year, the share by volume of the amount of electricity derived from the obtained and redeemed certificates of origin from cogeneration or from a substitute fee paid in aggregate annual sales of electricity by the given power company to end-customers is not lower than the share indicated in the table below.

The share by volume of electricity ensuing from obtained and redeemed certificates of origin from cogeneration for electricity generated in units fired by methane released and captured in underground mines in active hard coal mines or hard coal mines that are undergoing or have undergone liquidation, or gas obtained in the processing of biomass.

<u>Share by volume</u>	<u>Year</u>
0.4 .....	2011
0.6 .....	2012
0.9 .....	2013
1.1 .....	2014
1.3 .....	2015
1.5 .....	2016
1.8 .....	2017
2.3 .....	2018

*Source: § 9 Clause 1.2 of the Ordinance of the Minister of Economy of 26 July 2011 on the manner of calculating the data supplied in the application for the issuance of a certificate of origin from cogeneration and the detailed scope of the obligation of obtaining such certificates and submitting them for redemption, payment of substitute fee and the obligation to confirm the data concerning the volume of electricity generated through highly efficient cogeneration (Dz. U. of 2011, No. 176, item 1052).*

### ***Mandatory public sale of electricity and gas***

In accordance with the Energy Law, electricity generators are required to sell no less than 15% of the energy generated in a given year on commodities markets, as defined in the Commodities Exchanges Act or on an organised market managed by an entity operating on a regulated market in Poland, while the electricity generators that qualify for stranded costs compensation pursuant to the PPA Act are required to sell the remaining 85% of electricity generated in a manner ensuring public, equal access to such energy, i.e. in the form of open tenders on an organised market managed by an entity operating on a regulated market in Poland or on commodities exchanges as defined in the Commodities Exchanges Act. There are no generators in our Group that qualify for stranded cost compensation under the PPA Act.

Under the Energy Law, the generators' compliance with relevant regulations with respect to the obligatory public sale of electricity, as well as the methods and procedures of organising tenders by the generators and conducting tenders pursuant to provisions of law, is subject to the scrutiny of the ERO President. The ERO President may void any tender upon determining that it was conducted in violation of the regulations. However, the Energy Law does not provide any details as to the process of making a decision to void a tender. In particular, it does not state whether such tender can be voided upon the conclusion of an electricity sale agreement with the winning bidder or, if so, what would be the effect of voiding the tender on the effectiveness of such an electricity sale agreement.

The Energy Law offers a number of exceptions to the general obligation of generators to sell electricity publicly. The obligation to publicly sell electricity does not apply to electricity: (i) distributed by an electricity generator to an end-customer via a direct line, (ii) from renewable sources, (iii) from cogeneration, with the average annual efficiency exceeding 52.5%, (iv) used by the power company generating energy for its own purposes; (v) required by the power systems operators to perform their duties under the Energy Law; and (vi) generated in a unit with a total installed electrical capacity not exceeding 50 MW. Additionally, at the request of a power company, the ERO President may lift the power company's obligation to publicly sell electricity to the extent that it concerns electricity: (a) sold to satisfy long-term obligations under agreements concluded with financial institutions financing investments related to electricity generation; or (b) generated for the needs of the transmission system operator used in order to secure the proper operation of the national power system, provided that lifting such an obligation does not materially disrupt competition on the electricity market or interfere with the balancing market.



Furthermore, based on the Energy Law, amended by the Amendment, which entered into force on 11 September 2013, a power company engaged in the sale of fuel gas is required to sell via commodity exchanges or on an organised market, no less than: (i) 30%—until 31 December 2013, (ii) 40%—in the period from 1 January 2014 to 31 December 2014, and (iii) 55%—from 1 January 2015, of high-methane natural gas supplied to the transmission network in a given year: (i) at entry points to the national transmission system, at connections with transmission systems of other countries or (ii) via a network of mining pipelines; or (iii) through condensed natural gas terminals.

The obligation does not refer to: (i) the natural gas that constitutes the mandatory stock of natural gas, as defined in Article 24 of the Act of 16 February 2007 on the stocks of crude oil, petroleum products and natural gas and on the manner of proceeding in the event of a threat to the country's fuel security and disruptions on the oil market (consolidated text: Dz. U. of 2012, item 1190); (ii) the natural gas led out from the transmission network in a given year at exit points from the national transmission system, at connections with transmission systems of other countries, in an amount equal to the quantity of the natural gas supplied to the transmission network in the given year, (iii) the natural gas sold to operators of gas systems for the purposes of fulfilling their statutory tasks, (iv) the natural gas used for the company's own needs.

Exemption from the obligation referred to above is provided to power companies engaged in the international trade of natural gas, which are entitled to the transmission capacity (in entry points to the national transmission systems, at connections with the transmission systems of other countries) of less than 10% of the aggregate transmission capacity of such points in the given year. The exemption may not however be enjoyed by power companies engaged in the international trade of natural gas that are members of a capital group, if the aggregate transmission capacity (at entry points to the national transmission system at connection points with transmission systems of other countries) to which the power companies are entitled exceeds 10% of the aggregate transmission capacity of all such points

#### ***Rights of power system operators regarding utilisation of generating units***

Pursuant to the Energy Law, a generating unit is a discrete set of equipment owned by a power company, used for generating electricity and feeding it into the power grid.

The operator of a power transmission system or a combined power system with regard to the transmission system, using objective and transparent rules ensuring the equal treatment of the users of these systems and taking into account the requirements of environmental protection, is responsible in particular for the security of electricity supplies through ensuring the security of operation of the power system and adequate transmission capacity in the power transmission grid.

In the event of a threat to the security of electricity supplies, the operator of a power transmission system or a combined power system shall embark in particular on the following actions: (i) instruct a generator to start, stop, change load or disconnect a unit subject to centralised load dispatch, (ii) make emergency purchases of capacity or electricity, (iii) instruct the relevant power distribution system operator to start, stop, change load or disconnect a generating unit connected to the distribution network in its area of operations which is not a unit that is subject to centralised load dispatch, (iv) instruct the relevant power distribution system operator to reduce the volume of electricity offtaken by end-customers connected to the distribution network in its area of operation or stop the distribution of electricity to a necessary number of end-customers connected to the distribution network in this area, (v) once all possible actions aimed at meeting the demand for electricity have been exhausted, order end-customers connected directly to the transmission network to decrease consumption or disconnect equipment or systems owned by those end-customers from the network, in line with the adopted load limitation plan; and (vi) reduce the volume of transmission capacity for exchange between systems.

When engaging in such actions, the users of the system, including electricity consumers, are obliged to follow the instructions of the power system operator so long as this does not pose a direct threat to life or health.

The detailed terms of operation of generating units subject to centralised dispatch within the must-run generation system, including the principles of calculating prices for the generated energy, specified in the Ordinance of the Minister of Economy of 4 May 2007 on the detailed conditions of the operation of the power system (Dz. U. 2007, No. 93, item 623, as amended).

### *Obligation to maintain fuel stocks*

Pursuant to the Energy Law, a power company engaged in electricity or heat generation is obliged to maintain fuel stocks in quantities ensuring uninterrupted supplies of electricity or heat to customers.

In particular, the obligations of power companies engaged in the generation of electricity or heat, with respect to maintaining fuel stocks in the form of hard coal, are regulated in the Ordinance of the Minister of Economy, Labour and Social Policy of 12 February 2003 on the fuel stocks of power companies (Dz. U. of 2003, No. 39, item 338, as amended).

### *Supplier of last resort*

Together with the regulations on the unbundling of the operators of transmission and distribution networks, the Energy Law introduced the institution of the supplier of last resort, the purpose of which was to regulate the sales of electricity to end-customers that are households, which have not opted to select their supplier. Pursuant to the Energy Law, a supplier of last resort is a power company holding a licence to sell electricity or fuel gas, obliged to provide comprehensive services to electricity customers in households which have not exercised the right to choose their supplier and connected to the network of a power company indicated in the licence of the supplier of last resort. The provision of the comprehensive service consists in making it possible to sell electricity and provide distribution services under a single agreement between the seller and the customer. A comprehensive agreement is an agreement containing both provisions concerning the sale of electricity and an agreement on the provision of distribution or transmission services (the services related to the sale and distribution or transmission of electricity being provided separately by the seller and a distribution system operator or by the transmission system operator respectively).

Sellers of last resort also have other obligations specified in the Energy Law, in particular they are obliged to purchase electricity generated from renewable sources.

In accordance with the Energy Law, the ERO President selects sellers through a tender procedure, and if such procedure does not result in the selection of a seller, it shall designate a supplier of last resort by way of an administrative decision for a 12-month period. As at Offering Circular Date, no such tender procedure has been announced. Therefore, pursuant to the transitory provisions of the Energy Law, the role of supplier of last resort is currently performed by those power companies which hold a licence to sell electricity, and which prior to 1 July 2007 engaged in sales to end-customers or were established as a result of the separation of the DSOs and engage in sales of electricity to those end-customers who have not exercised the right to select their seller.

### *Prohibitions on manipulations on the wholesale energy market*

Regulation (EU) No. 1227/2011 of the European Parliament and of the Council of 25 October 2011 on wholesale energy market integrity and transparency (OJ EU L 326/1 of 8 December 2011, the “**REMIT Regulation**”), came into force on 28 December 2011. It governs the practices of participants of wholesale electricity markets on which wholesale energy products are traded.

The REMIT Regulation prohibits any manipulations on wholesale energy markets and the use of inside information in wholesale trading of energy products. The REMIT Regulation defines “inside information” as information of a precise nature which has not been made public, which relates directly or indirectly to one or more wholesale energy products and which, if it were made public, would be likely to significantly affect the prices of those wholesale energy products.

Additionally, as of the effective date of the REMIT Regulation, market participants are required to publish inside information, and to notify the ACER of any delays in its publication. Such information can concern the enterprise or system which the given market participant or its parent entity or affiliate owns or controls, or in relation to which the given market participant or such an entity is responsible for the whole or part of operating matters. It is necessary to disclose, among other things, information concerning the capacity and the utilisation of systems used for the production, storage or transmission of energy or using energy, including the planned and unplanned lack of accessibility of such systems. Such information should be released to the public among others by posting them on the website of the entity entering into transactions on wholesale energy markets. Furthermore, persons professionally arranging transactions are

also required to notify ACER of any substantiated suspicion of a breach of the REMIT rules by market participants.

### ***Planned amendments to legal regulations***

#### *New energy regulations*

As at the date of this Offering Circular, work is underway regarding new regulations concerning the electricity, gas and RES markets.

The purpose of the new regulations regarding electricity and gas is to clarify and simplify the current regulations, as well as adjust the existing regulations to the Law of the European Union—in particular the Regulation of the European Parliament and of the Council (EC) No. 713/2009 of 13 July 2009 establishing the Agency for the Cooperation of Energy Regulators (OJ EU L 211/1 of 14 August 2009) and the Regulation of the European Parliament and of the Council (EC) No. 714/2009 of 13 July 2009 on conditions for access to the network for cross-border exchanges in electricity and repealing Regulation No. 1228/2003 (OJ EU L 211/15 of 14 August 2009) and Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC (OJ EU L 211/94 of 14 August 2009) and liberalization of gas prices.

With regard to the renewable energy sector, pursuant to the Draft RES Act presented by the Ministry of Economy on 13 November 2013, the support systems for the energy generated from RES, both with respect to systems already operating when the new legal provisions are enacted, as well as systems which will commence their operations after the new law enters into force, are to be changed. The proposal provides for, among others: (i) time limits of the support period; (ii) exclusion of support mechanisms for existing hydroelectric power plants with the total installed electricity capacity of over 1 MW; (iii) restrictions regarding support for multi-fuel combustion; (iv) change of trading in green certificates; and (v) introduction of an auction system instead of green certificates support system. According to the documentation attached by the Ministry of Economy to the Draft RES Act, one of the main aims of implementation of the new support system is optimization of costs arising from the support of energy generation from RES.

According to the Draft RES Act, RES facilities operating on the effective date of the new regulations will qualify for support provided under a modified system based on certificates of origin (the “green certificates”), although their entitlement to participate in auctions will hinge on a condition that a RES facility winning an auction will forfeit its right to participate in the green certificates system. According to the Draft RES Act, the auction-based support system for such facilities will not apply to: (i) multi-fuel facilities (except for „dedicated” multi-fuel facilities), (ii) hydroelectric power plants with capacity exceeding 1 MW and (iii) RES facilities with total installed electrical capacity exceeding 50 MW fueled with biomass, bio liquids, biogas or agricultural biogas (other than the RES facilities using these fuels in high-efficiency cogeneration with total installed heat capacity up to 150 MWth). According to the Draft RES Act, the facilities which commence energy generation after the effective date of the new regulations will only be entitled to use the auction mechanism if they did not generate electricity prior to winning an auction.

The Draft RES Act makes an assumption that the total period of providing support in the form of green certificates to the RES facilities operating on the effective date of the new regulations, including the mandatory purchases of electricity generated by such RES facilities, will not exceed 15 years from the first day of electricity generation in such RES facility. If such a facility switches to the auction mechanism, the support period for the facility will also last 15 years in total, including the period of support provided in the form of green certificates. The obligatory purchases of electricity from RES facilities with respect to electricity first generated after the auction closing date will also last 15 years. According to the Draft RES Act, generally, the support will expire no later than on 31 December 2035.

According to the Draft RES Act, auctions for purchases of electricity from RES will be conducted at least once a year by the ERO President. 30 days before the first auction of the year the ERO President will announce the maximum price per 1 MWh for purchases of RES electricity generators in the given calendar year after the auction (known as the “reference price”). To this end, reference prices will be set separately for various technologies and capacity ranges of the facilities. Any offer stating a price higher than the reference price will be rejected.

According to the Draft RES Act, by 30 November of each calendar year the Ministry of Economy will announce auction details, in particular the maximum volume and value of electricity from RES to be purchased on auctions in the following calendar year. In determining the maximum volume and value of electricity from RES the Ministry of Economy will consider the previous share of energy and fuels generated in RES facilities used in the power sector and transport industry, and obligations under international treaties.

The Draft RES Act also provides for a new institution of “designated supplier” in lieu of the “supplier of last resort”. The designated supplier will be designated by 31 October of each year for the following year by the ERO President from among the electricity sellers with the highest volume of electricity sold, as at 31 August of the preceding year, to the end-customers connected to a distribution network or transmission network of the given operator in the business area of such a designated supplier.

According to the Draft RES Act, the designated supplier will purchase electricity from the auction winners. If these purchases happen to be executed at prices higher than the highest achievable resale price, the Draft RES Act provides for a compensation of the difference from funds known as the RES fee by the company Operator Rozliczeń Energii Odnawialnej S.A., a wholly owned subsidiary of the State Treasury. The RES fee, being a product of a fee rate and the volume of electricity utilized, will be paid by electricity distribution system operators and the electricity transmission system operator that will charge these fees to the end-customers connected to their networks.

According to the proposal, as of 1 January 2015 until 31 December 2015 the net RES fee rate (i.e. net of the VAT) is to be PLN 2.27 per 1 MWh. The ERO President will calculate and publish the net RES fee rate for each calendar year, starting from 2016, based on the amount planned to be collected in the calendar year for which the RES fee rate is calculated and the volume of electricity utilized by the end-customers in the preceding year.

According to the Draft RES Act, in the period specified therein for each types of facilities, the designated suppliers will in particular be obligated to purchase: (i) at an average selling price of electricity on the competitive market (a) electricity generated from RES or agricultural biogas in micro-facilities by the generators conducting business activity; and (b) electricity from RES facilities other than micro-facilities—provided that these facilities generated electricity before the effective date of the new act and did not win any action in the auction system; and (ii) unused electricity generated from RES or agricultural biogas by generators being natural persons and generating electricity for their own needs, without conducting business activity, at a price being 80% of the average selling price of electricity on the competitive market. Additionally, the Draft RES Act provides for separate terms of participation in the RES-generated electricity support system for the facilities modified after the effective date of the act.

According to the Draft RES Act, the level of support for multi-fuel facilities is to be limited in such way, that by 31 December 2020 electricity generated in such RES facilities, except for electricity from RES generated in “dedicated” multi-fuel facilities (i.e. facilities meeting certain criteria referred to in the Draft RES Act), will be eligible for green certificates indexed by a coefficient of 0.5. The level of this coefficient, to be effective as of 1 January 2021, will be determined by the Ministry of Economy. Additionally, a generator of RES electricity in multi-fuel facility, including the “dedicated” ones, may claim green certificates for the given year up to a volume not exceeding the average volume of electricity generated by that generator in the years 2011-2013, and if such generator commenced the electricity generation after 31 December 2013—in the period of conducting that business by the generator.

The presented Draft RES Act assumes that an obligation to trade certificates of origin on a commodities market or another market organized by an entity operating a regulated market will be gradually implemented. The substitute fee will not be indexed and it was set in the draft at the level from 2013, being 297.35 PLN per 1 MWh. Additionally, if the weighted average price of a certificate of origin is lower than 75% of the substitute fee for at least one month, the statutory obligation can only be discharged by way of obtaining a green certificate and submitting it for cancellation to the ERO President, but not by paying a substitute fee. If sales of electricity from RES are executed at a price higher than 105% of the average selling price of electricity on the competitive market announced by the ERO President, green certificates will not be issued for the RES electricity sold at such higher price.

Additionally, the Draft RES Act makes reference to electricity generated in RES facilities with sufficiently low installed capacity, known as “prosumer power” which have been partly implemented in the

Amendment. In particular, no less than 25% of electricity from RES purchased on auctions should be generated in RES facilities with total installed capacity of up to 1 MW.

The Draft RES Act also implements changes in the Energy Law, such as an obligation imposed on electricity distribution system operators to install, by 2020, remotely controlled meters for at least 80% of the end-customers connected to the operator's low voltage network, according to a timetable to be specified in a relevant ordinance of the Council of Ministers, and restores, for a period between the effective date of the act to 30 June 2016, a system of support for co-generation other than that based on biomass processing gas or coalbed methane.

It is expected that the above changes contemplated in the Draft RES Act will take effect when they pass through the relevant legislation process, and consent of the European Commission is obtained, if required. In particular, when the Draft RES Act is approved by the Council of Ministers it will be handed over to the Sejm of the Republic of Poland. However, at this stage it is impossible to predict when the Draft RES Act will be passed by the Council of Ministers, what will be the parliamentary timetable of work on the bill, or what will be its final shape. In consideration of the scope and nature of the proposed changes as compared to the existing support system, detailed solutions concerning support mechanisms for the generation of energy from RES are presently being opinioned and consulted, which adds to the uncertainty and makes it really hard to predict the eventual structure of RES support mechanisms.

#### *Act on transmission corridors*

As at the date of this Offering Circular, legislation work on the draft act on transmission corridors is underway.

The subject of the draft act is to specify terms and conditions for: (i) establishing transmission corridors, including their location and the installation of transmission equipment in these transmission corridors; (ii) determining corridors for existing transmission equipment; (iii) establishing by operation of law the transmission easement with respect to a corridor being established, existing equipment as well as the disclosure of this right in the land and mortgage register; (iv) determining and disbursing compensation connected with the establishment of such easement.

The purpose of the draft act is to, in particular, implement the regulation which will create system solutions for infrastructural investments in power lines as well as to make more efficient the process for investors to obtain relevant decisions enabling them to construct technical infrastructure and to develop and modernise such infrastructure.

Considering that as at the date of this Offering Circular the act on transmission corridors is under preparation, it is not possible to specify its final contents or the date of its entry into force.

### **Environmental protection**

#### *Introduction*

Issues of environmental protection are regulated by a wide range of legislative acts in Poland, the most important being the Environmental Act.

The Environmental Act lays down the basic general rules governing environmental protection, the terms of use of natural resources as well as definitions and key notions which in principle are shared by all the legislation dealing with environmental protection. Moreover, several of the more detailed issues are being addressed in a more comprehensive manner. The regulations and restrictions imposed by the Environmental Act concern both the investment process and the operation of existing industrial units that could have an adverse impact on the environment.

According to the Environmental Act, the operation of a unit should not exceed emission standards and may require the obtaining of sector permits and/or an integrated permit (depending on the type and scale of the activity carried out) and the obligation to pay fees for the use of the environment. Generally, the operation of the unit should not result in a deterioration of the state of the environment or in the endangerment of the life or health of people. Pursuant to the Environmental Act, the obtaining of a suitable permit is required for: (i) the emission of gases or dust into the atmosphere, (ii) the discharge of sewage into waters or soil, (iii) the generation of waste; additionally, in the case of units whose operation,



due to the type and scale of activity conducted, can cause significant pollution of individual elements of the environment or of nature as a whole, it is necessary to obtain an integrated permit, laying out the overall conditions for the emissions and their environmental impact and governing the manner of operation of such units. A detailed list of the types of units that require the issuance of an integrated permit was determined in the Ordinance of the Minister of the Environment of 26 July 2002 on the types of units that may cause significant pollution to individual elements of nature or the environment as a whole (Dz. U. of 2002, No. 122, Item 1055, as amended).

Furthermore, the operators of units are obliged to act in a manner making it possible to comply with the requirements of the BREF devised by the European Commission used as tools supporting the identification and widespread implementation of the best available techniques; these documents are a technical and economic evaluation of pollutants and of the consumption of raw materials or utilities in a given sector and of the methods of limiting or preventing pollution. In the light of the regulations currently in place, BREFs do not have the status of legal acts. They are ancillary documents used for determining reference levels in order to accurately define the BAT requirements for a given unit. As a result of work in the Council of the European Union forum in 2010, it was agreed in the IED Directive that in addition to BAT reference documents, the BAT conclusions would be prepared, which, pursuant to the provisions of the IED Directive, can serve as the basis for determining the terms and conditions of an integrated permit. This means that the permissible emission levels specified in integrated permits will have to conform to the values specified in that document.

In the instances defined in the Environmental Act, fees are collected for using the environment and administrative fines are imposed for exceeding emission caps. Additionally, the penalty for engaging in a business without the requisite permit for the emission of gases or dust into the atmosphere, water intake or discharge of sewage into waters or soil is fivefold the value of the fees for using the environment.

In particular, operations pertaining to electricity and heat generation may impose upon entities operating in this area the requirement to obtain permits (sector and/or integrated) regulating, in particular, their water and sewage management, waste management, gas and dust emission into the atmosphere. Electricity and heat generation require, as a matter of principle, an integrated permit to operate units for burning fuels. In the energy sector an integrated permit is required for units burning fuels at a nominal capacity of more than 50 MWt.

### *Act on Disclosing Information on the Environment and Environmental Protection*

The implementation of a proposed project that always has or potentially may have a material impact on the environment is only possible upon the obtaining a permit for the implementation of that project in the form of a decision on its environmental impact. The procedural framework and the principles of issuing decisions on environmental impact are defined in the Act on Disclosing Information of the Environment and Environmental Protection, which implements Community legislation with regard to the assessment of environmental impact.

The obtaining of such a decision is possible after completing the environmental impact assessment procedure. Pursuant to the Act on Disclosing Information on the Environment and Environmental Protection, undertakings in respect of which an environmental impact assessment has to be made include undertakings that can always materially impact the environment and undertakings that could potentially have a material impact on the natural environment, if the obligation to perform such an assessment is confirmed by an environmental protection authority competent to issue a decision on environmental impact. Additionally, the implementation of other projects which do not fall into the above categories may require an assessment of their impact on a Natura 2000 area, if the project can significantly impact on such an area, and is not directly related to its protection. A detailed list of the types of undertakings from the perspective of their environmental impact was included in the Council of Ministers Ordinance of 9 November 2010 on undertakings that could materially impact the natural environment (Dz. U. of 2010, No. 213, Item 1397, as amended).

The procedure aimed at determining the assessment of the environmental impact of a given undertaking involves in particular an analysis of the direct and indirect impact of a given undertaking on the environment and on human life and health, on existing developments, historical monuments, access to deposits of minerals, the possibilities and means of preventing or mitigating the negative impact on the



environment and the required scope of monitoring. Pursuant to the Act on Disclosing Information on the Environment and Environmental Protection, with respect to an undertaking which may have an adverse impact upon the environment, the entrepreneur is required to prepare an environmental impact report, depending on the type of such undertaking. Such a report should contain, among other things, a description of the proposed project, including a description of the projected impact on the environment if the project is not implemented and a description of the most favourable option, as well as a description of the option proposed by the investor, along with a reasonable alternative.

#### ***Preventing and remedying environmental damage***

If a threat of environmental damage exists or such damage actually occurs as a result of the operations of an entity making use of the environment, the provisions of the Act on Preventing and Remedying Environmental Damage, implementing into Polish law the Directive 2004/35/EC of the European Parliament and of the Council of 21 April 2004 on environmental liability with regard to the prevention and remedying of environmental damage (OJ EU L 143/56 of 30 April 2004, as amended), will apply.

The Act on Preventing and Remedying Environmental Damage lays down the principles of accountability for preventing damage to the environment and the remedying of such damage. The main principle ushered in by this Act is that “the polluter pays”. In accordance with this principle an entity taking advantage of the environment and causing environmental damage or an imminent threat of such damage is to be held financially liable for the necessary prevention and remedial measures. The provisions of the Act on Preventing and Remedying Environmental Damage do not apply, among other things, if more than 30 years have passed since the emission or the event which triggered the imminent threat of environmental damage or actual environmental damage. Additionally other basic solutions introduced by the Act on Preventing and Remedying Environmental Damage include, *inter alia*: (i) the obligation to inform the environmental protection authority of the existing threat or damage, (ii) outlining the situation in which the environmental protection authority undertakes preventive or remedial actions independently, specifying the principles of the reimbursement of costs incurred by the authority and (iii) the obligation of the entity using the environment to agree the scope, manner and deadline for the completion of remedial actions with the environmental protection authority.

Regarding damage to the environment, which occurred prior to 30 April 2007 and which was caused by activities which ceased before 30 April 2007, (which is before the said act came into force), the Act on Preventing and Remedying Environmental Damage provides for maintaining the current principles of soil protection, assuming, that the obligation to remedy environmental damage, including land rehabilitation, is imposed upon the entity in possession of the land, irrespective of whether it caused such damage.

Furthermore, the rules for the protection of forest and agricultural land and the rehabilitation of land and the principles of the improvement of the land’s useable value are provided in the Act of 3 February 1995 on the protection of forest and agricultural land (consolidated text: Dz. U. of 2004, No. 121, Item 1266, as amended). Pursuant to the act, any entity that diminishes or restricts the land’s useable value is obliged to carry out its rehabilitation at its own expense. The rehabilitation process is carried out gradually, from the moment the exploited land is totally or partially useless industrially. The entire process takes up to five years from the moment the above-mentioned activity ends.

#### ***Regulations concerning climate protection, including those related to the emissions of CO<sub>2</sub> and other substances***

##### *Climate Convention and the Kyoto Protocol*

The key assumptions of international cooperation regarding reducing the emission of greenhouse gases are provided in the United Nations Framework Convention on Climate Change (the “UNFCCC”) of 9 May 1992 (Dz. U. of 1996, No. 53 Item 238). The UNFCCC does not impose binding obligations on its signatories pertaining to the reduction of the emission of greenhouse gases. In order to make the provisions of the Convention more precise, the signatories successively adopted legal instruments, with the Kyoto Protocol being the most important. In particular, the states which ratified the Kyoto Protocol, undertook individual obligations to reduce the emission of greenhouse gases, which were reflected in the regulations of the European Union and the laws of Poland as described below. Poland is a party to the UNFCCC and has ratified the Kyoto Protocol.

The Kyoto Protocol was to remain in force until the end of 2012. In December 2012, during the United Nations climate conference in Doha, the validity of the Kyoto Protocol, which constitutes an undertaking to reduce gas emissions by just some of the developed nations, was extended until 2020 (the second settlement period). In addition, climate conference participants decided that CO<sub>2</sub> emission units (AAU—Assigned Amounts Units) which constitute the surplus from the first settlement period would be transferred to the second settlement period. Poland has a surplus of AAUs in connection with the reduction of greenhouse gases by 30% when 6% was required.

### *Community Emissions Trading Scheme*

In 2005, in order to fulfil the reduction obligations provided in the Kyoto Protocol, the European Union introduced the emission trading scheme based on the “cap-and-trade” rule, in the territory of the Member States. The rules of this scheme are set forth in the ETS Directive, amended by the Directive 2009/29/EC of the European Parliament and of the Council of 23 April 2009 (OJ EU L 140/63 of 5 June 2009). In European Regulations nomenclature, the above-mentioned trading scheme is known as the EU ETS (*European Union Greenhouse Gas Emission Trading Scheme* also referred to as the *European Union Emissions Trading System*) and governs trading in the EUA (*European Union Allowances*). A single EUA corresponds to one metric ton of CO<sub>2</sub>, which may be emitted into the atmosphere.

Appendix I to Directive 2009/29/EC specifies the types of activities embraced by EU ETS and the threshold values for the inclusion of a unit in the system. A unit in which the activities specified in Appendix I to Directive 2009/29/EC take place and exceed the values specified therein is in principle obliged to participate in the EU ETS, it being understood that with regard to some sectors, the very fact of engaging in such activity requires participation in the EU ETS, regardless of the volume of manufacture. The EU ETS system includes more than 10 thousand units within the territory of the European Union, including, among others, fuel combustion units (power plants, combined heat and power plants, heat-generating plants, and boiler houses) with a thermal capacity exceeding 20 MW, except for units for the combustion of dangerous or public waste.

In order to emit CO<sub>2</sub> into the atmosphere, operators of these units must hold emission allowances for CO<sub>2</sub> in the volume corresponding to the actual emissions of CO<sub>2</sub>. Until 2013, the CO<sub>2</sub> emission allowances could be obtained in the form of free-of-charge allocations or purchased. From 2013 the general rule is that the CO<sub>2</sub> emission allowances are purchased at auction and free-of-charge allocations may be granted only in specific cases. An entrepreneur engaging in a business falling under the European Union Emissions Trading System is obliged to make settlements for the carbon dioxide emitted using the allowances awarded to it, and may sell any surplus of such allowances on the free market. The CO<sub>2</sub> emission allowances for a given calendar year are settled by 30 April of the following year.

According to the requirements of Polish law and specifically the Emission Trading System Act, the operator of an installation which is covered by the scheme, shall be required to obtain a permit. Such a permit is issued at the request of the operator of the unit, for a specified period of time, which may not exceed 10 years, by the authority competent for issuing an integrated permit or a permit for the discharge of gases or dust into the atmosphere.

As at the date of this Offering Circular, legislative work is underway to prepare a new act on the trading system of greenhouse gases emissions, adapting Polish legislation to EU requirements. As at the date of this Offering Circular, the final contents of new regulations and the date of its entry into force have not been determined. Discussions continue in the EU regarding the suspension of an auction of 900 CO<sub>2</sub> million emission allowances in the years 2013-2015 (backloading), which could result in an increase in their current price. At the beginning of July 2013 the European Parliament approved a proposal of the European Commission to suspend the auction. To become law, the proposal must be additionally approved by the EU Council.

### *Energy and climate change package, including the CCS Directive*

The development within the European Union of a joint energy policy is to contribute to limiting climate change by way of stabilising the level of the concentration of greenhouse gases in the atmosphere. This initiative is called the “energy and climate package” and comprises a number of Community legal acts and in particular the aforementioned Directive 2009/29/EC amending the EU ETS and CCS Directive.

The key goals of the energy and climate package, represented by the “3x20” principle, include the following by 2020: (i) to increase the efficiency of energy use by 20%; (ii) to increase the share of renewable energy sources in the energy balance to 20% of the total end-use of energy in the European Union (each Member State of the European Union is assigned a different target, in Poland the share of renewable energy in end-consumption is to reach 15%); (iii) to reduce CO<sub>2</sub> emissions by 20% (as at the date of this Offering Circular, the aim at European Union level is to attain a compromise assuming, that by 2020, the reduction of CO<sub>2</sub> emissions should reach 25% or even 30%, instead of the 20% agreed in 2008).

As mentioned above, pursuant to the binding climate package of 2008, the European Union is obliged to reduce its CO<sub>2</sub> emissions by 20% by the year 2020. However, talks have been under way in the European Union concerning the milestones along the road to the reduction of CO<sub>2</sub> emissions in the European Union area by the year 2050. It is expected that a compromise will be reached and the negotiations on emission reductions completed in 2015.

Another legal act, included in the aforementioned energy and climate package, is the CCS Directive (*Carbon Capture and Storage*), which establishes a legal framework for the development and application of the innovative geological storage of CO<sub>2</sub> within the territory of the European Union, which would help Member States to achieve the planned reduction of CO<sub>2</sub> emissions. The CCS Directive entered into force on 25 June 2009 and should have been implemented by the Member States in their legal systems by 25 June 2011.

CCS technology concerns capturing CO<sub>2</sub> from industrial units, transporting it and pumping it into selected geological formations for permanent storage. The main purpose of capture and storage of carbon dioxide consists in reducing emissions of CO<sub>2</sub> generated in the process of the combustion of fossil fuels, primarily coal and gas. The CO<sub>2</sub> deposited in geological formations according to the CSS Directive will be not considered as emitted for the purposes of the EU ETS, hence it will not require emission allowances. The enterprise will therefore not be required to purchase CO<sub>2</sub> emission allowances. The operation of a CO<sub>2</sub> storage facility will require an appropriate permit.

The act to amend the Geological and Mining Law Act and some related acts, which came into force on 24 November 2013, seeks to introduce a legal framework for underground CO<sub>2</sub> storage for the purpose of carrying out a pilot CO<sub>2</sub> capture and storage facility. According to the act, the storage of CO<sub>2</sub>, as well as the prospecting for and identification of geological formations in which it will be possible to store CO<sub>2</sub> will be taking place pursuant to a licence granted by the Minister of the Environment. Underground storage of CO<sub>2</sub> will also require the obtaining of a European Commission opinion. The preconditions for granting a licence for underground CO<sub>2</sub> storage will include, without limitation, the establishment by the entrepreneur concerned of a financial collateral against the proper discharge of the duties connected with the operation of the underground CO<sub>2</sub> storage facility and the winding up of a mining establishment. The entrepreneurs operating underground CO<sub>2</sub> storage sites will be obliged to monitor them for a period of not less than 20 years following their closure. Furthermore, the act envisages the establishment of the position of Domestic Administrator of Underground Carbon Dioxide Storage Sites, who will take over responsibility for an underground CO<sub>2</sub> storage facility after the expiry of the licence, and also in other instances specified in the act. Upon taking over responsibility for the underground CO<sub>2</sub> storage facility, the Domestic Administrator of Underground Carbon Dioxide Storage Sites will be obliged to monitor it for a period of not less than 30 years. The act also envisages the introduction of a legal framework for the operation of the CO<sub>2</sub> transportation network.

#### *Flexible mechanisms under the Kyoto Protocol*

The Kyoto Protocol introduced flexible mechanisms, intended to make it easier for countries to achieve the adopted greenhouse gas emission reduction goals using market mechanisms. Projects carried out under flexible mechanisms are to reduce greenhouse gases by way of their reduction, avoidance of emission or actions resulting in the capturing of greenhouse gases. These mechanisms include, in particular, the Clean Development Mechanisms (CDM) and Joint Implementation (JI); both of these mechanisms may be used by both public entities (in particular countries), and private organisations (in particular businesses which emit greenhouse gases into the atmosphere in their business processes).

Under the Clean Development Mechanisms countries (or private entities conducting business in their territories) which undertook under the Kyoto Protocol to comply with the reduction commitments

(countries listed in Annex I), may implement investment projects in developing countries (countries not listed in Annex I), intended to reduce the emission of greenhouse gases into the atmosphere. Upon completing CDM projects, the relevant entity obtains Certified Emission Reductions (CERs) units, which may later be traded.

The Joint Implementations, another flexible mechanism, give the signatories to the Kyoto Protocol and private entities an opportunity to make investments to reduce the emission of greenhouse gases in other developed countries (mechanism between countries in Annex I). The JI projects generate Emission Reduction Units (ERU) for their investors. These units may also be traded.

In order to ensure the accomplishment of the goals related to the global reduction of emissions, the entities participating in the European CO<sub>2</sub> trading scheme may use CER, ERU or EUA certificates. All of these certificates have the same value in terms of emission reductions but they do not represent the same monetary value.

Detailed rules related to the intertwinement of JI and CDM with EU allowances for trading in emissions and the inclusion of CER and ERU units into this system, are set forth in the Directive 2004/101/EC (OJ EU L 338/18 of 13 November 2004), entitled the Linking Directive, pursuant to which the Member States may allow operators of units covered by the EU trade in emission allowances to use CER from 2005 and ERU from 2008 under the EU ETS. Poland exercised this option. Simultaneously, the Community Independent Transaction Log (CITL) was amalgamated with the International Transaction Log (ITL), which greatly facilitates the transfer of CER and ERU units, and the keeping of global records of emission allowances.

### *SO<sub>2</sub>, NO<sub>x</sub> and dust emission caps*

The generation of electricity from conventional sources causes significant emissions not only of greenhouse gases (mainly CO<sub>2</sub>), but also of such substances as SO<sub>2</sub>, NO<sub>x</sub> and dust. The legal requirements regarding the emissions of these substances by combustion plants, including electricity generating units, are set out in the directives of the European Parliament and of the Council, e.g. in the LCP Directive, Directive 2001/81/EC or Directive 2008/50/EC (OJ EU L 152/1 of 1 June 2009) on ambient air quality and cleaner air for Europe. Additionally, new principles concerning the integrated prevention of pollution arising from industrial activity, including the requirements regarding emission standards, and the obligations concerning the monitoring of such pollution and requirements concerning emission standards and BAT conclusions, are introduced by the IED Directive.

The LCP Directive concerns SO<sub>2</sub>, NO<sub>x</sub> and dust emissions from large fuel combustion facilities, in particular, sources in which the thermal power of combustion is equal to or exceeds 50 MW, regardless of the type of fuel used (solid, liquid or gas). The Directive introduces caps on the emissions of pollutants from these facilities, the result of which is to be an overall restriction of power industry emissions. This Directive sets forth that some existing facilities may be exempted from the duty to abide by the emission caps envisaged therein, provided that their operators submit declarations in writing to the relevant authorities (the deadline for submitting declarations expired on 30 June 2004) to the effect that between 1 January 2008 and 31 December 2015 these facilities will not work for more than 20,000 hours.

Due to the fact that fulfilling the standards defined in the LCP Directive was to require significant investment in the energy sector, at the time of acceding to the European Union, Poland obtained the following transition periods: (i) from 1 January 2008 to 31 December 2015 for SO<sub>2</sub> emissions; (ii) from 1 January 2008 to 31 December 2017 for dust emissions, and (iii) from 1 January 2016 to 31 December 2017 for NO<sub>x</sub> emissions; specified individually for designated units indicated in Appendix XII to the Treaty of Accession. Among the individually designated units, the Treaty of Accession lists certain units belonging to our Group, to which an exception was made regarding permissible SO<sub>2</sub> and NO<sub>x</sub> emission caps or dust.

Directive 2001/81/EC determines emission levels for certain pollutants (SO<sub>2</sub>, NO<sub>x</sub>, volatile organic compounds and ammonia), which the individual Member States were required to attain by the year 2010. With regard to SO<sub>2</sub> and NO<sub>x</sub> emissions, according to Appendix I to that directive, Poland was obliged to attain the following domestic emission levels of these pollutants by 2010: (i) 1,397 kilotons of SO<sub>2</sub> and (ii) 879 kilotons of NO<sub>x</sub>. In keeping with the European Environment Agency Report (*European Monitoring and Evaluation Programme Report with Nomenclature For Reporting data 2009-2010*), in 2010 the domestic emission caps for 2010 amounted to 973.587 kilotons for SO<sub>2</sub> and 866.807 kilotons for NO<sub>x</sub>.



Directive 2008/50/EC, which came into force on 11 June 2008, is the principal act defining the requirements regarding air protection in EU member states. The objective of Directive 2008/50/EC is to improve the process of management of air quality and setting the air quality and suspended particulate matter standards. This regulation sets air quality standards by specifying, among other things, the permissible levels of certain pollutants.

The IED Directive was a result of the transformation and integration into one document of a number of already binding directives, including, without limitation: (i) the IPPC Directive; (ii) the LCP Directive; (iii) Directive 2000/76/EC on waste incineration; and (iv) Directive 1999/13/EC on the limitation of emissions of volatile organic compounds due to the use of organic solvents in certain activities and installations, which according to the IED Directive will expire on 7 January 2014 (one exception being the LCP Directive, which expires on 1 January 2016). As can be seen from the foregoing, the IED Directive *de facto* comprises all the above directives in a single document, containing separate regulations dealing with all types of activity, the requirements ensuing from the system of integrated permits, the regulations on large combustion plants, waste incineration, volatile organic compounds, etc. The IED Directive puts emphasis on an integrated approach to questions of environmental protection, leading to preventing or at least curbing the generation of pollution, in particular through the introduction of new technological and organisational solutions concerning manufacturing activity. The Member States had until 7 January 2013 to implement this directive. As at Offering Circular date, work on the act is underway. The purpose of the act is to implement the IED Directive into Polish domestic legislation.

At domestic level, as at Offering Circular date, these matters are governed in particular by the Environmental Act and the ordinance of the Minister of the Environment of 22 April 2011 on standards of emissions from installations (Dz. U. of 2011, No. 95, Item 558).

#### *Polish laws and regulations concerning the emission of CO<sub>2</sub> and other substances*

Domestically, emission allowances are regulated, *inter alia*, in the Act of 17 July 2009 on the Emissions Management System for Greenhouse Gases and Other Substances (Dz. U. of 2009, No. 130, Item 1070, as amended). The Act has transposed to national law, with legal grounds for its approval and implementation, the three mechanisms introduced by the Kyoto Protocol which are: Joint Implementation (JI), Clean Development Mechanisms (CDM) and International Emission Trading (IET). Additionally, the Act has defined the trading procedure for Assigned Amount Units (AAU) and introduced the Green Investment Scheme to Poland.

The Act has also established the National Centre for Balancing and Emissions Management (the "National Centre"). The Institute of Environmental Protection in Warsaw is in charge of the operations of the National Centre. The National Centre keeps a national database concerning the emissions of greenhouse gases and other substances and the National Register of Kyoto Units and Emission Allowances. In addition, its tasks include: computing emission ratios, drawing up reports and forecasts on the volume of emissions of gases and other substances, as well as giving opinions on JI projects.

On 14 February 2013, the amended act came into force. The implemented amendments are to facilitate carrying out projects of joint implementation and projects as part of the national system of green investments.

Moreover, emissions of greenhouse gases and other substances are regulated in the Emission Trading System Act that repealed the Act previously governing these issues, i.e. the Act of 22 December 2004 on Trading in Emission Allowances for Greenhouse Gases and Other Substances (Dz. U. of 2004, No. 281, Item 2784, as amended).

The Emission Trading System Act has transposed the provisions of a number of European law acts, and in particular the aforementioned ETS Directive. In addition it specifies the principles of operation of the emission allowances trading system.

Pursuant to the Emission Trading System Act, the operation of the emissions allowances trading system in Poland is supervised by the minister in charge of the environment and administered by the National Centre mentioned above.



In accordance with the adopted solutions, the free-of-charge CO<sub>2</sub> emission allowances for the facilities covered by the community system, both in the first settlement period covering the years 2005-2007 (the National Allocation Plan, “NAP”) as well as in the second settlement period covering the years 2008-2012 (the NAP II) was carried out under the national allocation plan for CO emissions. The allocations were carried out on the basis of the grandfathering principle, i.e. the level of allocation depending on historical levels of emissions and conditions regarding raw materials.

After the termination of the NAP II settlement period, pursuant to Commission Regulation (EU) No. 920/2010 of 7 October 2010 for a standardised and secured system of registries, pursuant to Directive 2003/87/EC of the European Parliament and of the Council and Decision No. 280/2004/EC of the European Parliament and of the Council (OJ EU L 270/1 of 14 October 2010), which came into force on 1 January 2012, CO<sub>2</sub> emission allowances in the form of EUA units valid in the period from 2008 through 2012 and registered in the accounts of the National Register of Kyoto Units and Emission Allowances, were replaced with allowances valid in the period from 2013 to 2020 in equivalent amounts.

With regard to CO<sub>2</sub> emission allowances, including CERs and ERUs, as a rule, unit operators may apply to the relevant authority for the issuance of allowances in the amounts valid from 2013, in exchange for CERs and ERUs issued in connection with the reduction of emissions achieved by 2012, within the framework of projects qualified for the EC system in 2008-2012. The relevant authority will affect such exchange upon the request of a unit operator by 31 March 2015. Specific regulations may determine the measures intended to limit the use of particular units in respect of certain types of projects.

The terms and conditions of the EU ETS operation in the third settlement period (Phase III EU ETS) covering the years 2013-2020 are set forth in the ETS Directive amended by Directive 2009/29/EC. According to the adopted amendments, beginning in 2013, the number of allowances issued each year in the Community as a whole will decrease by a linear 1.74% ratio, the starting point being the value from the mid 2008-2012 period of the average aggregate number of allotted allowances issued annually by the Member States in the years 2008-2012.

Furthermore, starting in 2013, electricity generators will be obligated to obtain all CO<sub>2</sub> emission allowances via auctions. The Member States which fulfil certain criteria, such as the prevalence of fossil fuels in the energy fuels mix and a certain level of GDP, as compared to the EU average, will be temporarily permitted to depart from the obligation to require their power generators to use the auctions system only.

On 13 July 2012, the European Commission conditionally accepted Poland’s application for the free allocation of emission allowances under the EU trading system of CO<sub>2</sub> emission allowances for the Polish power industry in the third settlement period commencing after 2012. The application contained a list of electricity-generating units, together with the preliminary allocation of free-of-charge CO<sub>2</sub> emission allowances related to electricity generation, and the National Investment Programme (NIP). In keeping with the derogation request, in 2013 power plants operating in Poland will receive from the Polish state, approximately 50% of the emission allowances free-of-charge, whereas they will be obliged to acquire the balance of the allowances (calculated against the average emission levels for the years 2005-2007) that will be available in the auctions. In the following years the proportion of emission allowances to be purchased, will gradually increase, so as to reach 100% in 2020. The above-mentioned free-of-charge allowances in the third settlement period will only be available to already existing power plants, or those with respect to which the investment process had actually been initiated no later than by the end of 2008. In addition, the awarding of free CO<sub>2</sub> emission allowances for the Polish energy sector will be contingent on the timely implementation and settlement of investment undertakings embraced by the NIP, which are going to balance the costs of those free allowances. The NIP envisages investment in the modernisation and upgrading of the power infrastructure and in the development of clean coal combustion processes. As at this Offering Circular date, derogation request is subject to state aid notification in the Directorate General for Competition. Once the European Commission issues its decision, the Council of Ministers will specify, by way of ordinance, a list of power plants eligible for CO<sub>2</sub> allowances in the 2013-2020 settlement period together with the number of such allowances allocated to each power plant which is in compliance with the list originally presented in the derogation request.

Additionally, NAPs in particular member states will be lifted in the third settlement period and, beginning January 2013, the emission allowances will be allocated centrally by EU institutions.

*Efficient use of energy*

Most emissions of greenhouse gases in the world are the result of using energy produced from fossil fuels. It is assumed that an increase in energy efficiency is the best method to limit such emissions. Therefore, alongside the regulations concerning the reduction of greenhouse gas emissions, attention has been drawn to the promotion of the most efficient use of the energy generated. The attainment of this goal is to be served, among other things, by Directive 2006/32/EC of 5 April 2006 on energy end-use efficiency and energy services and repealing Council Directive 93/76/EEC (OJ EU L 114/64 of 27 April 2006), which was implemented in the Polish legal system by the Energy Efficiency Act.

The purpose of the Energy Efficiency Act is to lay down a legal framework for actions aimed at improving the energy efficiency of the economy. These actions are being taken in three areas (i) increased energy savings by end-customers, (ii) increased savings of energy consumed in-house by the generators; and (iii) reducing losses of electricity, heat or natural gas in transmission or distribution.

The Energy Efficiency Act introduces a number of solutions and mechanisms increasing the rationality of energy use, including, among others, a system of energy efficiency certificates (“white certificates”), which is a mechanism for obtaining, redeeming and trading in certificates which confirms the performance of energy-saving actions. The Energy Efficiency Act sets forth a list of actions for which the entrepreneur will receive a given number of certificates. For example, enterprises selling energy, heat or natural gas to customers will be obliged to obtain certificates and submit them to the ERO President for redemption. If a seller fails to obtain certificates of an appropriate value, it will pay substitute fees calculated in accordance with the Energy Efficiency Act or will be penalised. The value of an energy efficiency certificate is expressed in metric tons of oil equivalent and shall not exceed 3% of the quotient of (i) revenues from the sales of electricity, heat or natural gas to end-customers, for a given year in which these duties are carried out by the power company selling electricity, heat or natural gas to such customers, decreased pursuant to the Energy Efficiency Act, and (ii) the unit substitute fee specified in the Ordinance of the Minister of the Economy of 4 September 2012 on the manner of calculating the volume of primary energy corresponding to the value of the energy efficiency certificate and the amount of unit substitute fee (Dz. U. of 2012, Item 1039).

Pursuant to the Energy Efficiency Act, entrepreneurs will also be able to buy white certificates on the Polish Power Exchange, thus the trading mechanism will be similar to regulations now valid in relation to certificates related to energy from renewable sources (the “green certificates”) and electricity cogenerated with heat (the “red or yellow certificates”) (see “—Energy from renewable sources” and “—Energy generated in combination with heat (cogeneration or CHP)” above). The Act also partially implements the assumptions provided in the regulation of the European Union, pursuant to which the efficiency of energy use is to increase in the European Union by 20% of primary energy by 2020. In particular, the Act requires that the target of 9% savings in the average national use of final energy (based on data from 2001-2005) is to be achieved by 2016, as required from Member States by Directive 2006/32/EC.

The provisions of the Energy Efficiency Act apply to undertakings serving the improvement of energy efficiency implemented in the territory of Poland, with the exception of, *inter alia*, units covered by the emissions trading scheme. The purpose of this exclusion is to harmonise the provisions of the Energy Efficiency Act with the provisions of Directive 2006/32/EC, which does not apply to such undertakings.

Furthermore, on 4 December 2012, new Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on energy efficiency amending Directives 2009/125/EC and 2010/30/EU and repealing Directives 2004/8/EC and 2006/32/EC (OJ EU L 315/1, 14 November 2012) came into force. Pursuant to the provisions of the said Directive, Member States are obliged to undertake measures to impose on the distribution systems operators, among others burdens, the obligation to achieve a new saving of 1.5% of the annual energy sales to end-customers from 1 January 2014 to 31 December 2020, averaged over the last three-year period prior to 1 January 2013.

The Members States agreed to implement the said directive by 5 June 2014.

*Waste management*

The main Polish legislative act governing waste management is the Waste Management Act which came into force on 23 January 2013 (Dz. U. of 2013 Item 21) replacing the Act of 27 April 2001 on Waste

Management (consolidated text: Dz. U. of 2010, No. 185, Item 1243, as amended). The Act on Waste Management implements Directive 2008/98/EC of the European Parliament and of the Council of 19 November 2008 on waste and repeals certain Directives (OJ EU L 312/3, 22 November 2008) (the “framework directive”).

The Waste Management Act provides for measures ensuring the protection of the environment, human life and health and reducing the negative impact of waste production and management on the environment and human health as well as limiting the overall impact of using resources and improving the efficiency of such use. The Waste Management Act also introduces a hierarchy of waste handling. Other provisions applying to waste management can be found in the Environmental Act. Matters specific to waste management are also governed by a number of other acts, in particular the Act of 10 July 2008 on Mining Waste (Dz. U. of 2008, No. 138, Item 865, as amended).

Pursuant to the Waste Management Act, any entity which undertakes to generate or which may generate waste, is obliged to plan, design and carry out its operations with the use of such production techniques or forms of service or raw materials, or materials, so as to make it possible to prevent the generation of waste in the first place or to limit its negative impact on human life and health, and on the environment in the course of the production of such goods, during the production process and once the product life-cycle ends.

The Waste Management Act envisaged distinct obligations for entities generating waste, depending on the volume and type of waste involved; in particular, the generation of waste is, in principle, subject to one of two forms of control: (i) plants generating waste in connection with the operation of units, if they generate more than 1 metric ton of hazardous waste a year or more than 5,000 metric tons of waste other than hazardous waste a year, are required to obtain a permit for the generation of waste, (with the exception of systems for which an integrated permit was obtained); (ii) other plants generating waste are required to keep a record of waste, with plants generating hazardous waste in volumes of under 0.1 metric ton of hazardous waste a year or under 5 metric tons of non-hazardous waste a year, the formalities being limited to registering such waste by way of a waste transfer note.

Additionally, the Waste Management Act introduces certain stringent waste management rules, such as the obligation to segregate collected waste and process such waste in keeping with the hierarchy of waste management and the obligation of conducting tests on the physical and chemical properties of all waste left after the process of the thermal transformation of waste. In addition, some types of waste may only be processed in the area in which they are generated. The Waste Management Act also contains a provision relieving some materials of the status of waste by recognising them as by-products, provided they meet statutory criteria and are reported to the Province Head. According to the Waste Management Act, the Minister of the Environment will determine, by way of an ordinance, the detailed requirements regarding the transportation and processing of waste, moreover the Minister of the Environment will determine the list of wastes, indicating the hazardous waste.

The European Commission is currently working on amendments to an annex to the framework directive and to Commission Decision 2000/532/EC of 3 May 2000, which replaced decision 94/3/EC establishing a list of hazardous waste pursuant to Article 1(a) of Council Directive 75/442/EEC on waste and Council Decision 94/904/EC establishing a list of hazardous waste pursuant to Article 1(4) of Council Directive 91/689/EEC on hazardous waste (OJ EU L 226/3 of 6 September 2000, as amended), defining the list of wastes. At the current stage, there is a risk that some combustion by-products (“CBs”) could be reclassified as hazardous waste. The consequences of the reclassification of CBs as hazardous waste are described in “Risk factors—Risks related to regulation of the Polish power industry—We are subject to various regulations in the area of environmental protection which mean we may have to bear substantial compliance costs and/or apply for new environmental permits resulting from environmental regulations becoming more stringent and from the implementation of best industrial practices”.

### *Water protection*

Directive 2000/60/EC of the European Parliament and of the Council of 23 October 2000 (OJ EU L 327/1 of 22 December 2000, as amended), the EU Water Framework Directive, establishes a framework for Community action in the field of water policy. In Poland provisions regarding water and water management are set forth in several acts: general rules have been specified in the Environmental Act;

water protection is regulated by the Water Management Act and the Act of 7 June 2001 on collective water supply and collective sewage disposal (consolidated text: Dz. U. of 2006, No. 123, Item 858, as amended). Pursuant to the Water Management Act, the protection of water consists of ensuring the best quality of water, including maintaining a relevant level of water resources so that the biological balance is maintained, as well as maintaining or restoring water quality to standards specified in the provisions of the law.

The specified manner of using water requires the obtaining of a permit under the Water Management Act, which is one of the main legal instruments used in water management. The obligation of obtaining a water management permit applies in the case of activity involving the use of the water for power engineering purposes and the dewatering of facilities or excavations or mining/quarry pits. The water management permit is issued in the form of an administrative decision, valid for a specified period of time, which, depending on the type of activity involved, runs for a maximum of between 4 and 20 years under the regulations currently in place. Pursuant to Article 11 of the Act of 3 June 2005 amending the Water Management Act and some related acts (Dz. U. of 2005, No. 130, Item 1087, as since amended), a permit under the Water Management Act for specific use of water, issued pursuant to previous regulations for a period of more than 20 years expires upon the lapse of 20 years from the date the decisions on the granting of a water management permit became final.

Pursuant to the provisions of the Water Management Act, the land covered with surface water owned by the State Treasury which is necessary to carry out certain projects related to, among others, hydro energy may be used under a usufruct agreement (*umowa użytkowania*). An annual fee, specified in the ordinance of the Council of Ministers of 18 January 2006 on annual fees for the usufruct of land covered with surface water (Dz. U. of 2006 No. 13 Item 90, as amended), is charged for the use of such land. The land may be subject to usufruct provided that the holder of usufruct has obtained a water management permit if it is required by the provisions of the Water Management Act. Pursuant to the Water Management Act, the usufruct agreement may be terminated by each party if the water management permit is withdrawn, expired or its scope is restricted, and the restriction in question refers to the object of usufruct. Regardless of the above, the usufruct agreement may provide for other terms and conditions related to termination thereof. If the water management permit has expired or has been withdrawn, the water engineering structures or their parts which must remain to manage the water resources, may be taken over by the owner of the water resources without compensation, unless the owner of the water engineering structures disposes of the title of ownership to the same, within 6 months of the day on which the decision on expiry or withdrawal of the water management permit has become final.

As at the date of this Offering Circular, legislative work related to the introduction of material changes related to water management regulations is in progress, in particular with respect to the sources of its financing. According to the assumptions, in particular, fees for water consumption and hydropower use may be introduced. Currently, however, it is difficult to predict the final form of the new regulations and the time of their enactment.

#### *Natura 2000 programme*

The European Union programme Natura 2000 envisages the protection of threatened bird species, natural habitats and habitats of plant and wildlife species on the European continent (“**Natura 2000**”). The legal foundation for the establishment and operation of the Natura 2000 network is formed by a number of European Regulations which have been transposed to the Polish legal system, primarily through the Act of 16 April 2004 on nature conservation (consolidated text: Dz. U. of 2013, Item 627, as amended) and specific transitory provisions, pursuant to which a network of protected areas was established. The network of protected areas comprises the following: (i) special protection areas for birds; (ii) special habitat protection areas; and (iii) areas important for the Community.

The designation of a special protection area for birds or a special habitat protection area, a change in their boundaries or the abolition of such an area, takes place based on an ordinance issued by the minister in charge of environmental affairs, upon consulting the ministers in charge of agriculture, rural development and water resources. According to “Environmental Protection 2012”, a report published in 2012 by the Central Statistical Office, to date 144 protection areas for birds and 823 areas of importance to the Community have been identified.



The inclusion of a given area in the Natura 2000 programme does not translate into its simultaneous exclusion from economic activity as investment projects and use of the area for business purposes are possible on strictly defined terms. The most important instruments implementing the Natura 2000 programme are environmental impact assessments and the plans for the protection of natural habitats and species for which the Natura 2000 area was established.

Pursuant to the Act on Disclosing Information on the Environment and Environmental Protection, undertakings located on or near the network of protected areas, and activities which could have a significant adverse impact on the Natura 2000 area, must be approved by the environmental authorities. Owners of or investors in such undertakings may be required to provide a report detailing the impact of their activities on the environment and protected species. This report must be verified by an authority competent for issuing a decision on environmental determinants which decides whether the investment assumptions comply with Natura 2000 or are contrary to its assumptions. The need to conduct the process of assessing the environmental impact of a project and issuing a decision on environmental determinants occurs before the issuance of decisions related to the implementation of a given project (e.g. building permit). If approved, the undertaking will be subject to continued monitoring of its impact on the environment. If monitoring shows an adverse impact on the protected areas, the operations of such undertaking may be limited to a significant extent or terminated.

### **Other regulations**

#### *Provisions governing ownership transformation of state enterprises*

The principles of commercialisation and privatisation, i.e. the transformation of a State enterprise into a company, and its privatisation, are set forth in the Commercialisation and Privatisation Act. As at Offering Circular date, the provisions of the Commercialisation and Privatisation Act apply to some of the Company's subsidiaries and, in a limited scope, to the Company itself.

Commercialisation consists in the transformation of a State enterprise into a commercial company, either a limited-liability or a joint-stock company. The commercialisation of a State enterprise is carried out by the Minister of State Treasury under a deed of commercialisation which defines, among other things, the articles of association of the company, the value of the share capital and names of the members of the company's authorities holding the first term of office. The provisions of the CCC shall apply to the companies established as a result of commercialisation, except for the provisions on the compulsory redemption of shares and compulsory buy-out of the company's shares belonging to the State Treasury.

The Commercialisation and Privatisation Act provides for detailed provisions on employee representation in supervisory boards and management boards of companies created as a result of commercialisation. Regarding supervisory boards, employees have the right to elect an appropriate number of members of the supervisory board, depending on the State Treasury's share in the company's share capital. Concerning the management boards of companies established as a result of commercialisation, and after the State Treasury disposes of over half of the shares, employees have the right to elect one member of the management board, if the average annual employment in the company exceeds 500 employees.

Privatisation consists in a disposal of shares by the Minister of State Treasury through either the sale of an enterprise, the contribution of an enterprise to a company, or the giving of an enterprise to be used against payment. Privatisation may also mean taking up shares in the increased share capital of wholly owned subsidiaries of the State Treasury created as a result of commercialisation by entities other than the State Treasury or other State legal persons. The Commercialisation and Privatisation Act grants employees of companies established as a result of commercialisation, the right to acquire free of charge up to 15% of the shares taken up by the State Treasury on the date the company is entered into the commercial register. Detailed information on the acquisition of shares by the employees of ENERGA-OPERATOR and ENERGA Elektrownie Ostrołęka is provided in the section “—Employee shares” below.

The Company was established in a manner different than that envisaged by the Commercialisation and Privatisation Act. As a result, only certain provisions of the act apply to the Company, as provided for in the act itself. One of the most important provisions of the act applicable to the Company is the obligation of the State Treasury to sell the Company's shares in the manner provided for in the Commercialisation and Privatisation Act.



The scope of the applicability of the provisions of the Commercialisation and Privatisation Act to the Company will be further limited if the State Treasury's share in the Company's share capital does not exceed 50%. However, as long as half of the Company's shares are still held by the State Treasury: (i) the election of a member of the Company's Management Board requires a qualification procedure to be carried out by the Supervisory Board, and (ii) entry into an agreement by the Company (with the value exceeding the equivalent of EUR 5,000), the object of which would be a donation or debt discharge or any other agreement which is not related to the objects of the Company's operations specified in its Articles of Association, would require the consent of the Company's Supervisory Board.

### ***Employee shares***

Pursuant to the assumptions of the consolidation process of companies from the energy sector, the consolidating companies will be privatised by the sale of their shares via a public offering. The consolidated companies, whose shares are held by employees, will not be the subject of privatisation, i.e. their shares will not be disposed of by the State Treasury. Despite the fact that the employees hold rights to shares of consolidated companies, they would not be able to trade the shares freely. Hence, the legislator made it possible for the employees to subscribe for shares of the consolidating company in exchange of the shares of the consolidated company.

In order to ensure the realisation of employees' rights in companies from the energy sector, the Act on the Exchange of Employee Shares was enacted. Pursuant to the aforementioned act, the Council of Ministers issued an ordinance on 11 March 2008 enumerating consolidated companies whose shares are contributed towards the share capital of consolidating companies and listing consolidating companies (Dz. U. of 2008, No. 51, Item 294) and the ordinance of the Council of Ministers of 17 February 2009 amending the ordinance enumerating consolidated companies whose shares are contributed towards the share capital of consolidating companies and listing consolidating companies (Dz. U. of 2009, No. 37, Item 289). The ordinances in question indicate that in the case of our Group, the Company will be the consolidating company, while ENERGA-OPERATOR and ENERGA Elektrownie Ostrołęka will be consolidated companies.

Once the shares of companies from the energy sector, i.e. consolidated companies, had been contributed to consolidating companies, the eligible employees acquired the right to gratuitously obtain shares of consolidating companies, to which such shares had been contributed. The contribution of shares of consolidated companies to cover the share capital of the consolidating company should be considered as the disposal of the initial shares on general terms within the meaning of the Commercialisation and Privatisation Act which gives rise to the obligation to make shares available to eligible employees of consolidated companies pursuant to the provisions of the Commercialisation and Privatisation Act or the Act of 19 December 2008 amending the Commercialisation and Privatisation Act and the Act on Acquiring the Shares of Companies from the Energy Sector from the State Treasury in the Course of the Consolidation Process (Dz. U. of 2009 No. 13, Item 70).

Pursuant to the Act on the Exchange of Employee Shares, eligible employees would be able to exchange the shares of consolidated companies for the shares of the consolidating company or to acquire the shares of the consolidating company free of charge provided that they had filed a written statement of the intention to acquire shares in the consolidating company within three months of the right to acquire the shares of the consolidating company coming into force.

The current rights to exchange shares may only be exercised by heirs of eligible shareholders who filed petitions on the distribution of the estate with the court within the deadline ensuing from the Act on the Exchange of Employee Shares.

### ***MST Veto Act***

The MST Veto Act came into force on 1 April 2010. The scope of entities embraced by the Act was defined by reference to the critical infrastructure list compiled by the Director of the Government Security Centre pursuant to the Act of 26 April 2007 on crisis management (Dz. U. of 2007, No. 89, Item 590, as amended). The MST Veto Act applies to equity companies and groups engaging in business in the field of electricity, crude oil and fuel gas, whose assets are included in the critical infrastructure list (obliged entities).

Pursuant to the MST Veto Act, the MST shall notify an obliged entity of the inclusion of its assets in the critical infrastructure list.

Within 30 days of the receipt of the notification, the management board of the obliged entity, in concert with the MST and the Director of the Government Security Centre, shall appoint a representative for the protection of the critical infrastructure. The representative shall have the right of access to information, including participating in meetings of the management board of the obliged entity, on matters concerning the assets constituting critical infrastructure. The representative is obliged to prepare and deliver quarterly reports on the status of the protection of the critical infrastructure to the corporate bodies of the obliged entity, the MST and the Director of the Government Security Centre.

The MST may raise an objection to a resolution passed by the management board of the obliged entity, or to another legal action performed by the management board of the obliged entity, concerning the disposal of assets falling into the critical infrastructure category, which could constitute a genuine threat to the operation, continuity of availability or integrity of the critical infrastructure. An objection may also be raised against a resolution of a corporate body of the obliged entity concerning: (i) its dissolution, (ii) a change of the designated use or discontinuation of operation of an asset constituting an element of critical infrastructure, (iii) a change of the scope of the enterprise of the obliged entity, (iv) the sale or lease of the enterprise of the obliged entity or an organised part thereof as well as the establishment of a limited property right upon it, (v) the adoption of a material and finance plan, investment plan or a long-term strategic plan; or (vi) the transfer of the registered office of the obliged entity to another country, if the implementation of such a resolution constituted a genuine threat to the operation, continuity of availability and integrity of the critical infrastructure.

The Minister of State Treasury shall raise an objection in the form of an administrative decision, within 14 days of the receipt of information from the representative concerning the legal action taken, but no later than 30 days from such legal action being taken. The Management Board of the obliged entity is required to inform the representative of the performance of the legal action within three days of the occurrence of such action. The effects of the legal action to which an objection can be made, shall be suspended for the period of time during which the MST may raise an objection and, additionally, in the event of such an objection being raised, during the time in which the party has the right to apply for a re-examination of the matter, and in the event of such application being filed or an appeal being lodged against the decision—until the decision is changed, repealed or ruled null and void. The final decision of the MST on the objection shall result in the legal action, to which the objection was raised, being invalid from the outset.

### *Act on Suretyships and Guarantees of the State Treasury*

The principles related to granting suretyships and guarantees by the State Treasury and joint-stock companies and limited liability companies of which the majority shareholder (stockholder) is the State Treasury or the entity in which the State Treasury is the majority shareholder (stockholder), are regulated by the Act on Suretyships and Guarantees of the State Treasury.

Suretyships and guarantees granted by such companies to secure the claims of third parties should be granted for a specified period. There is also an obligation to determine the maximum value of suretyships or guarantees and certain limitations have been introduced with respect to the value of the guarantee (suretyship) expressed as a percentage of certain items of the guarantor's (surety's) balance sheet. The granting of a suretyship or guarantee should be contingent on the establishment of a collateral to be used in the event of claims related to the performance of a guarantor's duties.

The aforementioned companies are also obliged to inform the Minister of Finance periodically of any suretyships or guarantees granted.

Due to our shareholding structure, the Act on Suretyships and Guarantees of the State Treasury applies to the granting of suretyships and guarantees by the Company and selected Group companies.

### *Remuneration restrictions with respect to persons managing companies of the State Treasury*

Commercial companies, in which the State Treasury holds more than 50% of shares or share capital, are subject to the provisions of the Public Sector Salary Cap Act. Additionally, the provisions of the act apply

to entities in which over 50% of the share capital or shares are held by commercial companies in which the State Treasury holds over 50% of shares or share capital.

The provisions of the act apply in particular to directors, presidents, members of governing authorities, members of supervisory boards and audit committees. The maximum monthly remuneration of persons employed by commercial companies in which the State Treasury holds more than 50% of shares, is limited to 6-times the average monthly salary in that business sector, while in companies in which over 50% of the share capital or of the number of shares is held by commercial companies in which the State Treasury holds more than 50% of shares or of share capital, to 4-times the average monthly wage in that sector. The average monthly salary is announced by the President of the Central Statistical Office.

The Act does not apply to the management entities (natural persons, civil-law companies or legal persons with whom the company signed a management contract), provided that such an entity establishes a personal or physical security against possible claims that might arise in connection with the non-performance or inadequate performance of the contract or takes out an insurance contract at its own expense for itself or a person designated to act as a management board member against third-party liability arising in connection with such management.

Information concerning the remuneration of persons subject to the Public Sector Salary Cap Act is publicly available and is not subject to personal data protection or considered to be a trade secret.

Provisions of employment contracts or other agreements serving as grounds for an employment relationship or civil-law contracts determining monthly remuneration, annual bonuses, severance pay and additional benefits higher than permitted by the act are invalid by operation of law with respect to the amount exceeding the maximum value specified in the act. Violations of the provisions of the act result in the supervisory board of entities which are subject thereto being dissolved by virtue of law.

#### ***Public Procurement Law***

Public procurement is granted pursuant to the provisions of the Public Procurement Law, secondary legislation to the said act and the provisions of the European Union law.

Should the statutory provisions be fulfilled, the entities of our Group may be obliged to comply with the provisions of the Public Procurement Law with respect sectoral orders. Entities listed in Article 3 Section 1 Item 4 of the Public Procurement Law are obliged to use sectoral orders with respect to the following business activity: exploring, recognising, or extracting natural gas, crude oil and its derivatives, lignite, coal and other solid fuels; the creation of networks intended to provide public services connected with the production, transport or distribution of electricity, gas or heat, or supply of electricity, gas or heat to such networks or management of such networks. The provisions of the Public Procurement Law apply to sectoral orders with a value equal to or exceeding the equivalent of EUR 400,000 for supplies or services, and EUR 5,000,000 for construction works.

#### ***Excise Tax Act***

Electricity is a commodity subjected to excise tax within the meaning of the Excise Tax Act. The Excise Tax Act sets out the principles of taxation and tax rates applicable to the sale of electricity and other taxable activities involving electricity.

In respect of electricity, excise tax is collected on: the sale of electricity to final acquirers in the territory of Poland, including sale by an entity that does not hold a licence to generate, transmit, distribute or trade in electricity within the meaning of the Energy Law, which generated that electricity, the intra-community acquisition of electricity by final acquirers, the consumption of electricity by an entity holding a licence to generate, transmit, distribute or trade in electricity within the meaning of the Energy Law, the consumption of electricity by an entity that does not hold a licence to generate, transmit, distribute or trade in electricity within the meaning of the Energy Law, which generated that electricity, the import of electricity by final acquirers and the consumption of electricity by final acquirers if no excise tax was paid on that electricity at the due amount and it is not possible to determine the entity which sold the electricity to the final acquirer. At the same time, if an excise tax obligation arose in relation to electricity in connection with the performance of one of the aforementioned actions, no excise tax obligation shall arise in connection with the performance of another action, which is in itself subject to excise tax, if the amount

of such excise tax was determined or declared at the due amount (unless the provisions of the Excise Tax Act stipulate otherwise).

The Excise Tax Act sets forth that in the case of electricity the tax obligation arises at the moment of delivery of the electricity to the final acquirer (in the case of electricity sales taking place in the territory of Poland), on the day of its consumption in instances specified in the Excise Tax Act, on the day of intra-community acquisition of electricity by the final acquirer, or on the day of incurring customs debt, in the event of electricity being imported by the final acquirer.

The Excise Tax Act imposes on the taxpayers selling electricity to final acquirers or using such electricity (with regard to the consumption of electricity by an entity holding a licence to generate, transmit, distribute or trade in electricity within the meaning of the Energy Law, and the consumption of electricity by an entity that does not hold a licence to generate, transmit, distribute or trade in electricity within the meaning of the Energy Law, who generated such electricity, several registration and administrative obligations, including in particular the obligation to keep quantity records of electricity on the basis of readings of the metering and billing devices of final acquirers or of entities consuming the electricity.

The Excise Tax Act envisages a number of exemptions regarding electricity. It exempts from excise tax, among others, electricity generated from renewable energy sources (based on a document confirming the redemption of certificates of origin of electricity from renewable energy sources as defined in the Energy Law), the consumption of electricity in the course of generating electricity as well as the consumption of such electricity for the purpose of maintaining the relevant manufacturing processes, as well as the use of electricity in the process of the cogeneration of electricity and heat.

Pursuant to the Excise Tax Act, coal products and natural gas (wet gas) and the remaining hydrocarbon gas are also subject to excise tax. In light of the provisions of the Excise Tax Act, an exemption from excise tax can be applied, for example, to coal products used in the process of electricity generation (provided the conditions set out in the Excise Tax Act are met), coal products used for cogeneration of heat and electricity (provided the conditions set out in the Excise Tax Act are met), and energy products used in the process of electricity generation (only in the instances provided for in the Excise Tax Act, should the provisions of the Excise Tax Act have been satisfied).

On 1 November 2013 the exemption set out in the Excise Tax Act concerning natural gas (wet gas) designated for heating purposes and other hydrocarbon gases designated for heating expired due to the lapse of the transition period established in EU regulations for the Republic of Poland. In relation to the above, an amendment to the Excise Tax Act took effect as of 1 November 2013 implementing the EU provisions concerning excise tax on gas products. According to the amended Excise Tax Act, excise tax with respect to gas products will be imposed on the sale of gas products to the final gas acquirer, intracommunity purchases of gas products by the final gas acquirer, import of gas products by the final gas acquirer, use of gas products by a gas intermediary and use of gas products by a final gas acquirer in certain instances set out in the Excise Tax Act. At the same time, the amended Excise Tax Act provides for a number of exemptions related to actions the object of which are gas products. In particular, exemptions are provided for taxable actions if they concern gas products designated as heating fuel for certain purposes set out in the Excise Tax Act, such as the production of heat and electricity in co-generation, mineralogy, electrolytic and metallurgical processes and chemical reductions. Additionally, taxable actions will be exempted from excise tax if they concern gas products having specified consolidated nomenclature codes listed in the Excise Tax Act, designated for use as heating fuels, especially by households. Additionally, exemptions from excise tax are provided for the taxable actions concerning gas products designated for production of electricity or use in the production of power sector products. In order to exercise these exemptions the interested party will be required to satisfy certain conditions set out in the amended Excise Act.

### ***Conflict between Polish excise tax regulations that were in force from 1 January 2006 to 28 February 2009 and the regulations in place in the European Union***

On 1 March 2009, the Excise Tax Act entered into force, which brought Polish legislation regarding excise tax on electricity in line with European Union regulations. At the same time, on 1 January 2006, the transition period granted to Poland to adapt its domestic regulation concerning trade in electricity to the principles laid down by the European Union legislation lapsed.

In its 12 February 2009 judgment (C-475/07), the Court of Justice of the European Union confirmed the lack of conformity of the Polish excise tax regulations that were in force prior to 1 March 2009 with the provisions of Council Directive 2003/96/EC of 27 October 2003 restructuring the Community framework for the taxation of energy products and electricity (OJ EU L 283/51 of 31 October 2003) and Council Directive 2004/74/EC amending Directive 2003/96/EC as regards the ability of certain Member States to apply, in respect of energy products and electricity, temporary exemptions or reductions in the levels of taxation (OJ EU L 157/87 of 30 April 2004).

In its 22 June 2011 resolution, file No. I GPS 1/11, passed by the full body of its Commercial Chamber, the Supreme Administrative Court pointed out that, within the meaning of Article 72 § 1 Clause 1 of the Tax Code, there is no overpayment of excise tax on sales of electricity when the party which paid such tax suffered no financial burden as a result. It can be inferred from this resolution that tax authorities may refuse to return the overpayment if the burden of excise tax is passed to the customer within the price of electricity distributed to it.

Proceedings concerning the determination of the overpayment of excise tax for the years 2006, 2007 and 2008 started on the motion of ENERGA Elektrownie Ostrołęka are described in the section “Our Business—Legal and administrative proceedings—Proceedings concerning the refund of overpaid excise duty”.

#### ***Local Taxes Act—real estate tax***

Real estate tax is levied on real estate and constructions, such as land, buildings and their parts, as well as structures and their parts related to conducting business activity. According to the provisions of the Local Taxes Act, a structure is a construction within the meaning of the Construction Law, other than building or element of street furniture, as well as a construction facility, within the meaning of the Construction Law, connected with a construction and facilitating its use in compliance with its designation.

The basis for calculating the real estate tax levied on buildings or parts thereof is their usable floor space, whereas with regard to structures or parts thereof, connected with the pursuit of business operations, the tax basis is their value disclosed in the taxpayer’s books of accounts, constituting the basis for the depreciation of the asset, excluding depreciation write-downs (this value is determined in Article 16g of the CIT Act), and in the case of fully depreciated structures—their value as at 1 January of the year in which the last depreciation write-down was made.

The rates of tax on real estate in force in a given community are specified in the resolutions of the relevant local council; these rates are not to exceed the maximum levels set in the Local Taxes Act. The rate of real estate tax in the case of buildings or parts thereof connected with engaging in business activity may not exceed PLN 22.82 per 1 sq. m of usable floor space (as of 1 January 2013) and PLN 23.03 from 1 m<sup>2</sup> of the usable surface (since 1 January 2014), and in the case of structures it may not exceed 2% of the value referred to above.

It should be noted that the question of interpretation and practical application of the definition of a structure, within the meaning of the Local Taxes Act, has aroused abundant controversy, and may be the cause of disputes with tax authorities. The latter tend to classify, for example, foundations that constitute a part of structures located in buildings and some technical devices installed on such foundations as separate objects of taxation (i.e. as a structure, as defined in the Local Taxes Act). Such approach of the tax authorities results in potential taxation of various components of assets that do not have the status of separate constructions). This can consequently lead to additional unforeseen financial burdens.

#### ***Competition and consumer protection regulations***

The business activity of enterprises in the electricity sector is also subject to supervision and control by the AMO President, from the viewpoint of its compliance with the provisions of the Act on Competition and Consumer Protection.

In accordance with the Act on Competition and Consumer Protection, the AMO President *inter alia* exercises control over concentrations of enterprises. A detailed description of the principles pursuant to which the AMO President grants consent to the concentration of enterprises is given in the section “Polish Securities Market Regulations and Obligations Relating to the Acquisition and Disposal of Shares—



Notification requirements ensuing from anti-monopoly regulations—Act on Competition and Consumer Protection”.

One of the tasks of the AMO President is also combating competition-restricting practices (such as agreements restricting competition, the abuse of a dominant position) on the part of enterprises. When the AMO President finds that such practices are taking place, he may order that they be stopped and impose a significant fine (up to 10% of income earned during the year preceding the imposition of such sanction).

Pursuant to the Act of 30 April 2004 on procedures regarding state aid (Dz. U. of 2007 No. 59, Item 404, as amended), the AMO President is also authorised to evaluate the programme of state aid to entrepreneurs.

Proposed aid programmes for entrepreneurs require the opinion of the AMO President. In such opinion, the President verifies whether the planned aid complies with the common market, and in case of any irregularities, certain solutions are put forward with the aim of adjusting the planned aid to the principles of its granting. The AMO President also takes a stance on the European Commission notification requirements concerning any state aid projects.

The AMO President is also authorised, in a broad scope, to protect consumers and such authority arises from both the provisions of the Act on Competition and Consumer Protection, the Act of 2 March 2000 on the protection of certain consumers' rights and product liability (consolidated text: Dz. U. of 2012, Item 1225), as well as the Act of 23 August 2007 on combating unfair market practices (Dz. U. of 2007 No. 171, Item 1206). Consumers are also protected by measures aimed at the elimination from the market of contracts containing any prohibited contractual terms, i.e. provisions which violate consumer interest by infringing the law or good practice.

**MANAGEMENT BOARD AND SUPERVISORY BOARD**

*Pursuant to the CCC, the management and supervisory authorities in the Company are the Management Board and the Supervisory Board. The Management Board and the Supervisory Board are described based on the CCC, the Articles of Association and the By-laws of the Management Board and the By-laws of the Supervisory Board as at the date of this Offering Circular.*

**Management Board**

***Composition, rules of procedure and competences of the Management Board***

*Composition of the Management Board*

As at the date of this Offering Circular, the Management Board is composed of three persons, appointed for a joint three-year term.

The table below sets forth basic information regarding the members of the Management Board fulfilling their duties as at the date of this Offering Circular

<b>Name of the member of the Management Board</b>	<b>Position</b>	<b>Date of assuming position by a Management Board member for the first time</b>
Miroslaw Bieliński . . . . .	President of the Management Board	13 February 2008
Roman Szyszko . . . . .	Vice President of the Management Board responsible for Finance	6 March 2008
Wojciech Topolnicki . . . . .	Vice President of the Management Board responsible for Development Strategy	31 May 2012

*Source: Company.*

The current term of office of the Management Board members lapses on 31 May 2015.

The mandates of the Management Board members fulfilling their duties as at the date of this Offering Circular expire, at the latest, on the day the General Meeting approving the financial statements for the last full financial year for which they fulfilled their positions is held, i.e. on the day on which the resolution on the approval of the financial statements for the financial year ended on 31 December 2014 is adopted. The mandates of the Management Board members expire also upon death, resignation or dismissal from the Management Board. The mandate of a Management Board member appointed prior to the lapse of the current term expires concurrently with the lapse of the term of office of the other Management Board members.

All members of the Management Board fulfil their duties at the Company's registered office: al. Grunwaldzka 472, 80-309 Gdańsk.

The knowledge and professional experience of the Management Board members are described in the section "—Professional curricula of Management Board members" below.

*Rules of procedure and competences of the Management Board arising from the Articles of Association and the By-laws of the Management Board*

Pursuant to the Articles of Association, subject to the provisions set forth in applicable laws and the Articles of Association, the Management Board runs the Company's affairs and represents it. Two members of the Management Board acting jointly or one member of the Management Board acting jointly with a registered proxy are required in order to make declarations of will and sign statements for and on behalf of the Company. Organisation as well as the rules of procedure of the Management Board, including the detailed manner of adopting resolutions, are specified in the By-laws of the Management Board approved by the Supervisory Board.

The Management Board is composed of one to five persons, including the President and one or more Vice Presidents. Pursuant to the Articles of Association, Management Board members are appointed by the Supervisory Board for the joint three-year term of office, one of the Management Board members being entrusted with the position of President of the Management Board and one or more of them with the

position of Vice President of the Management Board. Pursuant to the Articles of Association, as long as more than a half or less of the Company's shares are held by the State Treasury, a member of the Management Board may be: (i) recalled or suspended in his/her actions also by the General Meeting, (ii) suspended in his actions due to important reasons by the Supervisory Board. A Management Board member submits his/her resignation to the Supervisory Board. The statement on resignation should be executed in writing. As long as a half of the shares is held by the State Treasury or other state-owned entities, the Supervisory Board appoints Management Board members after holding a qualification procedure in line with the provisions of the Ordinance of the Council of Ministers of 18 March 2003 on carrying out the qualification procedure with respect to the position of a management board member in certain commercial companies (Dz. U. of 2003, No. 55, item 476, as amended). Management Board members are appointed for a joint three-year term of office.

Pursuant to the Articles of Association, subject to exceptions specified in the indent below, each Management Board member may carry out the Company's affairs falling into his powers specified in the By-laws of the Management Board, without a prior resolution of the Management Board. If, however, before dealing with such issue at least one of the other members of the Management Board objects to its carrying out, a resolution of the Management Board is required.

Pursuant to the Articles of Association, resolutions of the Management Board are always required for: (i) affairs regarding (a) granting a guarantee, suretyship and issuing a bill of exchange, (b) performing a donation, cancellation of interest and release from debt, (c) acquisition, establishment on a limited property right or disposal of real property as well as right of perpetual usufruct and interest in real property or perpetual usufruct right, (d) incurring a credit or loan, (ii) other affairs related to disposal of the right or incurring an obligation of the value in excess of PLN 1,000,000, not covered by other points of this indent; (iii) adoption of the By-laws of the Management Board; (iv) adoption of the organisational by-laws of the Company; (v) establishment and closing of a branch; (vi) granting a general power of attorney; (vii) adoption of an annual or a long-term asset-related and financial plan, other long-term plan or the Company's strategy or its Group; (viii) setting the rules of carrying out sponsorship activities by the Company; (ix) matters which the Management Board requests the Supervisory Board or the General Meeting to review; (x) forming the manner of exercising the voting right at the general meetings or the shareholders' meetings of companies in which the Company holds shares, or in which it exercises rights attached to shares; (xi) convening the General Meeting and adoption of the agenda; (xii) adoption of a report prepared by the Management Board on the Company's activity and the Group' activity as well as the financial statements and the Group's consolidated financial statements for the past financial year; (xiii) adoption of the by-laws for a fund or a capital operating in the Company; (xiv) acquisition or taking up by the Company of shares of another company against the Company's receivables as part of settlement or arrangement proceedings and their subsequent disposal, (xv) appointments to managerial positions in the organisational structure of the Company; and (xvi) cancelling of the share certificate. Furthermore, in accordance with the By-laws of the Management Board, upon request of a Management Board member or a managing director each affair may be settled by way of resolution.

As a matter of principle, resolutions of the Management Board are adopted at meetings. Meetings of the Management Board are held on a specified date, as necessary, however at least once a fortnight. Pursuant to the By-laws of the Management Board, a meeting of the Management Board is convened by the President or a member of the Management Board. In addition, at the written request of a member of the Management Board or the Supervisory Board, a meeting of the Management Board should be convened at the latest within four days from submitting that request to the President of the Management Board. As a matter of principle, such meetings are chaired by the President of the Management Board. Pursuant to the By-laws of the Management Board, meetings of the Management Board are held in the registered office of the Company or any other place designated by the person convening a meeting of the Management Board. In addition, the By-laws of the Management Board provide for a possibility of participation of all members of the Management Board in the meeting as well as voting over resolutions to be adopted during such meeting by means of remote direct communication, i.e. tele- or videoconferences, with the reservation, however, that the place of holding the meeting is attended by at least one member of the Management Board and it is technically possible to ensure such connection.

Resolutions of the Management Board are adopted by an absolute majority of votes. In the case of a tie, the President of the Management Board has the casting vote. For the validity of resolutions, it is necessary

to properly notify all members of the Management Board of the meeting to be held and, if the Management Board is composed of at least three members, for more than a half the members to attend it. In the case of a Management Board composed of two members, all members of the Management Board must be present for resolutions to be valid. In emergency cases, it is admissible that resolutions be adopted in writing or by the use of means of direct communication over distance such as fax and electronic mail, provided that all members of the Management Board agree to this. A resolution is valid if all the Management Board members have been notified of the content of draft resolution in writing or by the use of means of direct communication over distance. As a matter of principle, an open ballot is held, however at the request of a Management Board member a secret ballot is held.

Information regarding matters for which the Management Board is required to obtain the consent of the Supervisory Board is included in the section “—Composition, rules of procedure and competences of the Supervisory Board—Rules of procedure and competences of the Supervisory Board arising from the Articles of Association and the By-laws of the Supervisory Board” below.

*Professional curricula of Management Board members*

**Mirosław Bieliński, President of the Management Board**

Age 51. Graduate of the Production Economics Department of the University of Gdańsk.

*Summary of professional experience*

Before his appointment to the Management Board, Mirosław Bieliński acquired professional experience, *inter alia*, by working, in the finance and accounting departments of companies in the Tri-City area. In 1989 he started working in one of the first advisory firms with its registered office in Poland, namely Doradca Consultants Ltd. sp. z o.o. in which he held at first the position of consultant, then partner. Since 2002 he has been involved in various projects related to management and consulting, holding the position of member of the management board in Ratusz Dom Inwestycyjny sp. z o.o. (subsequently: BIK Service sp. z o.o.) (in the years 2002-2003), management board member (in the years 2003-2008), shareholder (in the years 2003-2008) TPS sp. z o.o. and president of the management board in Pharmag S.A. (in the years 2005-2008) and MP59 sp. z o.o. (in the years 2006-2008). In May 2012 Mirosław Bieliński was appointed by the Company’s Management Board to the position of President of the Management Board for the third consecutive term of office.

*Membership of supervisory boards*

Mirosław Bieliński has held the position of member of the supervisory board in the following companies: DC S.A. (in the years 2002-2003), Hexus Capital Management Polska S.A. (in the years 2005-2007), EDF Toruń S.A. (in the years 2008-2011) and ENERGA Serwis sp. z o.o. (in the years 2011-2012) and ENERGA Innowacje sp. z o.o. (in the years 2012-2013). Currently, Mirosław Bieliński holds the position of a supervisory board member in ENERGA-OPERATOR and Towarowa Giełda Energii S.A.

**Roman Szyszko, Vice President for Finance of the Management Board**

Age 48. Graduate of the Faculty of Economics and Social Sciences at the University of Gdańsk and faculties: economics with production organisation and psychology as well as the Finance Department at the University of Strathclyde (Great Britain).

*Summary of professional experience*

Before his appointment to the Management Board, Roman Szyszko had held the position of management board member in Dexia Kommunalkredit Bank Polska S.A. (in the years 2005-2008), member of the management board in Bank Komunalny S.A. (in the years 1999-2001) (currently: Nordea Bank Polska S.A.) and president of the management board of eBroker sp. z o.o. (in the years 2001-2005). Roman Szyszko also has experience in academic work obtained at the Gdańsk Institute for Market Economics. He also held the position of economics advisor in the LEX law firm. In May 2012 Roman Szyszko was appointed by the Company’s Supervisory Board to the position of Vice President for Finance for the third consecutive term of office.

### *Membership of supervisory boards*

Roman Szyszko held the position of a supervisory board member in ENERGA Invest S.A. (in the years 2008-2009) and ENERGA Elektrownie Ostrołęka (in the years 2008-2010) and SOEN sp. z o.o. (in the years 2011-2013). Currently, Roman Szyszko holds the position of a supervisory board member in ENERGA-OBRÓT.

### **Wojciech Topolnicki, Vice President for Development Strategy of the Management Board**

Age 38. Graduate of the Faculty of Management and Economics of the Gdańsk University of Technology and Ecole Supérieure de Commerce in Rouen, France.

### *Summary of professional experience*

Before his appointment to the Management Board, Wojciech Topolnicki acquired professional experience, *inter alia*, as an assistant in Credit Commercial de France (1998), in audit and business consultancy in Arthur Andersen sp. z o.o. (in the years 1999-2002) and, subsequently, holding the position of deputy financial director and deputy financial controller in EADS PZL Warszawa-Okęcie S.A (in the years 2002-2006), financial director for MicroStrategy Poland sp. z o.o. (2007), president of the management board in PGE Systemy S.A. (in the years 2010-2011) and vice president in PGE Polska Grupa Energetyczna S.A. (in the years 2008-2011). Wojciech Topolnicki also ran his own business activity related to corporate finance (in the years 2006-2008) working for, *inter alia*, Green Venture S.A. and Polish Energy Partners S.A. In May 2012 Wojciech Topolnicki was appointed by the Supervisory Board to the position of Vice President for Development Strategy.

### *Membership of supervisory boards*

Wojciech Topolnicki held the position of a supervisory board member in the following companies: PGE Energia Odnawialna S.A. (in the years 2008-2009), PGE Elektrownia Opole S.A. (in the years 2008-2010), Exatel S.A. (in the years 2009-2010), PGE Górnictwo i Energetyka Konwencjonalna S.A. (in the years 2010-2011) and ENERGA Innowacje sp. z o.o. (in 2012). Currently, Wojciech Topolnicki holds the position of a supervisory board member in ENERGA Hydro, ENERGA Kogeneracja and Iberdrola Renewables Polska sp. z o.o. (currently: EPW Energia sp. z o.o.).



MANAGEMENT BOARD AND SUPERVISORY BOARD

*Positions held by members of the Management Board in other companies*

The table below contains information related to companies in which during the last five years members of the Management Board have held position in managing or supervising bodies.

Name	Company	Position	Is the position held as at the date of this Offering Circular
Mirostaw Bieliński . . . . .	EDF Toruń S.A.	SB member	NO
	ENERGA Serwis sp. z o.o.	SB member	NO
	ENERGA Innowacje sp. z o.o.	SB member	NO
	ENERGA-OPERATOR	SB member	YES
	Towarowa Giełda Energii S.A.	SB member	YES
	Pharmag S.A.	President of the MB	NO
	MP56 sp. z o.o.	President of the MB	NO
	TPS sp. z o.o.	MB member	NO
Roman Szyszko . . . . .	ENERGA Invest S.A.	SB member	NO
	ENERGA Elektrownie Ostrołęka	SB member	NO
	SOEN sp. z o.o.	SB member	NO
	ENERGA-OBRÓT	SB member	YES
	Dexia Kommunalkredit Bank Polska S.A.	MB member	NO
Wojciech Topolnicki . . . . .	PGE Polska Grupa Energetyczna S.A.	vice-president of the MB	NO
	PGE Systemy S.A.	president of the MB	NO
	PGE Elektrownia Opole S.A.	SB member	NO
	Exatel S.A.	SB member	NO
	PGE Energia Odnawialna S.A.	SB member	NO
	PGE Górnictwo i Energetyka Konwencjonalna S.A.	SB member	NO
	ENERGA Innowacje sp. z o.o.	SB member	NO
	ENERGA Hydro sp. z o.o.	SB member	YES
	ENERGA Kogeneracja sp. z o.o.	SB member	NO
	Iberdrola Renewables Polska sp. z o.o. (currently: EPW Energia sp. z o.o.).	SB member	YES

Source: Company.

**Supervisory Board**

***Composition, rules of procedure and competences of the Supervisory Board***

*Composition of the Supervisory Board*

As at the date of this Offering Circular, the Supervisory Board is composed of six persons appointed for a joint three-year term.

The table below sets forth basic information regarding the members of the Supervisory Board fulfilling their duties as at the date of this Offering Circular

<u>Name of the member of the Supervisory Board</u>	<u>Position</u>	<u>Date of assuming position by a Supervisory Board member for the first time</u>	<u>Workplace address</u>
Zbigniew Wtulich . . . . .	Chairman of the Supervisory Board	15 March 2011	ul. Krucza 36 / ul. Wspólna 6, 00-522 Warszawa
Marian Gawrylczyk . . . . .	Vice Chairman of the Supervisory Board	31 January 2008	ul. Grójecka 17, 02-021 Warszawa
Agnieszka Poloczek . . . . .	Secretary of the Supervisory Board	15 March 2011	ul. Krucza 36 / ul. Wspólna 6, 00-522 Warszawa
Iwona Zatorska-Pańtak . . . . .	Member of the Supervisory Board	31 May 2012	ul. Krucza 36 / ul. Wspólna 6, 00-522 Warszawa
Mirosław Szreder . . . . .	Member of the Supervisory Board	31 January 2008	ul. Bażyńskiego 1A, 80-952 Gdańsk
Roman Jacek Kuczkowski . . .	Member of the Supervisory Board	31 January 2008.	retired

*Source: Company.*

The current term of office of the Supervisory Board lapses on 27 April 2014.

The mandates of all members of the Supervisory Board fulfilling their duties as at the date of this Offering Circular expire, at the latest, on the day the General Meeting approving the financial statements for the last full financial year in which a Supervisory Board member fulfilled his/her position is held, i.e. on the day on which the resolution is adopted regarding the approval of the financial statements for the financial year ended on 31 December 2013. The mandates of members of the Supervisory Board expire also upon death, resignation or being dismissed from the Supervisory Board. The mandate of a Supervisory Board member appointed prior to the lapse of a given term of office expires simultaneously with the lapse of the terms of office of the other members of the Supervisory Board.

A description of the knowledge and professional experience of the Supervisory Board is presented in section “—Professional curricula of the Supervisory Board members” below.

*Rules of procedure and competences of the Supervisory Board arising from the Articles of Association and the By-laws of the Supervisory Board*

The Supervisory Board exercises constant supervision over the Company’s activity in all aspects of its activity. Pursuant to the By-laws of the Supervisory Board, the Supervisory Board presents to the General Meeting each year a written report from exercising supervision over the Company’s activity.

The Supervisory Board is composed of five to twelve members. Pursuant to the Articles of Association, the number of members of the Supervisory Board is determined by the General Meeting. Pursuant to the Articles of Association, members of the Supervisory Board are appointed and recalled by the General Meeting, however, the State Treasury holds the personal right to appoint and recall members of the Supervisory Board, in accordance with the following terms: (i) if the General Meeting decides that the Supervisory Board will consist of even number of members, the State Treasury will appoint a half of

members of the Supervisory Board plus one member of the Supervisory Board, (ii) if the General Meeting decides that the Supervisory Board shall consist of an odd number of members of the Supervisory Board, the State Treasury shall appoint such number of members of the Supervisory Board which follows from (a) dividing such odd number of members of the Supervisory Board by two; and, subsequently (b) rounding up to integrate so that the State Treasury holds in such Supervisory Board an absolute number of votes, (iii) members of the Supervisory Board are appointed and recalled by way of written statement of the State Treasury submitted to the Management Board. Such statement shall be deemed submitted when delivered. Personal rights, as referred to in this indent, expire on the day on which the State Treasury's share in the share capital is less than 10%.

During the period in which the State Treasury is a shareholder of the Company, only persons who have passed the exam referred to in Article 12 Section 2 of the Commercialisation and Privatisation Act may be appointed as representatives of the State Treasury to hold the position of a member of the Supervisory Board. A member of the Supervisory Board submits his/her resignation to the Company's Management Board. The statement on resignation should be executed in writing.

Pursuant to the Articles of Association during the period when the Company is a public company at least 2 members of the Supervisory Board appointed by the General Meeting, not from amongst persons appointed by the State Treasury, should fulfil the independence criteria provided for an independent member of the supervisory board, as set forth in the Articles of Association. The State Treasury shall hold a personal right to designate from amongst members of the Supervisory Board appointed by the State Treasury a member of the Supervisory Board who will fulfil the function of Chairman of the Supervisory Board. The above-mentioned right also applies when appointing the Supervisory Board by voting in separate groups under Article 385 CCC. The Chairman of the Supervisory Board is appointed by written statement presented to the Management Board which will be deemed presented when delivered. The personal right of the State Treasury, as referred to in the preceding sentences, expires on the day on which the State Treasury's share in the share capital is less than 10%. The Supervisory Board appoints and recalls from amongst its members the Vice Chairman and the Secretary of the Board. The Vice Chairman and the Secretary should be appointed at the first meeting of the Supervisory Board for a new term of office. Pursuant to the By-laws of the Supervisory Board, the Chairman of the Supervisory Board convenes, organises and chairs meetings of the Supervisory Board as well as represents it externally and make statements on its behalf.

Pursuant to the Articles of Association, the competences of the Supervisory Board include, in particular: (i) evaluating the Management Board's reports on the Company's activity and Group's activity and the financial statements for the past financial year (consolidated financial statements of the Group) with respect to their conformity with the books and documents as well as the current state of affairs, and evaluation of the Management Board's motion for distribution of profit or covering of losses, (ii) submitting to the General Meeting a written report on the results of activities, as referred to in item (i), (iii) preparing reports in connection with exercising supervision over the carrying out of investments by the Management Board as well as supervision over the correctness and efficiency of spending funds on investments, (iv) preparing, at least once a year, together with the report on the evaluation of annual financial statements and consolidated financial statements of the Group, of the opinion of the Supervisory Board with respect to the economic reasons for the Company's capital involvement in other commercial companies, carried out in a given financial year, (v) once a year preparing and presenting to the Annual General Meeting a brief evaluation of the Company's condition, taking into account the evaluation of the internal control system and the system of risk management important for the Company, (vi) analysis and evaluation of matters to be the subject of resolutions of the General Meeting, (vii) appointment of a statutory auditor to examine the financial statements; (viii) determining the scope and dates of the submitting by the Management Board of annual/long-term asset-related and financial plans as well as other long-term plans and the Company's and the Group's strategy, (ix) approval of the Company's and Group's strategy, (x) approval of annual/long-term asset-related and financial plans as well as plans for investment activity of the Company and of the Group, (xi) adoption of by-laws specifying the manner of acting for the Supervisory Board, (xii) approval of the Management Board's by-laws, (xiii) approval of organisational by-laws of the Company's business; (xiv) approval of rules pertaining to sponsorship activity carried out by the Company, (xv) execution of rules on the remuneration as well as the amount of the remuneration for the President and members of the Management Board, subject to peremptory law provisions, (xvi) delegating members of the Supervisory Board to temporarily fill the positions of Management Board

members who cannot fulfil their duties and determining their remuneration, with the reservation, however, that the total remuneration of a Supervisory Board member delegated to act temporarily as a Management Board member cannot exceed the remuneration determined for the Management Board member in the place of whom such Supervisory Board member was delegated, (xvii) giving consent to establish the Company's foreign branches, (xviii) giving consent to the Management Board members to hold positions in the organs of other companies and be remunerated for that, (xix) determining the manner of exercising voting rights at the general meeting or shareholders' meeting of companies in which the Company holds shares of a total nominal value exceeding PLN 20,000,000, which, at the same time, constitute more than 50% of the share capital of those companies or in which the Company is the dominant entity within the meaning of the commercial companies code with respect to (a) incurring an obligation, establishing a limited property right or disposal of the right, including, in particular, acquisition and disposal of real property, the right of perpetual usufruct, shares in real property or perpetual usufruct of a value exceeding of PLN 5,000,000, (b) the granting by the Company of guarantees as well as suretyships of a value exceeding of PLN 5,000,000, (c) amendment of the articles of association of the company, (d) increase or decrease of the share capital, (e) merger, division or transformation of the company, (f) incorporation by that company of another company, as well as the taking up, acquisition or disposal by such company of shares in another company, (g) disposal and lease of the company's business or an organised part thereof, as well as establishment of a limited proprietary right thereon if their value exceeds PLN 20,000,000, (h) bond issue, and (i) dissolution and liquidation of the company, (j) related to generation units, cogeneration units of the value in excess of EUR 50,000,000 or distribution systems of the value in excess of EUR 5,000,000 within the meaning of the Energy Law. Furthermore, the scope of powers of the Supervisory Board include determining the manner of exercising the voting right by a Company's representative at the general meeting or the shareholders' meetings of companies the objects of which are generation or transmission or distribution of electricity with respect to: incurring by those companies of contingent obligations; concluding facility, loan agreements; establishment of suretyships by those companies, including suretyships on their property; as well as concluding of other agreements or adoption of resolutions of the general meeting or shareholders' meeting related to or connected with generation units, cogeneration units of the value in excess of EUR 50,000,000 or the distribution network within the meaning of the Energy Law of the value in excess of EUR 5,000,000. The Management Board was also obliged to provide to the Supervisory Board quarterly information regarding investment activity, as referred to in item (ix) of this indent irrespective of the stage of such undertaking or plan; provide to the Supervisory Board information regarding the course and decisions adopted at the General Meeting or the Shareholders' Meeting with respect to matters as referred to in the previous sentence and letter (j) of this indent; provide to the Supervisory Board within two months after the termination of the General Meeting/ Shareholders' Meetings of companies in which the Company holds shares, approving the financial statements and reports on companies' activity or consolidated financial statements of capital groups and reports on capital groups' activity, annual information regarding investment undertakings, related to or connected with generation unit, cogeneration unit of the value in excess of EUR 50,000,000 or the distribution network of the value in excess of EUR 5,000,000. In addition, pursuant to the By-laws of the Supervisory Board, the Supervisory Board may adopt resolutions also on other matters when it deems it proper.

Pursuant to the Articles of Association, competences of the Supervisory Board also include granting consent to the Management Board to: (i) acquire fixed assets, including in particular the acquisition of real property, the right of perpetual usufruct, shares in real property or shares in perpetual usufruct of a value exceeding PLN 5,000,000 but not exceeding PLN 20,000,000, (ii) disposing of fixed assets, including in particular disposing of real property, the right of perpetual usufruct, a share in real property or a share in perpetual usufruct of a value exceeding PLN 5,000,000 but not exceeding PLN 20,000,000, (iii) concluding by the Company of a material agreement with a related entity (within the meaning of the Report Regulation), except for typical agreements, executed on fair market terms as part of the operational activity run by the Company with a subsidiary in which the Company holds a majority stake, (iv) incurring contingent obligations, including the granting by the Company of guarantees and suretyships of a value exceeding PLN 5,000,000, except for contingent obligations related to subsidiaries, (v) issuing bills of exchange of a value exceeding PLN 5,000,000, (vi) execution by the Company of an agreement of a value being in PLN the equivalent of EUR 5,000 the purpose of which is performing a donation or release from debt, as well as other agreements not connected with the Company's scope of business specified in the Articles of Association; the equivalent of the amount, as referred to above, is calculated in accordance with

the exchange rates announced by the National Bank of Poland on the day of execution of such agreement, (vii) advance payment towards expected dividend; (viii) taking up or acquiring of shares in other companies of a total nominal value exceeding of PLN 20,000,000, except when taking up shares against the Company's receivables is carried out as part of settlement or arrangement proceedings, or when the shares are acquired on the regulated market, and (ix) disposal of shares in other companies of a total nominal value exceeding PLN 20,000,000 as well as determining the terms and the method of disposing thereof, excluding the disposal of shares traded on the regulated market, the disposal of shares which the Company holds in a number not exceeding 10% of the shares in the share capital of individual companies as well as the disposal of shares taken up against the Company's receivables as part of arrangement or settlement proceedings.

As a matter of principle, the Supervisory Board adopts resolutions at meetings. The Supervisory Board holds meetings every two months. Meetings of the Supervisory Board are convened by the Chairman or an authorised member of the Supervisory Board, presenting the detailed agenda. In addition, a meeting should be convened at the request of each member of the Supervisory Board or at the request of the Management Board. For the convening of a meeting of the Supervisory Board the invitation of all members of the Supervisory Board at least seven days prior to such meeting is required; however, the Chairman may, for important reasons, shorten that period to two days, ensuring that members of the Board are immediately informed of the accelerated date of the meeting by use of proper communication means. In addition, pursuant to the By-laws of the Supervisory Board, it is admissible that members of the Supervisory Board attend the meeting and cast votes on resolutions adopted in the course of that meeting by use of means of remote direct communication, i.e. tele- or videoconference, with the reservation, however that in the place designated by a person convening it, at least one member of the Supervisory Board is present that it is technically possible to ensure safe connection.

In accordance with the Articles of Association, the Supervisory Board adopts resolutions with respect to matters included on the agenda provided that at least half of its members are present at its meeting and that all members were invited to the meeting. The agenda may be changed if all members of the Supervisory Board are present at the meeting and none of them submits objections to such change. Resolutions of the Supervisory Board are adopted by an absolute majority of votes and in case of a tie, the Chairman has the casting vote. The Supervisory Board may adopt resolutions in writing or by the use of means of direct communication over distance, including in particular electronic mail. A resolution is valid if all members of the Supervisory Board have been informed of the content of a draft resolution. If a member of the Supervisory Board does not give his opinion by the date determined by the Chairman of the Supervisory Board, such resolution is not adopted. Resolutions adopted in such course are presented at the earliest meeting of the Supervisory Board along with the result of the vote. As a matter of principle, the Supervisory Board adopts resolutions in an open ballot, however, upon the request of a Supervisory Board member and in motions concerning personnel matters, a secret ballot is held. If a secret ballot is held, it is not possible to adopt resolutions in writing or by the use of means of direct communication over distance.

Pursuant to the Articles, a member of the Supervisory Board may not undertake any activity which would be in conflict with his obligations or would result in suspicion of partiality or interest. When the Company's shares are listed on the regulated market run by the WSE, at least two members of the Supervisory Board should fulfil independence criteria provided for an independent member of the supervisory board within the meaning of the Commission Recommendation of 15 February 2005 on the non-executive or supervisory directors of listed companies and on the committees of (supervisory) board (2005/162/EC) taking into account requirements set forth in the Best Practices of the WSE-listed Companies ("**Independent Members of the Supervisory Board**"). As at the date of this Offering Circular, and pursuant to the statements made by the members of the Supervisory Board vis-à-vis the Company, such criteria are met by Mirosław Szreder, Roman Jacek Kuczkowski and Marian Gawrylczyk. A candidate for an Independent Member of the Supervisory Board submits to the Company, before his appointment to the Supervisory Board, a written statement on fulfilment of independence criteria. If any circumstances occur which would result in non-fulfilment of independence premises, a member of the Supervisory Board is obliged to inform the Company thereof. The Company discloses to general public information on the current number of independent members of the Supervisory Board. Subject to personal rights of the State Treasury with respect to appointment of Supervisory Board members, if the number of Supervisory Board members decreases due to expiry of mandate of a Supervisory Board member as well as when at least 2 members of the Supervisory Board do not fulfil requirements for Independent Members of the Supervisory Board, the



## MANAGEMENT BOARD AND SUPERVISORY BOARD

---

Company's Management Board is obliged to convene the General Meeting forthwith and put on the agenda of that Meeting an item regarding filling a vacancy or changing the composition of the Supervisory Board. The Supervisory Board and its members act in the current composition and retain their ability to hold meetings and adopt resolutions as well as carry out any legal and factual actions until implementation of changes in the composition of the Supervisory Board consisting in adjustment of the number of independent members to the requirements set forth in the Articles of Association.

### *Composition and tasks of Audit Committee*

Pursuant to the Articles of Association, when the Company shares are listed on the regulated market run by the WSE, the Supervisory Board appoint the Audit Committee from among its members. Pursuant to the Certified Auditors Act and the Articles of Association, the Audit Committee is composed of at least three members, of which at least one should be an independent member and be qualified in the field of accounting or auditing within the meaning of the Certified Auditors Act. Pursuant to the Articles of Association, such person should fulfil requirements provided for Independent Members of the Supervisory Board. Pursuant to statements filed with the Company, as at the date of this Offering Circular, Mirosław Szreder had qualifications in the field of accounting or auditing within the meaning of the Certified Auditors Act.

The duties of the Audit Committee comprise of: (i) monitoring the financial reporting process; (ii) monitoring the effectiveness of the internal control systems, internal audit and risk management; (iii) monitoring the implementation of auditing; and (iv) monitoring the independence of the statutory auditor and the entity authorised to audit the financial statements and provide the services specified in Article 48 Section 2 of the Certified Auditors Act. The Audit Committee recommends an entity authorised to audit the financial statements and carry out other auditing activities to the Supervisory Board.

If the Supervisory Board comprises of no more than five members, the duties of the Audit Committee are performed by the Supervisory Board members. As at the date of this Offering Circular the Audit Committee consists of the following member of the Supervisory Board: Marian Gawrylczyk, Mirosław Szreder and Iwona Zatorska-Pańtak.

### *Professional curricula of the Supervisory Board members*

#### **Zbigniew Wtulich—Chairman of the Supervisory Board**

Age 55. Graduate of the Land Improvement and Water Engineering Department at the Warsaw University of Life Sciences (SGGW). Graduate of post-graduate studies on real property evaluation.

#### *Summary of professional experience*

Prior to his appointment as a Supervisory Board member, Zbigniew Wtulich gained professional experience working, *inter alia*, as an assistant design engineer at Biuro Projektów Wodnych Melioracji in Warsaw (in the years 1984-1988), a construction engineer at Rejonowe Przedsiębiorstwo Melioracyjne in Mińsk Mazowiecki (in the years 1988-1991) and as an engineer in Przedsiębiorstwo Zagraniczne "Amrak" (construction sector) (June-December 1993). Zbigniew Wtulich was also a senior specialist in the State Agricultural Property Agency (*Agencja Własności Rolnej Skarbu Państwa*) (in the years 1994-1997). Following that he worked in the Ministry of Treasury, was connected with supervision over administration of the property of the State Treasury by state legal entities, including state-owned companies. He worked in the Department of Registration of Property at the Ministry of Treasury at the Department of Reprivatisation and Compensation of the Ministry of Treasury and the Department of Reprivatisation and Facilitating of the Ministry of Treasury. Currently, he holds the position of head of the Department of Treasury Property (since 2010).

#### *Membership of supervisory boards*

Zbigniew Wtulich was a supervisory board member in Przedsiębiorstwo Produkcyjno-Handlowo-Usługowo Inter-Castor sp. z o.o. (in the years 1998-2000), in the Agricultural Real Estate Agency (in the years 2007-2008) and in Przedsiębiorstwo Gospodarki Wodnej i Rekultywacji S.A. (as chairman in the years 1998-2009) and in PGE Górnictwo i Energetyka S.A. (as vice chairman in the years 2008-2010). Previously

he was a vice chairman of the Company's supervisory board (from March 2011). Zbigniew Wtulich is currently the chairman of the Supervisory Board and its member since 15 March 2011.

**Marian Gawrylczyk—Vice Chairman of the Supervisory Board**

Age 48. Graduate of the Transport Economics Department of the University of Gdańsk.

*Summary of professional experience*

Prior to his appointment as a Supervisory Board member, Marian Gawrylczyk was the president of the management board of Odralogistics sp. z o.o. in Warszawskie Zakłady Fotochemiczne FOTON S.A. (in the years 2000-2001), Polka Żegluga Śródlądowa sp. z o.o. (in the years 2004-2005), Mistral Energia sp. z o.o. (in the years 2005-2006) ABBEYS Europejskie Doradztwo Finansowe sp. z o.o. (in the years 2007-2008). In the years 2010-2011 he advised to Polskie Towarzystwo Ubezpieczeniowa S.A. In the nineties he was also the head of Investors Relations Department of Państwowa Agencja Inwestycji Zagranicznych S.A. and the office manager of Business Office at Klub Prywatnego Przedsiębiorcy. In the years 1994-2013 he was also a vice-president of the management board of Fundacja Promocji Gmin Polskich. Currently, he is the president of the management board of Sigma Real Estate sp. z o.o. (since 2009), Signum Corporate Finance sp. z o.o. (since 2008) and advisor to the president of the management board in Polska Organizacja Turystyki and a plenipotentiary of the management board of PKP CARGO S.A. for strategy and development.

*Membership of supervisory boards*

Currently, Marian Gawrylczyk is a supervisory board member in the following companies: EGESA Grupa Energetyczna S.A. (since August 2012), Vitrosilicon S.A. (since 2012) and Leadbullet S.A. (since 2010), Marian Gawrylczyk has been a Vice President of the Supervisory Board of the Company since 31 January 2008.

**Agnieszka Poloczek—Secretary of the Supervisory Board**

Age 38. Graduate of the Faculty of Law and Administration at Maria Curie-Skłodowska University; completed postgraduate studies in business accounting and corporate finance at Kozminski University in Warsaw. Agnieszka Poloczek has also completed judges' training finished by exam for court judge and has been admitted to the Bar Association in Warsaw.

*Summary of professional experience*

Prior to her appointment as a Supervisory Board member, Agnieszka Poloczek worked in the Legal Representation Department and, subsequently, in the Legal and Litigation Department at the Ministry of Treasury (since 1998).

*Membership of supervisory boards*

Agnieszka Poloczek was a chairman of the supervisory board in Międzynarodowa Korporacja Gwarancyjna sp. z o.o. (in the years 1998-2011) and Przedsiębiorstwo Komunikacji Samochodowej w Nysie sp. z o.o. (in the years 2001-2010). Agnieszka Poloczek has been the Secretary of the Supervisory Board of the Company since 15 March 2011.

**Iwona Zatorska-Pańtak—Member of the Supervisory Board**

Age 37. Graduate of the Faculty of Economic Sciences and Management of Nicolaus Copernicus University in Toruń. Finished post-graduate European studies at the University of Warsaw.

*Summary of professional experience*

Prior to her appointment as a Supervisory Board Member, Iwona Zatorska-Pańtak gained professional experience at the Ministry of Treasury (in 2000) in the Investment Funds Department, Financial Institutions Department, Department of Ownership Supervisions and Privatisation, and the Core

Companies Department. Currently, she is the head of Department of Strategic Projects in the Ministry of Treasury.

*Membership of supervisory boards*

Iwona Zatorska-Pańtak was a supervisory board member in Zakłady Urządzeń Galwanicznych i Lakierniczych "ZUGIL" S.A. (in the years 2001-2007), Górnośląskie Przedsiębiorstwo Wodociągów S.A. (in the years 2007-2010), Tomaszowskie Przedsiębiorstwo Budowlane Tombud S.A., Zakłady Chemiczne Alwernia S.A. (in the years 2001-2011 as a secretary) and Górnictwo Zakłady Dolomitowe S.A. (in the years 2010-2012), Krajowa Spółka Cukrowa S.A. (in 2012) and Polskie LNG S.A. (in the years 2012-2013). Currently, Iwona Zatorska-Pańtak is a member of the supervisory board in KGHM Polska Miedź S.A. Has been a member of the Supervisory Board of the Company since 31 May 2012.

**Mirosław Szreder—Member of the Supervisory Board**

Age 56. Graduate of the University of Gdańsk, the economic cybernetics and computer science; Professor of Economics.

*Summary of professional experience*

Mirosław Szreder held the position of deputy dean of the Faculty of Management at the University of Gdańsk (in the years 1996-2002), and, subsequently, the position of dean (in the years 2002-2008), and then vice chancellor in charge of Development and Financing of the University of Gdańsk for the 2012-2016 term of office. Prior to his appointment as a Supervisory Board Member, Mirosław Szreder held at the Faculty of Management at the University of Gdansk the position of assistant (in the years 1980-1982), senior assistant (in the years 1982-1987) and adjunct (in the years 1987-1994) and adjunct *habilitowany* (in the years 1995-1996). In the years 1997-2005 he was an associate professor and since January 2006 he was a full professor at the University of Gdansk.

*Membership of supervisory boards*

Mirosław Szreder has been the member of the Supervisory Board of the Company since 31 January 2008.

**Roman Jacek Kuczkowski—Member of the Supervisory Board**

Age 72. Graduate of the First Degree Engineering School in Bydgoszcz (electrical engineer). He also completed postgraduate studies in organisation and management for senior managers at Nicolaus Copernicus University in Toruń.

*Summary of professional experience*

Prior to his appointment as a Supervisory Board member, Roman Kuczkowski worked for Zakłady Energetyczne Toruń (in the years 1964-1974 as well as in the years 1989-2004) and for Zakłady Energetyczne Okręgu Północnego w Bydgoszczy (in the years 1974-1989). Prior to his retirement in August 2006, he held the position of director of a branch of Koncern Energetyczny ENERGA S.A. (since 2004). He was also a member of the Coordination and Preparation Team in respect of the Restructuring of the Energy Sector for the Minister of Industry and a member of the Council on Transfer Pricing for the Minister of Industry and then for the Minister of Economy (in the years 1992-1998).

*Membership of supervisory boards*

He has been the member of the Supervisory Board of the Company since 31 January 2008.

Positions held by members of the Supervisory Board in other companies

MANAGEMENT BOARD AND SUPERVISORY BOARD

The table below contains information related to companies in which during the last five years members of the Supervisory Board have held position in managing or supervising bodies.

Name	Company	Position	Is the position held as at the date of this Offering Circular
Zbigniew Wtulich . . . . .	Agricultural Real Estate Agency	SB member	NO
	Przedsiębiorstwo Gospodarki Wodnej i Rekultywacji S.A.	chair of the SB	NO
	PGE Górnictwo i Energetyka S.A.	vice-chair of the SB	NO
Marian Gawrylczyk . . . . .	ABBEYS Europejskie Doradztwo Finansowe sp. z o.o.	president of the MB	NO
	Sigma Real Estate sp. z o.o.	president of the MB	YES
	Signum Corporate Finance sp. z o.o.	president of the MB	YES
	EGESA Grupa Energetyczna S.A.	SB member	YES
	Vitrosilicon S.A.	chair of the SB	YES
	Leadbullet S.A.	SB member	NO
Iwona Zatorska-Pańtak . . . . .	KGHM Polska Miedź S.A.	SB member	YES
	Polskie LNG S.A.	SB member	NO
	Górnice Zakłady Dolomitowe S.A.	SB member	NO
	Krajowa Spółka Cukrowa S.A.	SB member	NO
	Zakłady Chemiczne "ALWERNIA" S.A.	secretary of the SB	NO
	Górnośląskie Przedsiębiorstwo Wodociągów S.A.	SB member	NO
Agnieszka Poloczek . . . . .	Międzynarodowa Korporacja Gwarancyjna sp. z o.o.	chair of the SB	NO
	Przedsiębiorstwo Komunikacji Samochodowej sp. z o.o.	chair of the SB	NO

*Source: Company.*

**Senior management**

Besides the Management Board and the Supervisory Board, there are no senior managers who would be significant to state that the Company has relevant knowledge and experience in managing its activity.

**Other information regarding the Management Board and the Supervisory Board**

***Remuneration and other benefits of members of the Management Board and the Supervisory Board***

*Rules of determining the remuneration of members of the Management Board*

Pursuant to the Articles of Association, subject to peremptory law provisions, the Supervisory Board determines the rules and amount of remuneration for the President and members of the Management Board. As long as over 50% of the Company’s share capital or 50% of the number of the Company’s shares are held by the State Treasury or other legal entities, the rules and remuneration for the members of the Management Board are determined taking into account Act of 3 March 2000 on remuneration of persons managing certain legal entities (uniform text: Dz. U. of 2013, item 254).

As at the date of this Offering Circular, the remuneration rules for members of the Management Board which are in force are specified in resolution of the Supervisory Board No. 85/III/2012 of 14 September 2012. Pursuant to the aforementioned resolution, agreements on providing services regarding management of the Company with Management Board members are concluded, providing that a Management Board member runs business activity on the basis of entry to the commercial register and at his own cost insures himself against third party liability occurred in connection with management. Besides a monthly remuneration, the Supervisory Board may award to a Management Board member an annual bonus up to 50% of the base annual remuneration, the conditions, economic parameters and amount of which are determined by the Supervisory Board in a separate resolution. In addition, the Supervisory Board may by way of separate resolution award to a Management Board member an additional bonus due to his achievement of special meaning for the Company.

*Remuneration and value of non-pecuniary benefits for the Management Board members in 2012*

The table below sets forth information regarding remuneration paid and the value of non-pecuniary benefits awarded in 2012 by the Company and its subsidiaries to all Management Board members holding positions in 2012.

<u>Name of the Management Board member</u>	<u>Value of remuneration (gross) paid by the Company and its subsidiaries in 2012</u>	<u>Value of non-pecuniary benefits awarded by the Company and its subsidiaries in 2012</u>
Miroslaw Bieliński . . . . .	PLN 0.55 million	PLN 1.2 thousand
Roman Szyszko . . . . .	PLN 0.49 million	PLN 0.4 thousand
Wojciech Topolnicki . . . . .	PLN 0.28 million	PLN 25.0 thousand

*Source: Company (unaudited data).*

Information regarding the total amount of remuneration paid to members of the Management Board by the Company in the years ended 31 December 2012, 2011 and 2010 is provided in the section “Related-party transactions—Transactions with members of the Management Board, the Supervisory Board and key management personnel”.

*Rules of determining remuneration for the Supervisory Board members*

Pursuant to the Articles of Association, the Supervisory Board members are entitled to a monthly remuneration the value of which is determined by the General Meeting. Additionally, the Company covers the costs related to the performance of the duties of the Supervisory Board members, in particular the commuting expenses incurred in attending the Supervisory Board meetings, the costs of performing individual supervisory duties, accommodation and board.

As at the date of this Offering Circular, the remuneration amount for Supervisory Board members is determined in the resolution of the General Meeting No. 2 of 29 January 2007. Pursuant to the above-mentioned resolution, the amount of monthly remuneration for the Supervisory Board members is equal to one average monthly remuneration of Supervisory Board members in the sector of enterprises without bonuses from profit in the fourth quarter of the preceding year, as specified in announcement of the GUS President, irrespective of the function fulfilled in the Supervisory Board. Remuneration is not due for



a month in which a Supervisory Board member was not present at any officially convened meeting without good reason therefor.

*Remuneration and value of non-pecuniary benefits for the Supervisory Board members in 2012*

The table below sets forth information regarding remuneration paid and the value of non-pecuniary benefits awarded in 2012 by the Company and its subsidiaries to all Supervisory Board members holding positions in 2012.

<u>Name of the Supervisory Board member</u>	<u>Value of remuneration (gross) paid by the Company and its subsidiaries in 2012</u>	<u>Total estimate of non-pecuniary benefits awarded by the Company and its subsidiaries in 2012</u>
Gawrylczyk Marian . . . . .	PLN 41.5 thousand	—
Kuczkowski Roman . . . . .	PLN 41.5 thousand	—
Poloczek Agnieszka . . . . .	PLN 41.5 thousand	—
Rożnowska Grażyna . . . . .	PLN 31.1 thousand	—
Szreder Mirosław . . . . .	PLN 41.5 thousand	—
Woźniak Henryk . . . . .	PLN 17.3 thousand	—
Wtulich Zbigniew . . . . .	PLN 41.5 thousand	—
Zatorska-Pańtak Iwona . . . . .	PLN 24.3 thousand	—

*Source: Issuer.*

Information regarding the total amount of remuneration paid to members of the Supervisory Board by the Company in the years ended 31 December 2012, 2011 and 2010 is provided in the section “Related-party transactions—Transactions with members of the Management Board, and the Supervisory Board and key management personnel”.

***Agreements with members of the Management Board and the Supervisory Board specifying payments made at the moment of terminating the agreement***

Pursuant to the statements made to the Company, as at the date of this Offering Circular, the following persons from the Management Board and the Supervisory Board members had agreements concluded specifying payments made at the moment of terminating the agreement: Mirosław Bieliński, Roman Szyszko and Wojciech Topolnicki.

If the Company terminates the agreement or if the agreement expires due to dismissal of the member of the Management Board (in both cases due to causes for which the person is not culpable), members of the Management Board are entitled to damages amounting to threefold amount of the base monthly remuneration. Additionally, if the contract terminates due to the lapse of the term of office, members of the Management Board are under an obligation to stay under constant readiness to provide, on the Company’s demand and for three months following the lapse of the term, services to the extent enabling a full transfer of a Management Board member’s duties, for which they are entitled to base monthly remuneration for each month of stay under readiness to provide such services.

In addition, due to the obligation to refrain from competitive activity towards that of the Company’s during 12 months from the date of termination of the agreement, the above-mentioned persons are entitled to compensation of 100% of the base monthly remuneration.

***General amount assigned or accumulated by the Group for disability, retirement or similar types of benefits for members of the Management Board and the Supervisory Board***

As at 31 December 2012 the Group established a provision for retirement, disability and similar types of benefits for all employees of PLN 458.9 million. The provision is determined on the basis of calculation made by an actuary. Members of the Management Board and the Supervisory Board are not employed on the basis of employment contracts, thus the Company does not establish for them provisions for retirement, disability or similar benefits.

### ***Agreements on the appointment of the Management Board, the Supervisory Board members***

The Company did not conclude any agreements on the basis of which managing or supervising persons were appointed as members of those authorities.

### ***Shares and Share options held by members of the Management Board and the Supervisory Board***

Pursuant to statements submitted to the Company, as at the date of this Offering Circular, from amongst the members of the Management Board and the Supervisory Board and senior management, Shares are held by Roman Jacek Kuczkowski (8,795 Shares).

### ***Lock-up agreements binding for members of the Management Board and the Supervisory Board***

There are no lock-up agreements concluded by the Management Board members.

### ***Intention to participate in the Offering by the Management Board and the Supervisory Board members***

Pursuant to statements submitted to the Company, as at the date of this Offering Circular, from amongst the members of the Management Board and the Supervisory Board Miroslaw Bieliński intends to participate in the Offering. However, he does not intend to acquire more than 1% of the Shares. Additionally, pursuant to a statement submitted to the Company, as at the date of this Offering Circular Wojciech Topolnicki does not exclude participating in the Offering.

### ***Information on official public charges or sanctions laid by any statutory or regulatory authorities against the Management Board or the Supervisory Board members***

Pursuant to statements submitted to the Company, as at the date of this Offering Circular, no public charges or sanctions were laid against any member of the Management Board or the Supervisory Board by any statutory or regulatory authorities (including recognised professional organisations).

In October 2012 two MPs for the Sejm of the Republic of Poland filed a notification of committing prohibited acts by members of the Management Board and Supervisory Board and other unspecified persons, related to, *inter alia*, suspicion of acting to the detriment of the Company by causing damage to the Company's property in the amount of at least PLN 200 million as a result of, *inter alia*, suspension of investment of construction of a new power plant, loss of funds accumulated in the investment fund and acquisition of power plant in Kalisz and possible rewriting or hiding of documents concerning the same. In December 2012, the MP for Sejm of the Republic of Poland, who filed the notification, extended charges specified in the original notification, by charges related to the conclusion of agreements concerning the lease of office space and costs related to carrying out some analysis and the marketing expenses. The proceedings were partially discontinued and are partially pending at a preparatory stage. As at the date of this Offering Circular, no charges were laid against anyone and, in particular no charges were laid, no official public charges were laid or any sanctions were administered by any statutory or regulatory authorities against members of the Management Board or the Supervisory Board. In the pending proceedings the Company has the status of injured party.

### **Statements of members of the Management Board and the Supervisory Board**

Pursuant to the statements made by the Management Board and the Supervisory Board members, apart from the cases specified in this section, during the five years prior to the date of this Offering Circular none of the members of the Management Board or the Supervisory Board:

- has been a member of administration, managing or supervisory authorities, or a partner in a partnership;
- has been convicted of fraud;
- has been publicly accused, has had any sanction imposed upon him/her by statutory or regulatory bodies (including recognised professional associations);
- has been prohibited by a court from acting as a member of the administration, management or supervisory authorities of any company or been prohibited from participating in the management or conducting affairs of any company.

Pursuant to the statements submitted to the Company, none of the members of the Management Board or the Supervisory Board has been a member of the administration, management or supervisory authorities or held senior management functions in an entity which during the last five years has been subject to the appointment of receivership, bankruptcy or liquidation proceedings, or any similar type of proceedings.

According to those statements, as at the date of this Offering Circular, there are no family relationships between the members of the Management Board and the Supervisory Board, none of the members of the Management Board and the Supervisory Board (except those holding positions in the management or supervisory authorities in other entities) conducts any activity outside the Company which could have an important influence upon the Company, or in the case of any named person there is no conflict of interests, even potential, between their duties vis-à-vis the Company and their private interests or other duties.

#### **Application of corporate governance rules**

##### ***Best Practices of WSE Listed Companies***

Pursuant to the WSE Rules, the WSE Council may adopt corporate governance rules for companies being issuers of shares and other securities admitted to trading on the stock exchange which should be applied by those issuers. As at the date of this Offering Circular, the corporate governance rules set forth in “Best Practices for WSE Listed Companies” are valid, constituting an appendix to Resolution No. 19/1307/2012 of the WSE Council of 21 November 2012.

As at the date of this Offering Circular, the Company not being a WSE-listed company, does not comply with all the rules set forth in the said document. Upon admitting the series AA Shares to WSE trading, the Management Board, acting within the competences entrusted to it by the Articles of Association and generally binding provisions of law, intends to make the Company apply to the broadest extent possible with the rules set out in the “Best Practices for WSE Listed Companies”. In particular, upon the admission to trading of the series AA Shares on the WSE main market the Management Board intends to adhere to all principles of corporate governance pursuant to the “Best Practices for WSE Listed Companies”, subject to the following exceptions:

Recommendation 9: in part which refers to the Company ensuring that there is a balanced proportion of women and men holding managerial and supervisory positions.

As at the date of this Offering Circular, we do not ensure the balanced proportion of men and women in Management and Supervisory Boards. The Management Board is composed of three members, all men. The eight-member Supervisory Board includes three women: Agnieszka Poloczek, Grażyna Rożnowska and Iwona Zatorska-Pañtak. The Management Board emphasises that in future, as long as it is under our control, it will aim to take the WSE’s recommendations regarding the balanced proportion of men and women in Management and Supervisory Boards into account, however leaving appropriate decisions at the discretion of authorised bodies of the Company.

Best practice III.8: in part which refers to the commissions operating within the Supervisory Board whose tasks and procedures are regulated by provisions of the Annex I to Commission Recommendation of 15 February 2005 on the role of non-executive directors.

As at the date of this Offering Circular, no committees specified in Annex I to Commission Recommendation of 15 February 2005 (i.e. nomination, remuneration and audit committees) operate in the Company. In case such committees are established, the Management Board will recommend to the Supervisory Board to comply with the recommendations specified therein.

Best practice IV.10: in a part which refers to enabling shareholders to participate in a general meeting using electronic means of communication.

The Company is of the opinion that the decision to use electronic means of communication during a General Meeting is conditional upon such need being voiced by a wide number of the Company’s shareholders. Should the need arise, the Company shall analyse all possibilities and available solutions based on, among others, the market practice.

The Management Board intends to recommend both the Supervisory Board and the Management Board to adhere to all “Best Practices for WSE Listed Companies”. The decision to comply with some of the

rules specified in the “Best Practices for WSE Listed Companies” will, however, be made at the Company’s shareholders’ and the Supervisory Board’s discretion.

The Company will, in accordance with the WSE Rules, inform in its annual report of its compliance with the corporate governance rules and regularly of non-compliance with a specified rule permanently or its incidental infringement. In this respect, the Company shall be under an obligation to publish a report informing which rule is not complied with or which has not been applied, what the circumstances were and the reasons for non-compliance with that rule and how the Company intends to remedy the potential effects of non-compliance with that rule and what measures it intends to undertake to diminish the risk of non-compliance with that rule in the future. The report will be published on the official website of the Company and pursuant to the same procedure which applies to the delivery of current reports in accordance with appropriate requirements, as referred to § 29 of the WSE Rules. This obligation occurs immediately after the Company is justified in its supposition that a given rule will not be applied or will not be complied with, in each case immediately upon the occurrence of an event constituting infringement of a corporate governance rule.

**SELLING SHAREHOLDER****Selling Shareholder**

In the Offering, the Selling Shareholder is offering 127,369,861 ordinary bearer shares AA series in the Company with a par value of PLN 10.92 per share with 14,152,206 additional series AA ordinary shares with a nominal value of PLN 10.92 each subject to the Over Allotment Option, constituting 34.18% of the Company's share capital and authorising to exercise 25.32% of votes at the General Meeting.

As at the date of this Offering Circular, the Selling Shareholder holds 348,562,067 Shares constituting 84.18% of the Company's share capital, authorising to exercise 493,490,067 votes at the General Meeting, which constitutes 88.28% of the total number of votes at the General Meeting, including 144,928,000 of the registered series BB shares, which are preferred in respect of voting rights at the General Meeting so that one series BB share entitles to cast two votes at the General Meeting.

**Control over the Company and arrangements which in the future may result in change of control over the Company*****Control over the Company***

The State Treasury, which is currently the majority shareholder, exercises control over the Company. The State Treasury exercises its ownership rights towards the Company through the Minister of Treasury, on the basis of CCC, the Articles of Association and other provisions. In accordance with the Articles of Association, the State Treasury is entitled to 144,928,000 series BB shares, which are preferred in respect of voting rights so that each series BB share entitles to cast two votes at the General Meeting. At the Extraordinary General Meeting of 3 September 2013, one of the minority shareholders in the Company voted against the Resolution on Preferred Shares, on the basis of which the preference in respect of voting rights of series BB shares was implemented to the Articles of Association, and filed an objection regarding its adoption with the minutes. On 16 October 2013 the Company was served with a lawsuit filed by a minority shareholder for the annulment or repeal of the General Meeting's resolution regarding the preferences attached to series BB shares (see "Our business—Legal and administrative proceedings—Proceedings initiated by FORTA sp. z o.o.>").

The State Treasury, holding the majority of votes at the General Meeting, may exert decisive influence on decisions concerning such issues as amendments to the Articles of Association, increase in the share capital through issue of new shares, issue of bonds convertible into shares or dividend payment.

Pursuant to the Articles of Association when the State Treasury is a Company's shareholder, it is entitled to the following rights, in particular: (i) the right to receive information on the Company in the form of quarterly report, in accordance with the guidelines of the Minister of Treasury, (ii) the right to receive information of any important changes in the financial and legal conditions of the Company, (iii) the right to be informed of convening the General Meeting by registered mail with return receipt requested or by mail courier, even if the General Meeting is convened by an announcement placed in the Court and Economic Gazette (*Monitor Sądowy i Gospodarczy*), (iv) the right to receive copies of all resolutions adopted by the Supervisory Board as well as minutes taken from those meetings of the Supervisory Board at which: (a) the annual evaluation of the Company's business is carried out in connection with the end of the financial year, (b) resolutions are adopted on appointing, recalling or suspending members of the Management Board, (c) resolutions on delegating members of the Supervisory Board to carry out temporary functions of the Management Board members are adopted, (d) differing opinions were filed with respect to adopted resolutions; (v) the right to receive copies of information delivered to the Minister of Finance on granted suretyships and guarantees, on the basis of Article 34 of the State Treasury Collaterals and Guarantees Act, (vi) the right to receive reports of the Supervisory Board prepared in connection with exercising supervision over carrying out investment by the Management Board as well as supervision over correctness and effectiveness of spending funds for investments, including in particular the purchase of fixed assets, (vii) the right to receive, at least once a year with the report of the Supervisory Board on results of evaluation of the annual financial statements (consolidated financial statements of the capital group), the opinion of the Supervisory Board regarding economic reasons for Company's capital engagement in other companies, (viii) the right to receive copies of announcements, covered by the announcement obligation in the Court and Economic Gazette (*Monitor Sądowy i Gospodarczy*), (ix) the right to receive sets of documents being, in accordance with Article 395 § 2 CCC, the subject of the Annual



General Meeting, i.e. (a) the financial statements (the consolidated financial statements of the capital group), (b) the report of the Management Board on the Company's activity (the report of the Management Board on the capital group's activity) for the past financial year, (c) the opinion and report of a certified auditor from examination of the financial statements (the consolidated financial statements of the capital group), (d) the report of the Supervisory Board, and (e) motion of the Management Board on dividing the profit and covering the loss, (x) the right to receive the uniform text of the Articles of Association within four weeks from the day on which amendments to the Articles of Association are registered.

In accordance with the Articles of Association, as at the day of admitting Company's shares into trading on the regulated market, the provision of the Articles of Association which grants to the State Treasury special rights described in the previous paragraph became ineffective. On the same day the State Treasury will be granted the following rights: (i) the right to receive information on the Company and the Company's capital group in the form of quarterly report, in accordance with guidelines of the Minister of Treasury, subject to applicable provisions related to the disclosure of confidential information, (ii) the right to receive copies of announcements, covered by announcement obligation in the Court and Economic Gazette (*Monitor Sądowy i Gospodarczy*), (iii) the right to receive sets of documents being, in accordance with Article 395 § 2 CCC, the subject of the Annual General Meeting, i.e. (a) financial statements (the consolidated financial statements of a capital group), (b) reports of the Management Board on the Company's activity (reports of the Management Board on the capital group's activity) for the past financial year, (c) the opinion and report of a certified auditor from examination of the financial statements (the consolidated financial statements of a capital group), (d) reports of the Supervisory Board, (e) motions of the Management Board regarding distribution of profit and covering the loss, (iv) the right to receive a uniform text of the Articles of Association within four weeks from the day on which amendments to the Articles of Association are registered.

Rights of the State Treasury connected with appointing and recalling a member of the Supervisory Board are described in section "The Management Board and the Supervisory Board—the Supervisory Board—Composition, rules of procedure and competences of the Supervisory Board—Rules of procedure and competences of the Supervisory Board arising from the Articles of Association and the By-laws of the Supervisory Board".

The rights of the State Treasury connected with convening of the General Meeting are described in detail in section "Share capital and Shares—Convening the General Meeting, agenda, draft resolutions—Parties authorised to convene the General Meeting".

### ***Mechanisms preventing abuse of control***

The Company's Articles of Association provide for limitation of the voting right for persons holding shares in a number authorising to more than 10% of the total number of votes at the General Meeting, existing in the Company on the day of holding a given General Meeting. However, such limitation is not applicable to the Selling Shareholder. Detailed information regarding the above-mentioned mechanism is provided for in section "Share capital and Shares—Participation and voting at the General Meeting—Manner of participation in the General Meeting and of exercising voting rights".

Besides the above-mentioned mechanism and mechanisms specified in binding law provisions, including CCC, there are no additional mechanisms which would specifically prevent abuse of control over the Company by the majority shareholders.

### ***Provisions of the Articles of Association that would have an effect of delaying, deferring or preventing a change in control of the Company***

Pursuant to the Articles of Association, the State Treasury holds personal rights to: (i) appoint and recall members of the Supervisory Board according to the following rules: (a) if the General Meeting decides that the Supervisory Board consists of an even number of members, an authorised shareholder appoints a half of members of the Supervisory Board plus one member of the Supervisory Board; (b) if the General Meeting decides that the Supervisory Board consists of an odd number of members of the Supervisory Board, an authorised shareholder appoints such number of members of the Supervisory Board which is the result of dividing an odd number of members of the Supervisory Board by two and, subsequently, rounded up to the nearest integrate so that an authorised shareholder holds in such Supervisory Board an absolute

number of votes, (c) appointing and recalling members of the Supervisory Board is made by written statement of the State Treasury submitted to the Management Board. Such statement is considered as submitted at the moment of its delivery, and (ii) designate a person to fulfil the function of chairman of the Supervisory Board from elected members of the Supervisory Board. Those rights expire as of the day on which a share of the State Treasury in the share capital was less than 10%.

Besides the above-mentioned arrangements, the Company is not aware of any other arrangements the fulfilment of which could in the future result in change of the manner of control over the Company.

#### Contemplated Ownership structure after the Offering

The Offering will not have any dilutive effect on our shareholders. If all the Offer Shares are sold, the State Treasury's stake in the Issuer's share capital and its share of the total number of votes will decrease accordingly. The table below summarises information regarding the ownership structure of the Company upon completion of the Offering, based on an assumption that the State Treasury sells all of the Offer Shares in the Offering, and that maximum number of the Series AA Shares is sold under the Over Allotment Option (i.e. sale of 141,522,067 of the ordinary series AA Shares) and assuming that Greenshoe Option is exercised in full.

Shareholder	Upon completion of the Offering (full exercise of Greenshoe Option)			
	Shares	(%)	Votes	(%)
State Treasury . . . . .	207,040,000	50	351,968,000	62.96
Other . . . . .	207,027,114	50	207,027,114	37.04
<b>Total</b> . . . . .	<b>414,067,114</b>	<b>100.00</b>	<b>558,995,114</b>	<b>100.00</b>

The following table sets forth information regarding ownership structure of the Company upon the completion of the Offering, based on an assumption that the State Treasury sells all the Offer Shares in the Offering and that maximum number of the Series AA Shares is sold under the Over Allotment Option (i.e. sale of 141,522,067 of the ordinary series AA Shares) and assuming that the Greenshoe Option is not exercised.

Shareholder	Upon completion of the Offering (Greenshoe Option is not exercised)			
	Shares	(%)	Votes	(%)
State Treasury . . . . .	221,192,206	53	366,120,206	65.50
Other . . . . .	192,874,908	47	192,874,908	34.50
<b>Total</b> . . . . .	<b>414,067,114</b>	<b>100.00</b>	<b>558,995,114</b>	<b>100.00</b>

**GENERAL INFORMATION ON THE GROUP**

**Information on the Issuer**

Name and legal form:	ENERGA Spółka Akcyjna
Abbreviated name:	ENERGA S.A.
Registered office and address:	al. Grunwaldzka 472, 80-309 Gdańsk
Telephone number:	+48 58 77 88 300
Fax number:	+48 58 77 88 399
Website:	<i>www.grupaenerga.pl</i>
E-mail:	<i>energa.sa@energa.pl</i>
KRS:	0000271591
REGON:	220353024
NIP:	957-095-77-22

The Issuer operates as a joint-stock company on the basis of the CCC and other peremptory provisions of Polish law. The deed of incorporation of the Issuer was signed on 6 December 2006 by the State Treasury, Koncern Energetyczny ENERGA S.A. (currently: ENERGA-OPERATOR S.A.) and Zespół Elektrowni Ostrołęka S.A. (currently: ENERGA Elektrownie Ostrołęka S.A.). On 8 January 2007, the Issuer was entered into the register of entrepreneurs of the National Court Register kept by the District Court for Gdańsk-Północ in Gdańsk, 7<sup>th</sup> Business Division, KRS No. 0000271591. The Issuer was incorporated for an indefinite term. An excerpt from the register of the entrepreneurs constitutes Appendix 1 to this Offering Circular.

We currently operate under the business name ENERGA Spółka Akcyjna. We can also use an abbreviated form of the name ENERGA S.A. and a distinguishing graphic sign.

**Our business**

Pursuant to § 5 of the Articles of Association (See Appendix 2 to the Offering Circular), our core business is financial holdings. The Company can operate on the territory of the Republic of Poland and elsewhere.

**Structure of the ENERGA Group**

As at the date of this Offering Circular, the Group is composed of the Company and 57 companies being direct or indirect subsidiaries of the Company, operating mainly in three key operational segments of the Group, i.e. the distribution segment, the generation segment and the sale segment. The leaders of individual Group segments are its Material Subsidiaries which are described in detail in section “—Material Subsidiaries” below.

We are the dominant entity in Group. Basic information regarding us is described in sections “—Information on the Issuer” and “—Our Business” above and in the section “Share capital and Shares—General”.



## GENERAL INFORMATION ON THE GROUP

---

### Material Subsidiaries

We present below selected information regarding the Material Subsidiaries, i.e. direct subsidiaries of the Issuer which were considered as crucial for the Group's business due to their effect on the property and financial condition of the Issuer.

#### ENERGA-OPERATOR

The Issuer holds directly in ENERGA-OPERATOR 100% shares which entitles it to exercise 100% of the total number of votes at the general meeting of ENERGA-OPERATOR.

##### Basic information

Name and legal form:	ENERGA-OPERATOR S.A.
Registered office and address:	ul. Marynarki Polskiej 130, 80-557 Gdańsk, Poland
Share capital:	PLN 1,221,110,400.00 fully paid
Core business:	distribution of electricity

#### ENERGA-OBRÓT

The Issuer holds directly in ENERGA-OBRÓT 100% shares which entitles it to exercise 100% of the total number of votes at the general meeting of ENERGA-OBRÓT.

##### Basic information

Name and legal form:	ENERGA-OBRÓT S.A.
Registered office and address:	al. Grunwaldzka 472, 80-309 Gdańsk, Poland
Share capital:	PLN 368,160,239.00 fully paid
Core business:	trading in electricity

#### ENERGA Hydro

The Issuer holds directly in ENERGA Hydro 100% shares which entitles it to exercise 100% of the total number of votes at the general meeting of ENERGA Hydro.

##### Basic information

Name and legal form:	ENERGA Hydro sp. z o.o.
Registered office and address:	ul. Hoffmanna 5, 83-010 Straszyn, Poland
Share capital:	PLN 268,462,500.00 fully paid
Core business:	generation of electricity

#### ENERGA Elektrownie Ostrołęka

The Issuer holds directly in ENERGA Elektrownie Ostrołęka 89.38% shares which entitles it to exercise 89.38% of the total number of votes at the general meeting of ENERGA Elektrownie Ostrołęka.

##### Basic information

Name and legal form:	ENERGA Elektrownie Ostrołęka S.A.
Registered office and address:	ul. Elektryczna 5, 07-401 Ostrołęka, Poland
Share capital:	PLN 223,000,000.00 fully paid
Core business:	generation of electricity

#### ENERGA Kogeneracja

The Issuer holds directly in ENERGA Kogeneracja 78.07% shares which entitles it to exercise 78.07% of the total number of votes at the general meeting of ENERGA Kogeneracja and indirectly through ENERGA Elektrownie Ostrołęka 21.93% shares which entitles it to exercise 21.93% of the total number of votes at the general meeting of ENERGA Kogeneracja.



**Basic information**

Name and legal form:

ENERGA Kogeneracja sp. z o.o.

Registered office and address:

ul. Elektryczna 20A, 82-300 Elbląg, Poland

Share capital:

PLN 141,976,500.00 fully paid

Core business:

power generation

### RELATED-PARTY TRANSACTIONS

#### Introduction

In the period covered by the Consolidated Financial Statements and until the date of this Offering Circular, the Company has concluded and intends to conclude in the future transactions with related parties within the meaning of IAS 24 “Disclosure of information regarding related parties” (Annex to the Commission Regulation (EC) No 1126/2008 of 3 November 2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council (OJ L 320/1 of 29 November 2008, as amended)).

In the period covered by the Consolidated Financial Statements and as at the date of this Offering Circular, the following transactions with related parties have been concluded in the Group:

- transactions between the Group entities, however they are eliminated at this stage of consolidation in accordance with item 4 IAS 24;
- transactions with associates;
- transactions with the State Treasury and subsidiaries of the State Treasury; and
- transactions with members of the Management Board and the Supervisory Board as well as key management personnel.

In the Company’s opinion, transactions with related parties were concluded at arm’s length. As at the date of this Offering Circular, tax authorities have not challenged conditions on which the Group companies have carried out transactions with related parties. In particular, tax authorities have not issued any opinion which would deem that these transactions were not concluded at arm’s length.

In the period covered by the Consolidated Financial Statements and as at the date of this Offering Circular, besides transactions described in this section, no other transaction with related parties has been concluded which would be significant individually or jointly for the business of the Company or Group. Considering financial accounting systems in the Group, this Chapter presents available data and to the closest extent possible reflecting the data as at the date of this Offering Circular. As at the date of this Offering Circular, no transactions have been concluded on terms different than those described in this section.

#### Transactions of the Company with Group entities

The most important transactions between the Company and the Group entities that affected the Company’s financial revenues in the periods under review were related to dividends paid by the Group companies and bonds issued by the Group companies and acquired by the Company. The Company’s financial costs related mainly to loans extended to the Company by its subsidiary ENERGA Finance AB in relation to the issuance of notes under the EMTN programme. On the other hand, the Company’s revenues from the sale of products, goods and materials were related mainly to IT or trademark-related transactions.

RELATED-PARTY TRANSACTIONS

The table below presents information regarding the total value of transactions of the Company concluded with the Group entities in the specified periods.

Related party	Nine-month period ended on 30 September 2013	Year ended on 31 December		
		2012	2011	2010
(PLN million)				
<b>ENERGA-OPERATOR</b>				
Net income from sale of products, goods and materials . . . . .	20.1	12.8	31.7	46.4
Costs of purchase . . . . .	0.3	1.9	2.2	5.4
Financial revenues . . . . .	416.6	509.4	255.9	34.3
Financial costs . . . . .	7.0	0.2	0.0	0.5
<b>ENERGA-OBRÓT</b>				
Net income from sale of products, goods and materials . . . . .	14.5	16.9	17.1	22.5
Costs of purchase . . . . .	0.5	0.1	0.1	0.5
Financial revenues . . . . .	165.5	141.7	186.4	29.5
Financial costs . . . . .	—	0.0	0.0	0.0
<b>ENERGA Elektrownie Ostrołęka</b>				
Net income from sale of products, goods and materials . . . . .	0.7	1.5	1.6	1.3
Costs of purchase . . . . .	—	—	0.0	0.0
Financial revenues . . . . .	13.4	64.9	65.4	51.4
Financial costs . . . . .	—	—	0.0	—
<b>ENERGA Kogeneracja</b>				
Net income from sale of products, goods and materials . . . . .	0.5	0.9	0.3	0.5
Costs of purchase . . . . .	—	0.0	—	0.0
Financial revenues . . . . .	5.4	6.9	4.1	—
Financial costs . . . . .	—	—	—	—
<b>ENERGA Hydro</b>				
Net income from sale of products, goods and materials . . . . .	0.8	1.1	0.4	0.3
Costs of purchase . . . . .	0.0	0.1	0.2	0.0
Financial revenues . . . . .	228.6	300.8	337.1	267.1
Financial costs . . . . .	—	—	—	—
<b>Other entities</b>				
Net income from sale of products, goods and materials . . . . .	14.6	20.5	16.3	14.7
Costs of purchase . . . . .	14.1	11.3	9.3	9.2
Financial revenues . . . . .	1.6	3.5	17.1	8.7
Financial costs . . . . .	37.7	1.1	4.4	0.0

Source: Company (unaudited data).

The table below presents information regarding the total value of balance sheet items arising from transactions of the Company concluded with Group entities as at the status on a given date.

	As at 30 September 2013	As at 31 December		
		2012	2011	2010
(PLN million)				
Long-term receivables . . . . .	22.5	28.1	13.8	6.4
Trade receivables payable within 12 months . . . . .	11.2	13.8	6.1	18.6
Other receivables . . . . .	8.4	54.5	9.9	10.9
Non-current liabilities . . . . .	2,103.9	—	—	—
Current trade liabilities payable within 12 months . . . . .	2.2	2.9	8.3	5.8
Other liabilities . . . . .	235.7	788.8	77.4	150.2

Source: Company (unaudited data).

## RELATED-PARTY TRANSACTIONS

---

Below there is information regarding the most important transactions concluded by the Company with the Group entities during 9 months ended on 30 September 2013 and in the years ended on 31 December 2012, 2011 and 2010.

### ***Bonds***

In accordance with the model of financing the Group, as adopted by the Company, the Company obtained funds from external debt capital in the form of credits and bond issue directed to domestic and foreign investors to obtain funds for capital expenditures and development of run operational activity (see “Our Business—Material agreements—Financing agreements”). Those funds are subsequently distributed by the Company to its subsidiaries in the Group, mainly in the form of bonds issued by those entities and taken up by the Company. In the nine-month period ended on 30 September 2013 and in the years ended on 31 December 2012, 2011 and 2010 the total nominal value of long-term bonds issued by Group entities and taken up by the Company was, respectively, PLN 1,168.0 million, PLN 1,413.7 million, PLN 940.0 million and PLN 1,030.0 million. In the nine-month period ended on 30 September 2013 and in the year ended on 31 December 2012 the Group entities acquired from the Company the above-mentioned bonds of the total nominal value, respectively, PLN 165.7 million and PLN 23.5 million. Below there is a list of material transactions connected with bonds issue by the Group entities taken up by the Company.

On 18 February 2010, the Company concluded an arrangement with ENERGA-OPERATOR, on the basis of which the Company obliged itself to acquire bonds up to the total amount of PLN 2,050.0 million. The funds were allotted to capital expenditures connected with development and modernisation of the distribution network in the years 2009-2011. As at 30 September 2013, the total nominal value of bonds left for redemption issued by ENERGA-OPERATOR, taken up by the Company on the basis of the above-mentioned arrangement was of PLN 1,900.8 million.

On 9 August 2012, the Company concluded an agreement with ENERGA-OPERATOR, on the basis of which the Company obliged itself to acquire long-term bonds for the amount up to PLN 2,700.0 million. Those funds will be allotted to capital expenditures connected with development and modernisation of the distribution network in the years 2012-2015. As at 30 September 2013, the total nominal value of bonds left for redemption issued by ENERGA-OPERATOR and taken up by the Company on the basis of the above-mentioned agreement was of PLN 1,000.0 million.

On 3 July 2012, the Company concluded an agreement with ENERGA Elektrownie Ostrołęka, on the basis of which the Company committed to acquire bonds for the amount up to the total value of PLN 185.0 million. The funds were intended to finance investment of ENERGA Elektrownie Ostrołęka, including the off-mill biomass feeding system and the heat capture capacity of unit B. The new source of heat is to be launched in 2014. As at 30 September 2013 the total nominal value of bonds left for redemption issued by ENERGA Elektrownie Ostrołęka and taken up by the Company was of PLN 167.0 million.

On 17 December 2010, the Company concluded an arrangement with ENERGA Kogeneracja, on the basis of which the Company obliged itself to acquire bonds up to the total value of PLN 160.0 million. The funds were allotted to finance the ENERGA Kogeneracja investment, including construction of the biomass-fired power plant as well as modernisation of generation units it holds. As at 30 September 2013 the total nominal value of bonds left for redemption issued by ENERGA Kogeneracja and taken up by the Company was of PLN 115.8 million.

On 30 March 2011, the Company concluded an arrangement with ENERGA Hydro, on the basis of which the Company obliged itself to acquire bonds up to the total amount of PLN 100.0 million. Those funds were allotted to finance modernisation of the pump storage plant in Żydowo. As at 30 September 2013, the total nominal value of bonds left for redemption issued by ENERGA Hydro taken up by the Company was of PLN 78.9 million.

On 12 June 2013, the Company concluded an arrangement with ENERGA Hydro, on the basis of which the Company obliged itself to acquire bonds up to the total value of PLN 1,600.0 million. Those funds were allotted to finance the investment plan carried out by ENERGA HYDRO connected with acquisition of wind farms. As at 30 September 2013, the total nominal value of bonds left for redemption issued by ENERGA Hydro taken up by the Company was of PLN 1,100.0 million.

The total nominal value of outstanding long-term bonds issued by subsidiaries for the benefit of the Company as at 30 September 2013 was of PLN 4,362.5 million. The interest rate on those bonds is determined based on WIBOR rate, increased by fixed margin or based on the formula assuming the fixed interest during the financing period.

To manage financial liquidity in the most optimal way as part of the Group and effective allotment of surplus of funds, the company as well as other Group entities carried out or it was possible for them to carry out issue of short-term bonds, addressed solely to other Group entities. As at 30 September 2013, the total nominal value of outstanding short-term bonds issued by companies from the Group and taken up by the Company was PLN 20.0 million and included the bonds issued by by ENERGA Kogeneracja under the arrangement of 19 July 2013 pursuant to which the Company has undertaken to acquire bonds up to the total value of PLN 35.0 million.

The table below presents information regarding the total value of revenues and financial costs of the Company under bonds issued by the Company and taken up by entities of the Group or issued by the Group entities and taken up by the Company in specified periods.

	As at and for the	As at and for the year		
	period of 9 months ended on 30 September 2013	ended on 31 December		
		2012	2011	2010
	(PLN million)			
Financial income . . . . .	142.7	157.0	92.5	32.3
Financial costs . . . . .	7.0	0.2	—	0.0

Source: Company (unaudited data).

#### **Transactions with ENERGA Finance AB (publ)**

Financial transaction concluded by the Company with ENERGA Finance AB (publ) are described in section “Our Business—Material agreements—Financing agreements—Bonds issues—EMTN Programme”.

#### **Restructuring and corporation transactions**

In the year ended on 31 December 2012, the Company concluded a number of transactions with the Group entities the subject of which were shares in capital companies. The purpose of those transactions was to simplify the ownership structure within the Company and consolidation of business segments as well as injecting additional capital to the Group entities with the share capital to finance capital expenditures. During the period of 9 months ended on 30 September 2013 and in the years ended on 31 December 2012, 2011 and 2010 the total value of those transactions was, respectively, PLN 120.1 million, PLN 247.8 million, PLN 245.7 million and PLN 216.5 million (these values do not do not comprise the below-mentioned: (i) increase in the share capital of ENERGA-OPERATOR by PLN 617.8 million as this increase was effected out of funds of ENERGA-OPERATOR, thus no outflow of funds was effected; and (ii) increase in the share capital of Elektrownia Ostrołęka S.A. by the amount of PLN 185.0 million as shares taken up by the Company have not been covered by any contribution as at the date of this Offering Circular). Below we present the most important of those transactions.

On 28 December 2011 an entry was made to increase the share capital of ENERGA-OBRÓT SA from PLN 106.6 million to PLN 139.8 million by way of share issue. A new share issue was covered with a contribution of 1,622 shares in ENERGA Obsługa i Sprzedaż sp. z o.o.

On 20 December 2012, the Company sold to ENERGA-OPERATOR, subsidiary, 2,151 shares in Zakład Energetyczny Płock—Centrum Handlowe sp. z o.o., representing 100% of its share capital, for the price of PLN 24.6 million. On the basis of a separate agreement of the same day the Company sold to the same acquirer 16,020 shares in Zakład Energetyczny Toruń—ENERGOHANDEL sp. z o.o., representing 100% of its share capital for the price of PLN 21.4 million.

On 28 December 2012, the Company bought from ENERGA Elektrownie Ostrołęka 12,660 shares in Ekologiczne Materiały Grzewcze sp. z o.o., representing 100% of its share capital, for the price of



## RELATED-PARTY TRANSACTIONS

---

PLN 16.6 million. On the basis of the agreement of the same day the Company transferred 8,282 shares of the total nominal price of PLN 4.1 million held in ENERGA OPEC sp. z o.o. for the benefit of ENERGA Kogeneracja in exchange for shares in the increased share capital of the latter.

The above-mentioned transactions were carried out to simplify the ownership structure within individual segments of the ENERGA Group.

On 12 October 2010, an entry was made to increase the share capital by way of share issue of the total nominal value of PLN 10.0 million in Elektrownia Ostrołęka S.A., a subsidiary. On 2 December 2011, an entry to increase the share capital was made with respect to the same entity through share issue of the nominal value of PLN 200.0 million. On 25 May 2012, an entry of another increase in the share capital was made with respect to the same company through the share issue of the nominal value of PLN 185.0 million. The company took up all the shares from the said issue. The above-mentioned shares were issued to inject funds to Elektrownia Ostrołęka S.A. in connection with carrying out the investment consisting in construction of a new power plant in Ostrołęka.

Considering that providing lighting services is not an element of actions for which a DSO is responsible as well as in connection with carrying out the concept adopted by the Company of consolidating assets of street and road lighting in the Group, on 16 December 2010, ENERGA-OPERATOR which is the Distribution System Operator, disposed for the benefit of the Company 277,181 shares of the total nominal value of PLN 138.6 million in ENERGA Oświetlenie sp. z o.o. To satisfy receivables of ENERGA-OPERATOR, the Company filed with Union Investment TFI S.A. a repurchase order, whilst ENERGA-OPERATOR placed a purchase order similar to the Company's order on the basis of which participation units currently held by the Company in one of the investment funds run by Union Investment TFI S.A., the amount of which reflects the value of acquired shares, were redeemed whilst the due receivable of ENERGA-OPERATOR against the Company due to the share disposal was credited towards acquisition of participation units in the company by ENERGA-OPERATOR and thus satisfied.

On 27 October 2011 the Company acquired from Zakład Budownictwa Energetycznego sp. z o.o. subsequent 44,821 shares in ENERGA Oświetlenie sp. z o.o. of the total nominal value of PLN 22.4 million. On 13 December 2012 the Company disposed for the benefit of ENERGA-OBRÓT all 383,243 shares in ENERGA Oświetlenie sp. z o.o. of the total nominal value of PLN 191.6 million. The said transaction was carried out as part of actions intended to order the ownership structure of segment of the ENERGA Group. ENERGA-OBRÓT is the leader of the sale segment the part of which is ENERGA Oświetlenie sp. z o.o.

On 27 May 2010 an increase in the share capital of ENERGA Kogeneracja was registered. All the shares, with an aggregate nominal value of PLN 50.0 million, were taken up by the Company. The transaction was effected in connection with planned capital expenditures of a subsidiary. On 7 June 2013 a further increase in the share capital of ENERGA Kogeneracja was registered in the amount of PLN 48.5 million, out of which the Company took up shares of an aggregate nominal value of PLN 17.4 million. The aim of that transaction was the consolidation of CHP assets within ENERGA Group.

On 2 August 2013 a court registration was obtained for a share capital increase in ENERGA Finance AB (publ), by the amount of EUR 18.0 million, to EUR 20.0 million. All shares in the increased share capital were taken up by the existing shareholder, i.e. the Company. This transaction was driven by tax considerations.

On 10 October 2013 the increase in the share capital of ENERGA-OPERATOR was registered in the amount of PLN 617.8 million from the Company's own funds. All new issue shares were taken up by the Company.

### *IT transactions*

In the course of its business operations, the Company, as a dominant entity, enters into numerous IT transactions with other Group entities. The transactions concern the grant of licences, sublicences and entering into software lease agreements to implement and support by the Group entities of management processes. In the nine-month period ended on 30 September 2013 and in the years ended on 31 December 2012, 2011 and 2010 the total value of such transactions amounted to PLN 15.4 million, PLN 20.7 million, PLN 51.7 million and PLN 49.7 million, respectively.

Additionally, ENERGA Informatyka i Technologie sp. z o.o. provided the Company with IT services (including support services concerning implementation of strategic IT systems), as well as telecommunications and ICT services. In the nine-month period ended on 30 September 2013 and in the year ended on 31 December 2012 the total value of such transactions amounted to PLN 4.0 million and PLN 3.8 million, respectively. No such transactions took place in the years ended on 31 December 2011 and 2010.

#### *Trademarks transactions*

The Company enters into licence agreements with other Group entities in order to authorise them to use trademarks and to provide them with marketing services regarding the promotion of licensed trademarks. In the nine-month period ended on 30 September 2013 and in the years ended on 31 December 2012, 2011 and 2010 the total value of such transactions amounted to PLN 22.1 million, PLN 29.7 million, PLN 29.7 million, PLN 39.1 million, respectively. Some of the most important transactions are presented below.

In the nine-month period ended on 30 September 2013 and in the years ended on 31 December 2012, 2011 and 2010 the Company entered into such transactions with its subsidiary, i.e. ENERGA-OBRÓT; the value of such transactions amounted to PLN 12.0 million, PLN 16.0 million, PLN 16.0 million and PLN 21.7 million, respectively. In the nine-month period ended on 30 September 2013 and in the years ended on 31 December 2010, 2011 and 2012 the Company entered into licence agreements with ENERGA-OPERATOR and agreements for the provision of marketing services with the value of PLN 7.6 million, PLN 10 million, PLN 9.6 million and PLN 12.9 million, respectively.

#### *Dividends disbursed to the Company*

The table below presents information about the Company's financial proceeds from dividends disbursed by the Group companies and associates in selected periods.

Entity paying dividends to the Company	Nine-month period ended 30 September 2013	Year ended on 31 December		
		2012	2011	2010
	(PLN million)			
ENERGA Hydro . . . . .	206.0	295.1	348.5	269.9
ENERGA-OBRÓT . . . . .	165.5	141.7	186.4	29.5
ENERGA-OPERATOR . . . . .	306.9	318.9	164.2	—
ENERGA Elektrownie Ostrołęka . . . . .	8.4	61.4	65.4	51.0
ENERGA Kogeneracja . . . . .	—	3.6	4.1	—
Zaopatrzenie Energetyki Koszalin sp. z o.o. . . . .	—	—	0.3	0.5
Przedsiębiorstwo Zaopatrzenia Materiałowego Energetyki Słupsk sp. z o.o. . . . .	—	—	0.1	0.3
Zakład Energetyczny Toruń—ENERGOHANDEL sp. z o.o . .	—	—	0.8	0.2
SOEN sp. z o.o. . . . .	—	—	0.1	0.2
Przedsiębiorstwo Produkcji Strunobetonowych Żerdzin Wirowanych WIRBET S.A. . . . .	—	—	0.7	0.7
Elektrownia Wodna we Włocławku sp. z o.o. w likwidacji (in liquidation) . . . . .	—	1.1	0.3	0.5
ENERGA Oświetlenie sp. z o.o. . . . .	—	—	—	3.4
ENERGA Informatyka i Technologie sp. z o.o. . . . .	—	1.1	—	—
Ekologiczne Materiały Grzewcze sp. z o.o. . . . .	0.1	—	—	—
<b>Total dividends . . . . .</b>	<b>686.9</b>	<b>822.9</b>	<b>770.8</b>	<b>356.2</b>

Source: Company (unaudited data).

#### *Other transactions*

Other transactions entered into with Group entities concerned, among other, services provided by the Company vis-à-vis the Group entities, in particular advisory services, services related to the execution of

## RELATED-PARTY TRANSACTIONS

corporate powers, lease services and financial services, including services to raise capital. In the nine-month period ended on 30 September 2013 and in the years ended on 31 December 2012, 2011 and 2010 the value of such transactions amounted to PLN 21.8 million, PLN 13.6 million, PLN 5.6 million and PLN 5.3 million, respectively.

Additionally, ENERGA Centrum Usług Wspólnych sp. z o.o. provided accountancy, HR and payroll services to the Company, as well as administrative, and legal and organisational. In the nine-month period ended on 30 September 2013 and in the years ended on 31 December 2012 and 2011 the value of such transactions amounted to PLN 8.2 million, PLN 6.2 million and PLN 1.8 million, respectively. No such transactions were entered into in the year ended on 31 December 2010.

### Transaction with associates

The table below presents the value of transactions entered into with associates by the Group companies in the selected periods and as at particular dates.

Associate	As at and for the nine-month period ended 30 September 2013	As at and for the year ended on 31 December		
		2012	2011	2010
	(PLN million)			
<b>Soen sp. z o.o</b>				
Sales to related parties . . . . .	0.3	1.2	1.2	1.0
Purchases from related parties. . . . .	2.8	4.7	5.5	10.8
Receivables from related parties . . . . .	0.0	0.0	0.0	0.0
Liabilities towards related parties . . . . .	0.2	1.0	0.8	1.6
<b>Przedsiębiorstwo Produkcji Strunobetonowych Żerdzi Wirowanych “WIRBET” S.A.</b>				
Sales to related parties. . . . .	—	0.2	2.1	2.0
Purchases from related parties. . . . .	—	0.4	1.9	4.0
Receivables from related parties . . . . .	—	—	0.1	0.2
Liabilities towards related parties . . . . .	—	—	0.4	0.2
<b>Słupskie Towarzystwo Koszykówki Sportowa S.A.</b>				
Sales to related parties. . . . .	—	0.0	—	—
Purchases from related parties. . . . .	2.2	1.9	2.3	1.8
Receivables from related parties . . . . .	—	—	—	—
Liabilities towards related parties . . . . .	—	0.0	0.0	—
<b>Oświetlenie Uliczne i Drogowe sp. z o.o.</b>				
Sales to related parties. . . . .	11.9	24.2	20.9	35.0
Purchases from related parties. . . . .	—	—	—	—
Receivables from related parties . . . . .	6.4	3.3	4.2	2.9
Liabilities towards related parties . . . . .	0.6	0.1	0.0	—

Source: Financial Statements.

The above transactions between the members of the Group and associates were entered into in the course of ordinary business operations and concerned mostly the retail sale of electricity and the provision of electricity distribution services, lease of network assets, as well as the purchase and sale of building materials for the construction of power grids and the acquisition of cleaning and security services.

### Transactions with the State Treasury or its subsidiaries

#### Transactions with subsidiaries of the State Treasury

The State Treasury is the dominant entity of the Group and therefore, pursuant to IAS 24, other companies of the State Treasury are treated as related parties by the Group. The Group has identified transaction with approximately 30 companies related to the State Treasury with the highest turnover with the Group companies. Those transactions were entered into in the course of ordinary business and

concerned mostly the purchase and sale of electricity and proprietary rights, the sale of electricity distribution services (including electricity transit), settlements with the transmission system operator on the balancing market, transmission services, system services and intervention works, as well as the purchase of fuels (mostly coal) and their transport.

Due to the number of transactions entered into by the Company and subsidiaries of the State Treasury in the course of ordinary business operations, the Company is unable to provide exhaustive information about all such transactions. Therefore, we present below summary information about transactions with approximately 30 subsidiaries of the State Treasury being both suppliers and customers of the Group together with the data relating to the total value of purchase costs from such suppliers and the total value of products sold to such customers. A description of material transactions entered into by the Group companies with selected subsidiaries of the State Treasury is included in “Our Business—Material agreements—Electricity transmission agreements—Peak-load generation agreement of 28 August 2009 between ENERGA Hydro and PSE”, “—Steam coal purchase agreement of 10 February 2012 between ENERGA Elektrownie Ostrołęka and Kompania Węglowa S.A.”, “—Long-term steam coal supply agreement of 9 December 2008 between ENERGA Elektrownie Ostrołęka and Jastrzębska Spółka Węglowa S.A.”, “—Suretyship agreement of 19 April 2013 between ENERGA and PGE Polska Grupa Energetyczna S.A.”, and in “—Share purchase agreements—Share sale agreement between ENERGA-OPERATOR and ENERGA Elektrownie Ostrołęka”.

The table below presents a total value of transactions entered into with approximately 30 companies related to the State Treasury, with the highest turnover with the Group companies in selected periods and as at particular date.

	As at and for the nine-month period ended 30 September 2013	As at and for the year ended on 31 December		
		2012	2011	2010
		(PLN million)		
Sales . . . . .	802.1	1,110.6	911.5	1,209.4
Purchases . . . . .	1,931.6	1,112.5	1,460.0	1,738.1
Receivables . . . . .	65.9	146.5	117.0	153.0
Liabilities . . . . .	34.0	39.2	63.9	144.3

Source: Financial Statements.

**Transactions with the State Treasury**

Out of transactions entered into between the Group entities and the State Treasury, the material transactions concerned the acquisition of shares in Group entities and payment of the dividend by the Company to the State Treasury.

Pursuant to the share purchase agreement of the shares of ENERGA-OPERATOR and ENERGA Elektrownie Ostrołęka entered into on 31 May 2011, the Company purchased the following shares from the State Treasury which the State Treasury held as at 30 April 2011: (i) 87,811,853 shares of ENERGA-OPERATOR for the price of PLN 6.47 each share calculated on the basis of book value as at 31 December 2010 with the total value of PLN 568.1 million; and (ii) 977,347 shares of ENERGA Elektrownie Ostrołęka for the price of PLN 17.88 each share calculated on the basis of the book value as at 31 December 2010 with the total value of PLN 17.5 million. The total price for the shares of both companies amounted to PLN 585.6 million.

Additionally, on the basis of the aforementioned agreement, on 19 October 2011 the State Treasury accepted the offer concerning the acquisition of 13,238 shares of ENERGA—OPERATOR by the Company for the total price of PLN 0.1 million.

The transactions were carried out as the follow-up of the process of consolidation and simplification of the Group’s structure. They concerned minority interests in key Group companies which were held by the State Treasury due to, among others, the conversion of shares pursuant to the Act of 7 September 2007 on procedure of acquiring shares from the State Treasury during the consolidation of the companies from the power sector (Dz.U. No. 191, Item 1367 as amended) and the Ordinance of the Minister of Treasury of

## RELATED-PARTY TRANSACTIONS

19 February 2008 on the method for specifying the number of shares of the consolidating company which are subject to conversion and the method for converting the shares or the right to the shares of the consolidated company (Dz.U. No. 41, Item 250 as amended).

The table below specifies dividend paid to the State Treasury by the Group entities in selected periods.

Company	Nine-month period ended 30 September 2013	Year ended on 31 December		
		2012	2011	2010
		(PLN million)		
ENERGA . . . . .	418.3	543.8	125.5	84.6
ENERGA-OPERATOR . . . . .	—	—	28.1	—
ENERGA Elektrownie Ostrołęka . . . . .	—	(2.4) <sup>(1)</sup>	3.4	2.8
<b>Total</b> . . . . .	<b>418.3</b>	<b>541.4</b>	<b>157.0</b>	<b>87.4</b>

(1) In 2012, The Company received from the State Treasury a partial return of dividends for 2009 for the amount of PLN 2.4 million.

Source: Company (unaudited data).

### Transactions with members of the Management Board, Supervisory Board and key management personnel

In the period covered by the Consolidated Financial Statements and until the date of this Offering Circular, the members of the Management Board and the Supervisory Board received remuneration from the Company under, respectively, managerial contracts and appointments to the Supervisory Board. During the said period we did not advance any loans nor provide any similar benefits to the members of the Management Board and the Supervisory Board.

The table below presents remuneration paid or due to the members of the management boards and the supervisory boards in the selected periods.

	Nine-month period ended 30 September 2013*	Year ended on 31 December		
		2012	2011	2010
		(PLN million)		
Management Board of the dominant entity . . . . .	2.7	1.2	0.6	0.5
Supervisory Board of the dominant entity. . . . .	0.2	0.3	0.3	0.3
Management boards of subsidiaries . . . . .	21.9	22.7	15.7	15.6
Supervisory boards of subsidiaries . . . . .	1.3	2.6	2.4	2.3
<b>Total</b> . . . . .	<b>26.1</b>	<b>26.8</b>	<b>19.0</b>	<b>18.7</b>

Source: Financial Statements,\*Company (unaudited data).

The table below presents remuneration paid to the key management personnel in the periods indicated. The key management personnel includes the managers of the Group companies whose competencies are crucial for the business conducted by the given company.

	Nine-month period ended 30 September 2013*	Year ended on 31 December		
		2012	2011	2010
		(PLN million)		
Short-term employee benefits (remuneration and surcharge) . . . . .	44.3	46.7	40.6	31.5
Jubilee bonuses . . . . .	0.7	0.9	0.8	0.6
Post-employment benefits . . . . .	0.1	0.1	0.0	0.1
Benefits for termination of employment relationship . . . . .	1.0	0.3	0.9	0.5
<b>Total</b> . . . . .	<b>46.2</b>	<b>48.0</b>	<b>42.3</b>	<b>32.7</b>

Source: Financial Statements,\*Company (unaudited data).

For further information on the rules of remuneration applicable to the members of the Management Board and the Supervisory Board see “Management Board and Supervisory Board—Other information regarding the Management Board and the Supervisory Board—Remuneration and other benefits of members of the Management Board and the Supervisory Board”.



---

**SHARE CAPITAL AND SHARES****General*****Introduction***

ENERGA is a joint-stock company organised and existing under Polish law. Any issues concerning the legal status of the Company, as well as the rights and obligations of its shareholders are, generally, regulated by the provisions of Polish law.

This Chapter contains some basic information on the share capital of the Company and a general overview of the rights, obligations and restrictions of a legal nature that are related to holding the Shares, except for the rights, obligations and restrictions of a legal nature that arise under Polish equity market regulations, which have been described in the section “Polish Securities Market Regulations and Obligations Relating to the Acquisition and Disposal of Shares”. The description provided below does not constitute any legal advice for the exercise of these rights, obligations or restrictions of a legal nature. Prior to making any decision on the exercise of such rights, fulfilment of obligations and compliance with legal restrictions, every investor should seek individual legal advice. It should be noted that some of the rights, obligations and legal restrictions related to holding the Shares and described below will only apply upon the Company becoming a public company. As a result, in the period before the Company gains such status, the issues presented below need to be assessed on a separate basis in light of the applicable provisions of the Articles of Association and the relevant provisions of law.

***The Company’s share capital and types of Shares***

As at the date of this Offering Circular the Company’s share capital amounted to PLN 4,521,612,884.88 and is divided into 414,067,114 Shares with a nominal value of PLN 10.92 each, including: (i) 269,139,114 series AA registered shares; and (ii) 144,928,000 series BB registered shares. The Shares have been issued on the basis of appropriate provisions of the CCC and the Articles of Association. The Shares are denominated in PLN.

The Shares comprising the Company’s share capital have been issued and are fully paid up. The series AA shares are not preferred and are equal in rights; specifically every series AA share carries the right to one vote at a General Meeting. Pursuant to the Articles of Association, the series BB shares are preferred shares as to the voting rights, in such a manner that each series BB share carries the right to two votes at a General Meeting. At the Extraordinary General Meeting of 3 September 2013, one of the minority shareholders of the Company voted against the Resolution on Preferred Shares, pursuant to which the preference of series BB shares as to voting was introduced to the Articles of Association, and voiced its objection as to the adoption of this resolution into the minutes of the General Meeting. On 16 October 2013 the Company was served with a lawsuit filed by a minority shareholder for the annulment or repeal of the General Meeting’s resolution regarding the preferences attached to series BB shares (see “Our business—Legal and administrative proceedings—Proceedings initiated by FORTA sp. z o.o.”).

As at the date of this Offering Circular, the Offer Shares are bearer shares and are in the book-entry form and other Shares are registered shares and are materialised. The rules relating to the conversion of registered shares into bearer shares laid down in the Company’s Articles of Association are described in the section “—Share Conversion” below. In particular, pursuant to the provisions of the Articles of Association, the registered shares that are dematerialised pursuant to the provisions of the Trading Act become bearer shares upon their dematerialisation.

The Articles of Association do not provide for the possibility of increasing the share capital of the Company up to the amount of the authorised capital. As at the date of this Offering Circular, none of the issued Shares have been issued within the authorised capital.

As at the date of this Offering Circular (i) there are no Shares which do not represent our share capital (do not represent interest in our share capital); (ii) there are no securities convertible into or exchangeable for securities (including Shares) of the Company or any securities with warrants issued by the Company; (iii) there are no other rights to acquire or obligations in respect of unissued authorised capital or any obligations to increase our share capital; (iv) neither our share capital nor the share capital of any other Group members is subject to any share options, and no conditional or unconditional arrangements have been made to create share options for the share capital of any of these entities; (v) neither we nor any third

## SHARE CAPITAL AND SHARES

---

party acting on our behalf hold any Shares. ENERGA Hydro, holds Shares which in total do not exceed 0.01% of the Company's share capital and were acquired to cover stock split shortages which occurred as a result of the Reverse Split Resolution and which were not used to cover stock split shortages as a result of implementation of the Reverse Split Resolution.

In the period between the issuance of Shares and the date of this Offering Circular no action has been taken to obtain the admission of the Shares to trading nor have they been traded on the regulated market.

### *Changes in our share capital*

The Company was incorporated under the incorporation act of 6 December 2006 and entered in the register of entrepreneurs on 8 January 2007 with a share capital of PLN 500,000 comprising 500,000 series A registered shares with a nominal value of PLN 1 each. The founders of the Company were: (i) the State Treasury which subscribed for 255,000 shares with a total nominal value of PLN 255,000; (ii) Koncern Energetyczny ENERGA S.A. (currently: ENERGA-OPERATOR), which subscribed for 160,000 shares with a total nominal value of PLN 160,000; and (iii) Zespół Elektrowni Ostrołęka S.A. (currently: ENERGA Elektrownie Ostrołęka), which subscribed for 85,000 shares with a total nominal value of PLN 85,000. Series A shares were covered in full in cash. The issue price of series A shares was PLN 1.

On 17 May 2007 the share capital was increased up to PLN 4,846,111,133, i.e. by the amount of PLN 4,845,611,133 by way of issuance of 4,845,611,133 series B registered shares with a nominal value of PLN 1 each. The series B shares were subscribed for by the State Treasury in exchange for an in-kind contribution of 85% of shares in such companies as ENERGA-OPERATOR and ENERGA Elektrownie Ostrołęka. The series B shares were covered in full and the issue price for one share was PLN 1. The increase of the Company's share capital was registered with the National Court Register on 20 June 2007.

On 25 June 2007 the share capital was decreased to the amount of PLN 4,845,866,133, i.e. by the amount of PLN 245,000, as a result of redemption of 245,000 series A shares owned by ENERGA-OPERATOR and ENERGA Elektrownie Ostrołęka. The decrease of the share capital was registered with the National Court Register on 24 October 2007.

On 21 May 2008 the share capital was increased up to the amount of PLN 4,968,805,368, i.e. by the amount of PLN 122,939,235 as a result of the issuance of 122,939,235 registered series C shares with a nominal value of PLN 1 each. The series C shares were covered by part of the assets of ENERGA-OPERATOR taken over by ENERGA as a result of demerger. The shares were taken over by the shareholders of ENERGA-OPERATOR, i.e. the State Treasury and several thousand individuals being employees and ex-employees of ENERGA-OPERATOR. The series C shares were covered in full and the issue price for the share amounted to PLN 1. The increase of the Company's share capital was registered with the National Court Register on 20 March 2009.

On 3 September 2013 it was agreed by way of the Reverse Split Resolution that each 12 shares of the Company with a nominal value of PLN 1 would be merged into 1 Company's share with a nominal value of PLN 12 each without any changes to the Company's share capital ("**Reverse Split of Shares**"). As a result of the Reverse Split of Shares: (i) all the then Company's series A and series C shares as well as the Company's series B shares numbered from B 00000000001 to B 3106475133 were designated with a new series AA; (ii) the then Company's series B shares of the Company numbered from B 3106475134 to B 04845611133 were designated as the new series BB shares. Due to the aforementioned change, the Company's share capital was divided into (i) 269,139,114 series AA registered shares; and (ii) 144,928,000 series BB registered shares. The Reverse Split Resolution was registered with the National Court Register on 9 September 2013.

Also, on 3 September 2013, by way of a Resolution on the Share Capital Decrease, the Company's share capital was decreased to the amount of PLN 4,521,612,884.88, i.e. by the amount of PLN 447,192,483.12 by the decrease of the nominal value of each Share from PLN 12 to PLN 10.92. The purpose of the decrease of the share capital was to minimise the risk that an issue of new shares by the Company following its first listing on the WSE could not be possible due to the market price of shares being lower than their nominal value. The registration of the decrease of the Company's share capital with the National Court Register took place on 9 September 2013. During the Extraordinary General Meeting on 3 September 2013 one of the Company's minority shareholder voted against the Resolution on the Share Capital Decrease and voiced its objections as to adoption to the same into the General Meeting's minutes. On 16 October 2013

the Company was served with a lawsuit filed by a minority shareholder for the annulment or repeal of the General Meeting's resolution regarding the decrease of the Company's share capital to PLN 4,521,612,884.88 (see "Our business—Legal and administrative proceedings—Proceedings initiated by FORTA sp. z o.o."). On 28 November 2013 the Company was served with a motion of FORTA sp. z o.o. which contained a statement of FORTA sp. z o.o. on withdrawal of its statement of claim in the part relating to a demand for the repeal of the Resolution on the Share Capital Decrease.

In the period covered by the historical financial information over 10% of the share capital was not paid up in the form of assets other than cash.

#### ***Dematerialisation of Shares***

With respect to resolution No. 25 of the Extraordinary General Meeting of 3 September 2013 concerning dematerialisation of the Company's shares, registration of the Company's shares in the depository for securities, authorising the Company's Management Board to enter into a share registration agreement with the National Depository for Securities and apply for admittance and introduction of the Company's shares to trading on the regulated market, the Management Board was authorised to undertake any and all actions related to the dematerialisation of shares and applying to have all the Company's shares admitted and introduced to trading on the regulated market, including the shares resulting from the Reverse Split of Shares.

For detailed information concerning the dematerialisation of the series AA Shares covered by the Offering Circular as well as the dematerialisation and listing of the series AA Shares upon completion of the Offer, please see "Polish Securities Market Regulations and Obligations Relating to the Acquisition and Disposal of Shares—Dematerialisation".

#### ***Restrictions on the transferability of Shares***

In accordance with the provisions of the CCC, the shares in a joint-stock company are, as a rule, transferable. As of the date of the registration of Shares in the securities deposit maintained by the NDS (dematerialisation), the Shares subject to dematerialisation will exist exclusively in the form of entries in the securities accounts maintained by specialised entities. In accordance with the provisions of the Trading Act, agreement for the transfer of dematerialised securities transfers these securities upon an appropriate entry being made in the securities account, and the entry in the securities account is made after the transfer of securities is registered between the appropriate deposit accounts maintained by the NDS.

In accordance with the provisions of the Offering Act, shares in public companies encumbered with a pledge cannot be traded until the pledge expires, except in the situation in which they are acquired in the performance of an agreement to establish financial collateral within the meaning of the Act on Certain Financial Collaterals. On the other hand, pursuant to the provisions of the CCC, during the period in which shares in a public company which were encumbered by a pledge or right of use are recorded in the securities account maintained by an authorised entity, in accordance with the provisions of the Trading Act, the voting rights from these shares are vested in the shareholder.

Information concerning restrictions on the transferability of Shares in case of reversal of their dematerialisation are included in the section "Polish Securities Market Regulations and Obligations Relating to the Acquisition and Disposal of Shares—Dematerialisation—Reversal of dematerialisation of shares".

The Articles of Association do not provide for any restrictions on the transferability of Shares.

### **Shareholders' rights relating to the General Meeting**

#### ***Introduction***

As at the date of this Offering Circular, we are not a "public company" within the meaning of the Offering Act.

## SHARE CAPITAL AND SHARES

---

The rules of convening and holding General Meetings described in this section, insofar as they concern public companies, will apply to us as of the day on which we acquire the status of a public company, i.e. as of the date of registration of at least one Share with the depository of securities kept by the NDS.

### *Convening the General Meeting, its agenda and draft resolutions*

#### *Date for convening the General Meeting*

An Annual General Meeting should be held within 6 months of the end of each Company's financial year. The agenda for such meetings should include:

- consideration and approval of the Management Board's report on the operations of the Company and financial statements for the previous financial year;
- resolution on the distribution of profit or covering of loss; and
- endorsement of the performance of duties by members of the Company's authorities.

An Extraordinary General Meeting is convened in the events set forth in the CCC.

#### *Parties authorised to convene the General Meeting*

Pursuant to the Articles of Association, the General Meeting is convened by the Management Board upon: (i) its own initiative, (ii) a written request from the Supervisory Board, (iii) a written request of a shareholder or shareholders representing at least one-twentieth from our share capital, or (iv) a written request of the State Treasury as long as the State Treasury is the Company's shareholder.

Additionally, pursuant to the CCC, our shareholder(s) representing at least one twentieth of our share capital may request an Extraordinary General Meeting to be convened and specific items to be placed on its agenda. If within two weeks from the submission of the request to the Management Board, the Extraordinary General Meeting is not convened, the registry court may authorise the shareholders submitting the request to convene the Extraordinary General Meeting. The court appoints the chairman of this Extraordinary General Meeting.

#### *Request to place certain matters on the agenda of the General Meeting*

Pursuant to the CCC, the shareholder(s) representing at least one twentieth of our share capital may request to have certain matters placed on the agenda of the next General Meeting. The request should include a substantiation or a draft resolution concerning the proposed item on the agenda and should be submitted to the Management Board no later than twenty-one days prior to the scheduled date of the General Meeting. The Management Board is required to announce forthwith, however no later than eighteen days prior to the scheduled date of the General Meeting, any changes to the agenda introduced upon the shareholders' request. The announcement should be placed on our website and in the manner specified for the transfer of current information pursuant to the Offering Act, i.e. in the form of Current Reports.

#### *Submission of draft resolutions of the General Meeting*

Pursuant to the CCC, our shareholder(s) representing at least one twentieth of the Company's share capital may, before the date of the General Meeting, submit draft resolutions concerning matters already placed, or matters that will be placed, on the agenda of the General Meeting, in writing or by means of electronic communication. We will place the draft resolutions on our website forthwith. Each shareholder of the Company may propose draft resolutions concerning matters placed on the agenda during the General Meeting.

#### *Manner of convening the General Meeting*

Pursuant to the CCC, the General Meeting of a public company is convened by publishing an announcement on our website and in the manner specified for submitting current information in accordance with the Offering Act, i.e. in the form of Current Reports. The announcement should be made at least twenty six days prior to the date of the General Meeting.

The announcement of the General Meeting should include at least: (a) the date, time and venue of the General Meeting and a detailed agenda; (b) a detailed description of the procedures regarding participation in the General Meeting and the exercise of voting rights, in particular the information about: (i) the shareholder's right to have certain matters placed on the agenda of the General Meeting, (ii) the shareholder's right to propose draft resolutions pertaining to matters placed on the agenda of the General Meeting, or matters which are to be placed on the agenda, before the date of the General Meeting, (iii) the shareholder's right to propose draft resolutions concerning matters placed on the agenda during the General Meeting, (iv) the manner of exercising voting rights by proxy, including in particular forms to be used by the proxy during voting and the method of notifying the Company of the proxy nomination by means of electronic communication, (v) the possibility and method of participation in the General Meeting by means of electronic communication, (vi) the method of voicing an opinion during the General Meeting by means of electronic communication, (vii) the method of exercising voting rights by mail or electronic communication, (c) the date of registration of participation in the General Meeting, (d) the information that only those of the shareholders who were shareholders on the date of the registration of their participation in the General Meeting have the right to participate in the General Meeting, (e) the information regarding how and where a person authorised to participate in the General Meeting may obtain all materials which are to be presented at the General Meeting as well as draft resolutions; or if it is not planned that any resolution will be adopted, comments from the Management Board or the Supervisory Board concerning matters placed on the agenda of the General Meeting, or matters which are to be placed on the agenda, before the date of the General Meeting, (f) the website address where information on the General Meeting will be placed.

As a rule, a duly convened General Meeting is valid irrespective of the number of Shares represented thereat. Issues that are not covered by the agenda of the General Meeting cannot be resolved unless the shares representing our entire share capital are represented at the General Meeting and none of those present raises objections in respect of passing the resolution.

***Participation and voting at the General Meeting***

*Venue of the General Meeting*

The General Meeting shall be held in Warsaw or in our registered office in Gdańsk.

*Persons authorised to participate in the General Meeting and exercise voting rights*

The right to participate in the General Meeting shall be enjoyed only by persons who are our shareholders sixteen days prior to the date of the General Meeting (the date of registering participation in the General Meeting).

Upon the request of a person entitled to rights attached to our dematerialised Shares, made no earlier than the announcement of the convening of the General Meeting and no later than the first weekday after registering participation in the General Meeting, the entity keeping the securities account issues a registered certificate confirming the right to participate in the General Meeting.

The certificate of the right to participate in the General Meeting, which is issued by the entity keeping the securities account, shall constitute the basis for that entity to draw up a list of persons authorised to participate in the General Meeting, which will then be given to the NDS as the entity which keeps the securities deposit. On that basis the NDS will draw up a list of persons entitled under the Shares to participate in the General Meeting. This list drawn up by the NDS, should be handed over to the Company and should constitute the basis for the Company to establish a list of persons authorised under the Shares to participate in the General Meeting.

Within the period from the date of registering participation in the General Meeting until the end of the day of the General Meeting, our shareholders may transfer the Shares.

*Manner of participation in the General Meeting and of exercising voting rights*

Apart from series BB Shares which are preferred shares in such a manner that each Share carries the right to two votes at a General Meeting, each Share entitles its holder to one vote at a General Meeting. The shareholder may vote differently with each individual Share.



The Company's Articles of Association restrict the voting rights of shareholders, users and pledgees who hold shares exceeding 10% of a general number of shares at a General Meeting, existing in the Company as at the date of such General Meeting. In order to restrict the right to vote, the votes of shareholders between which there is a relationship of dominance or interdependence, within the meaning of the provisions of the CCC, the Act on Competition and Consumer Protection, Accounting Act, the Act of 22 September 2006 on transparency of financial relations between the public authorities and public entrepreneurs and the financial transparency of some of the entrepreneurs (Dz. U. of 2006, No. 191, Item 1411) are aggregated, in such a manner that the number of votes of such shareholders is summed up. If due to such aggregation it is necessary to restrict the number of votes according to the aforementioned provisions, it is carried out by reducing the number of votes proportionally with respect to all shareholders in which the relationship of dominance or interdependence occurs, by rounding up or down the number of votes of a shareholder holding the highest number of shares. If such rounding is not possible because two or more shareholders have the same number of votes, then the shareholder whose votes are to be rounded up or down is selected at random. Rounding down of shares cannot totally deprive the shareholder of the right to vote. Each shareholder, to whom this refers, is obliged to notify the Management Board or the chairman of the General Meeting about the existence of such relationship of dominance or interdependence, should it plan to take part in the General Meeting. A person who failed to satisfy the notification requirement referred to in the preceding sentence or did it in an improper manner, until the day of fulfilment of this notification requirement may exercise his voting rights from one share only; exercising voting rights from other shares by this person is ineffective. The above provisions do not concern shareholders who on 22 August 2012 (also when the restrictions are changed), were entitled to exercise rights from shares in a number exceeding 10% of all the votes at the General Meeting, as well as shareholders acting in agreement with them on the basis of agreements on joint exercise of voting rights from shares. Pursuant to the Articles of Association, the above restrictions are without prejudice to the requirements of acquiring large blocks of shares in accordance with the provisions of the Offering Act. Also, such provisions do not apply if the obligations of entities acquiring or about to acquire large blocks of shares cease to exist.

Our shareholders can participate in General Meetings and exercise voting rights in person or through a nominated proxy.

A shareholder who wishes to participate in the General Meeting by nominating a proxy must grant a power of attorney in writing (without sanction of nullity) or in an electronic form, which does not require a secure electronic signature verified with a valid, qualified certificate. The power of attorney should be enclosed to the minutes of the General Meeting. The form including the pro-forma power of attorney shall be published on our website together with the announcement on convening the General Meeting. Moreover, we should be informed of the granting of power of attorney in electronic form using the electronic communication means indicated in the announcement on the convening of the General Meeting.

If the shareholder's proxy at the General Meeting is a member of the Management Board, Supervisory Board, a liquidator, our employee, a member of corporate bodies or an employee of any of our subsidiaries or subsidiary cooperative, the power of attorney may only authorise such person to participate and vote at one General Meeting. The proxy is obliged to inform the shareholder of any circumstances that indicate the existence, or possible existence, of a conflict of interests. The proxy cannot nominate further proxies. The proxy—a member of the Management Board, Supervisory Board, a liquidator, our employee, a member of corporate bodies or an employee of any of our subsidiary or a subsidiary cooperative—shall vote according to the instructions given to him/her by our shareholder.

None of our shareholders can vote personally or by proxy, or as proxy of another person, on any resolution relating to his/her responsibility in relation to us for any reason whatsoever, including the approval of duties of members of our corporate bodies, the release from obligations towards us or a dispute between the shareholder and us. The shareholder of a public company may vote as a proxy on the resolution referred to above.

Voting is open. Secret voting is used for elections and on motions to dismiss members of our corporate bodies or liquidators, or on holding them accountable for their actions, as well as with respect to personal matters. Secret voting takes place at the request of at least one shareholder present or represented at the General Meeting.

*Powers of the General Meeting*

The General Meeting is the corporate body authorised to decide, by resolution, on issues pertaining to our organisation and its operations. Pursuant to the provisions of the CCC, the resolutions of the General Meeting are adopted by an absolute majority of votes, unless the CCC or the Articles of Association provide otherwise. Pursuant to the Articles of Association, the following resolutions are adopted with the majority of four fifths of the votes cast: (i) issuance of shares of different kind and establishing of shares of different kind, (ii) change to the preferred shares, (iii) merger of Company by way of incorporation of a new company or by taking over by another company, (iv) division of the Company, except for subdivision, (v) dissolution of the Company, transfer of the registered office or major plant abroad, (vi) transformation of the Company, and (vii) decrease of the share capital by way of redemption of a part of shares, unless the decrease takes place simultaneously with an increase. A resolution concerning a material change in the scope of the Company's business may be adopted without the buy-out of shares of such shareholders who disagree with the change.

The most significant powers of the General Meeting provided in the CCC and our Articles of Association include, in particular, the authority to:

- consider and approve the Management Board's report on our activities as well as its financial statements for the completed financial year and to approve the performance of the duties of members of the Company's corporate bodies;
- decide on distribution of profit or cover of loss;
- change the objects clause of the Company;
- decide on amendments to the Articles of Association;
- decide on an increase or decrease in the Company's share capital;
- decide to authorise the Management Board to buy back shares for redemption;
- adopt resolutions on a merger, demerger or transformation of the Company;
- adopt resolutions on winding up or liquidation of the Company;
- decide on the issuance of convertible or senior bonds and subscription warrants;
- adopt resolutions on the disposal or lease of the Company's enterprise or an organised part thereof or its encumbrance with any limited property right;
- decide on the creation, use and liquidation of reserves and capitals of the Company;
- appoint and dismiss Supervisory Board members;
- adopt resolutions on the exclusion of the pre-emptive right of existing Company's shareholders to new shares in part or in their entirety;
- acquire own shares by the Company;
- decide on remuneration of the Supervisory Board members;
- decide on claims to repair the damage inflicted when establishing, managing or supervising the Company;
- decide on any issues relating to the Company entering into an agreement for a credit facility, loan, suretyship or a similar agreement with a Management Board or Supervisory Board member, registered proxy or liquidator of the Company or in favour of any of the above;
- decide on any issues relating to the Company's subsidiary entering into an agreement for a credit facility, loan, suretyship or a similar agreement with a Management Board member, registered proxy or liquidator of the Company or in favour of any of the above;
- decide on the use of supplementary capital;
- decide on acquisition of real property, right of perpetual usufruct or interest in property or in the right of perpetual usufruct of the value exceeding PLN 20 million;

## SHARE CAPITAL AND SHARES

---

- decide on acquisition of items of property plant and equipment, except for real property or right of perpetual usufruct and except for acquisition or subscription for shares or interest in other companies with the value exceeding PLN 20 million;
- transfer of items of property, plant and equipment, including real property, right of perpetual usufruct or a share in real property or right of perpetual usufruct, except for shares or interest in other companies, with the value exceeding PLN 20 million;
- change of dividend record date, establishment of the dividend record date or spreading out the disbursement of dividend.

### **Right to review or demand the delivery of a list of shareholders**

The list of the shareholders authorised to participate in the General Meeting signed by the Management Board should be provided in the office of the Management Board three weekdays before the date of the General Meeting.

Each of our shareholders may review the list of shareholders authorised to participate in the General Meeting, and demand a copy of such list, provided that we are reimbursed for the cost of preparing such a copy.

Any shareholders of a public company may demand that the list be sent to him/her free of charge by e-mail, provided that he/she specifies an email address to which the list should be sent.

### **Right to request copies of motions on matters included on the agenda of the General Meeting**

Each of our shareholders may request a copy of motions on matters included on the agenda of the next General Meeting no sooner than one week before the General Meeting. The request should be submitted to the Management Board.

### **Right to request copies of the annual financial statements**

Each of our shareholders may request copies of the Management Board's reports on the Company's activity and the financial statements with a copy of the Supervisory Board's report and the registered auditor's opinion. The delivery of documents specified in the previous sentence must take place fifteen days prior to the date of the General Meeting at the latest.

### **Right to request checking of the attendance list of shareholders at the General Meeting**

A list of attendance, listing all of the participants in the General Meeting and specifying the number of shares held, and the number of votes exercised by each of them, should be made immediately after the election of the chairman of the General Meeting. The attendance list should be signed by the chairman of the General Meeting and made available for review during the General Meeting.

Upon the request of the shareholders holding one-tenth of the share capital represented at the General Meeting, the attendance list should be verified by a committee of at least three persons appointed for that purpose. The shareholders who make the request have the right to appoint one representative to such a committee.

### **Right to request that the Supervisory Board be appointed by voting in separate groups**

At the request of shareholders representing at least one-fifth of our share capital, the Supervisory Board shall be appointed by the next General Meeting by voting in separate groups, even if the Articles of Association provide for a different method of appointing the Supervisory Board. Persons representing the number of Shares arrived at by dividing the total number of Shares represented at that General Meeting by the number of Supervisory Board members can establish a separate group to appoint one member of the Supervisory Board. They cannot, however participate in the appointment of other Supervisory Board members. Vacancies on the Supervisory Board that are not filled by an appropriate group of shareholders pursuant to the procedure described above are filled by the votes of those shareholders who did not cast their votes for the Supervisory Board members elected by voting in separate groups. If shareholders representing at least one-fifth of shares of our share capital, request that the Supervisory Board be

appointed by voting in separate groups, other procedures set forth in the Articles of Association on the Supervisory Board's appointment do not apply, provided, however, that when the Supervisory Board includes a member appointed by the entity specified in a separate act, only the remaining Supervisory Board members are so appointed.

**Right to request information about the Company from the Management Board**

During the General Meeting, our Management Board is obliged to provide shareholders, upon request, with information about the Company if such information is reasonably required to evaluate a matter on the agenda of the General Meeting. The Management Board can refuse to provide such information if it could cause damage to the Company, its related companies, or subsidiaries or a subsidiary cooperative, in particular through the disclosure of any technical, trade or organisational secret of the company. A member of the Management Board may refuse to provide information if he or she may be held responsible under criminal, civil or administrative regulations. The information is deemed to be provided if appropriate information is available on our website, in a place designated for shareholders' questions and answers to such questions. The Management Board may provide an answer in writing to the shareholder's request outside the General Meeting, if there are compelling reasons to do so. The Management Board is obliged to provide information no later than two weeks after the request is submitted during the General Meeting. If a request to be provided with information about us is submitted by a shareholder outside the General Meeting, the Management Board may provide the shareholder with an answer in writing taking into account all restrictions pertaining to possible damage as described above. In documentation presented to the next General Meeting, the Management Board shall disclose in writing the information provided to the shareholder outside the General Meeting, together with the date of its delivery and the name of the person to whom it was delivered. Information presented at the next General Meeting does not have to include information made available to the public and provided in the course of the General Meeting.

A shareholder who has been refused information during the General Meeting and whose objection to this was recorded in the minutes may submit a motion to the registry court requesting that the Management Board is obliged to provide the information. Such a motion should be submitted within a week of the end of the General Meeting during which the disclosure of information was denied. The shareholder may also submit a motion to the registry court to require that we announce the information disclosed to another shareholder outside the General Meeting. Pursuant to the Reporting Ordinance, we are required to disclose, in the form of a Current Report, the information provided to a shareholder when the registry court orders the Management Board to make such disclosure in the circumstances referred to hereinabove.

**Shareholder's right to bring an action to repeal or invalidate a General Meeting resolution**

*Action to repeal a resolution*

A resolution of the General Meeting that is contrary to the Articles of Association, or the best market practice, violates the Company's interests or is intended to harm the shareholders may be challenged by way of an action brought against us to have the relevant resolution repealed. The right to bring an action to have a resolution repealed can be brought by the following shareholders of the Company: (i) a shareholder who voted against the resolution and who after its adoption requested that the objection be recorded in the minutes; the requirement to vote is not applicable to a shareholder who holds non-voting shares, (ii) a shareholder that was unreasonably denied the opportunity to participate in the General Meeting, and (iii) a shareholder that was absent from the General Meeting, provided, however, that the General Meeting was invalidly convened or the resolution was adopted on a matter not included on its agenda. An action to have a resolution of the General Meeting repealed shall be brought within one month from receipt of information about the resolution, but no later than three months after the adoption of the resolution.

*Action to invalidate a resolution*

Our shareholders who are entitled to bring an action to repeal a General Meeting resolution are also authorised to bring an action against us to invalidate a General Meeting resolution that is contrary to the law. The action to invalidate a resolution of the General Meeting should be brought within thirty days of the announcement of such resolution, but no later than one year after its adoption.

Although an action against a General Meeting resolution pursuant to the rules provided for above does not suspend proceedings before the registry court to register the resolution which has been challenged, the registration court may suspend the registration proceedings after a hearing has been held. If the action is clearly unfounded, then the court, at our request, may require the plaintiff to pay an amount of up to ten times the court's charges and the remuneration for one advocate or legal advisor. This does not exclude the possibility of seeking damages generally available under law.

### **Right to dividend**

#### *Persons entitled to dividend*

The persons who have Shares recorded on their accounts on the dividend date are entitled to receive dividends.

#### *Record date*

Shareholders have the right to participate in our profit reported in the audited financial statements which the General Meeting has allocated for distribution among shareholders.

A record date is the date as on which a list of shareholders entitled to dividends is prepared. When we become a public company, the General Meeting, according to the provisions of the CCC, is authorised to fix the record date and the dividend payment date. The record date may be scheduled for the resolution date or within three months of the resolution date.

When we become a public company, the Issuer will be subject to NDS regulations pursuant to which a dividend payment date cannot fall earlier than on the tenth day after shareholders of record are determined for the purposes of paying dividends provided, however, that Saturdays and statutory holidays based on relevant regulations are excluded from this ten-day period.

The NDS provides information obtained from the issuers as to the record date to all direct participants of the NDS. The participants determine the number of securities recorded on their accounts which are entitled to dividends. They send information to the NDS: (i) in case of dividends payable in PLN: on the amount of cash to be transferred to a participant in respect of dividend payments as well as the total corporate income tax to be withheld by the issuer on dividends to be paid through such a participant; and (ii) the number of corporate income taxpayers entitled to the dividend paid, save for those whose identity has not been disclosed.

Issuer's dividend policy is discussed in the section "Dividends and dividend policy".

#### *Statute of limitations applicable to the right to dividend*

A shareholder's claim against us for the payment of dividend may be enforced within ten years from the date on which the General Meeting adopts a resolution to appropriate a part of or the entire profit for payment to the shareholders. Upon the lapse of this term, we may refuse to pay dividends, raising objections based on the statute of limitations.

In the case of public companies, dividends are paid through the NDS to the relevant account maintained for a shareholder of a given company.

#### *Limitations and procedures associated with dividends in the case of non-resident holders of Offer Shares*

Limitations and procedures associated with dividends in the case of non-resident holders of Offer Shares are discussed in the section "Taxation".

#### *Amount of dividend*

The CCC regulates in detail the amount of our profit which may be distributed as a dividend to our shareholders upon a decision of the Annual General Meeting. Shareholders have the right to participate in the profit reported in our audited financial statements that the Annual General Meeting has appropriated for distribution to shareholders. Amounts available for distribution to our shareholders in the form of dividends are established on the basis of the Issuer's standalone financial statements and may differ significantly from the amounts reported in the consolidated financial statements.



The amount to be distributed to shareholders cannot exceed the profit for the last financial year, increased by retained earnings and amounts transferred from the supplementary capital and capital reserves that can be appropriated for dividends. The amount should be decreased by unsettled losses, treasury shares and amounts that pursuant to the law or Articles of Association should be allocated to the supplementary capital or capital reserves from the profit for the last financial year. Pursuant to Article 396 of the CCC, as long as our supplementary capital does not reach at least one-third of our share capital we need to allocate at least 8% of our profit for any given financial year to our supplementary capital. As at the date of this Offering Circular, our supplementary capital does not meet the requirements of the CCC with respect to the minimum amount of supplementary capital, so the Company transfers at least 8% of its profit to supplementary capital annually.

The amount of dividend due to our shareholder in respect of one Share is equal to the quotient of the amount to be distributed to shareholders divided by the number of Shares.

#### *Interim dividend*

According to the Articles of Association, the Management Board is authorised to adopt a resolution on the payment to the shareholders of interim dividends against dividends expected at the year-end provided that we have sufficient funds for such payments. The disbursement of such dividend requires the consent of the Supervisory Board.

Pursuant to the provisions of the CCC, the disbursement of the interim dividend by the Company is contingent upon disclosure of profit in the approved financial statements for a previous financial year audited by a statutory auditor. The interim dividend cannot exceed half of the profit recorded at the end of the preceding financial year, as disclosed in the financial statements, audited by a certified auditor, increased by capital reserves created from profits which are available to the Management Board for the purpose of payment of interim dividends, and reduced by any unsettled losses and treasury shares.

#### **Rights associated with our liquidation**

Pursuant to the CCC, the Company's liquidators are its Management Board members unless the Articles of Association or a resolution of the General Meeting provide otherwise. Our Articles of Association do not contain any provision to the contrary. Upon the request of our shareholders representing at least one-tenth of our share capital, the registry court may increase the number of liquidators and appoint one or two additional liquidators.

In the event of liquidation of the Company, all assets remaining after the claims of our creditors have been satisfied or secured, shall be distributed to our shareholders in proportion to their payments to our share capital. Such asset distribution cannot be effected earlier than one year after the last announcement of our liquidation and summoning our creditors to report their claims against us.

During the period of liquidation we are not permitted to distribute profits or assets, even in part, among our shareholders prior to the repayment of all liabilities.

#### **Pre-emptive right**

Our shareholders have the pre-emptive right to newly issued shares pro-rata to the number of shares they hold (pre-emptive right). A resolution to increase the share capital should indicate, among others, the date as at which the shareholders having the pre-emptive right with respect to newly issued shares are determined (date of pre-emptive right), if they have not been deprived of this right in its entirety. The date of pre-emptive right cannot be set later than six months after the date of passing the resolution.

Shareholders can be deprived of their pre-emptive rights to newly issued shares in part or in their entirety, pursuant to a resolution of the General Meeting, when the following conditions are satisfied: (i) the shareholders' pre-emptive rights are excluded in our best interests, (ii) at least four-fifths of the votes are cast in favour of the resolution to exclude the shareholders' pre-emptive rights at the General Meeting, (iii) if such matter, i.e. the exclusion of pre-emptive rights, has been included on the General Meeting's agenda, (iv) the Management Board is required to submit to the General Meeting a written opinion stating the reasons behind the exclusion of pre-emptive rights and the proposed share issue price or the manner of its calculation before the adoption of a resolution to exclude the shareholders' pre-emptive rights.

The aforementioned conditions, including the requirement to obtain the majority of four-fifths of the votes, are not necessary to pass a resolution to exclude the pre-emptive rights of the existing shareholders: (i) when the resolution on increasing the share capital provides for our new shares to be acquired in their entirety by a financial institution (an underwriter) under the obligation of being subsequently offered to our shareholders in order to enable the shareholders to exercise their pre-emptive rights on the terms and conditions specified in the resolution, and (ii) when the resolution stipulates that our new shares are to be taken up by the underwriter in the event that our shareholders who are entitled to pre-emptive rights do not take up all or part of the shares they are offered.

### **Share redemption**

The CCC permits shares in a joint-stock company to be redeemed if its articles of association so provide. A share may be redeemed upon the consent of the shareholder concerned by way of its acquisition by the company (voluntary redemption) or without such consent (compulsory redemption). Pursuant to the CCC, a voluntary redemption may only be performed once every financial year. Reasons and procedures for a compulsory redemption are specified in the articles of association. The redemption of shares requires a resolution of the general meeting. The redemption of shares also requires a relevant decrease in the share capital. The resolution to decrease the share capital should be adopted at the same general meeting which resolves to redeem the shares. The shares are redeemed as at the moment the share capital is decreased, i.e. upon entry to the register of entrepreneurs maintained for the company, of the new amount of its share capital.

Pursuant to the Articles of Association, the shares may be redeemed solely upon the shareholders' consent, through their buyback by the Company. The buyback of shares by the Company for redemption requires a resolution of the General Meeting. The Articles of Association do not include any provisions enabling compulsory redemption.

### **Share conversion**

The CCC provides for the conversion of registered shares into bearer shares and vice versa upon the request of a shareholder unless relevant acts or the Articles of Association stipulate otherwise. Pursuant to the Articles of Association, registered shares issued by the Company that are dematerialised pursuant to the provisions of the Trading Act, are converted into bearer shares upon dematerialisation. The conversion of bearer shares into registered shares is not permissible.

### **Squeeze-out and sell-out**

Detailed information on a squeeze-out of our Shares upon the request of majority shareholders and a sell-out of our Shares upon the request of minority shareholders is included in the section "Polish Securities Market Regulations and Obligations Relating to the Acquisition and Disposal of Shares—Squeeze-out" and "—Sell-out".

### **Special auditor**

At the request of a shareholder or shareholders of a public company holding at least 5% of the total number of votes, the general meeting of a public company may adopt a resolution to have a specific issue relating to the formation or the conduct of businesses of such a company examined by an auditor, at the expense of the public company (special auditor). Such a shareholder or shareholders mentioned above may demand that an extraordinary general meeting is convened to adopt the resolution referred to above or to include the adoption of such a resolution on the agenda of the next general meeting.

In order to be appointed as a special auditor, an entity is required to have sufficient expertise and the qualifications necessary to review the issue defined in the resolution of the general meeting and to prepare a reliable and impartial report on the review. The special auditor may not be an entity which in the period subject to review rendered services to the public company or its parent entity or subsidiary and, also, its parent undertaking or major investor as defined in the Accounting Act. Moreover, the entity appointed as a special auditor may not be a member of the same group as an entity which rendered the aforementioned services.

The resolution of the general meeting of a public company on the examination by a special auditor of a specific issue relating to the formation of the company or the conduct of its business should be adopted at the general meeting whose agenda includes consideration of a request regarding such a resolution.

If the general meeting of a public company does not adopt the relevant resolution conforming to the aforementioned request, or adopts such a resolution in violation of the provisions of the Offering Act regulating the passing of such a resolution, the applicants may, within 14 days of passing the resolution, apply to the registry court to appoint an indicated entity as the special auditor. The registry court may, upon a motion of the management board, make the decision to appoint a special auditor conditional on the applicants providing relevant security for prospective claims. If the audit does not demonstrate any violation of law, upon the motion of the management board, the registry court may decide that the security is forfeited for the benefit of the company. The decision of the court is appealable.

The court refuses to appoint the special auditor if the appointment of the entity indicated by the applicants does not fulfil the Offering Act requirements related to special auditors. The court may also refuse to appoint a special auditor if the appointment, due to other reasons, does not guarantee the preparation of a reliable and impartial report on the review.

The management board and the supervisory board of a public company are required to make available for the special auditor's review the documents indicated in the general meeting's resolution (on the examination by a special auditor of a specific issue relating to the formation of the company or the conduct of its business) or in a court decision to appoint a special auditor, as well as provide the auditor with any explanations for the purposes of the review. The special auditor is required to submit a written report on the results of the review to the management board and the supervisory board of a public company. The management board is obliged to publish such a report in the form of a current report, as specified in Article 56 Section 1 of the Offering Act. The report of the special auditor may not disclose any information comprising technical, commercial or organisational secrets of the company, unless its disclosure is necessary to justify the position stated in the report. The management board of a public company submits a follow-up report on the review findings at the next general meeting.

**POLISH SECURITIES MARKET REGULATIONS AND OBLIGATIONS  
RELATING TO THE ACQUISITION AND DISPOSAL OF SHARES**

**Introduction**

In view of the fact that the series AA Shares will be subject to applications regarding their admission and listing on the WSE main market (the official stock exchange listings market), the series AA Shares will be traded in accordance with the Polish securities trading regulations and the regulations of the WSE and the NDS.

As at the date of this Offering Circular, the Company is not a public company within the meaning of the Offering Act, i.e. a company with at least one dematerialised share, within the meaning of the Trading Act. Therefore a number of regulations discussed in this section will apply to holders of the Shares or the Issuer only after the Company becomes “public”, i.e. as of the date of registration of at least one Share with the depository of securities kept by the NDS, or as of the date of admission of such one series AA Share to trading on the WSE.

The information contained in this section is of a general nature, does not constitute legal advice and describes the legal state of affairs as at the date of this Offering Circular. Therefore, the investors should familiarise themselves with the relevant regulations and seek advice from their legal counsels with respect to any matters related to acquiring or holding the Shares.

**Key regulations**

Trading in shares on a regulated market operated by the WSE in Poland is governed by Polish law, including, in particular, the Offering Act and the Trading Act, as well as the WSE Rules and the NDS Rules. The PFSA's regulatory activities and procedures with respect to the Polish capital market are governed by the Capital Market Supervision Act, the Financial Market Supervision Act, the Offering Act and the Trading Act.

With respect to reporting duties, issuers of securities admitted to trading on a regulated market are required to submit information concerning specified events or circumstances simultaneously to the PFSA, the WSE and the general public. These duties are performed via an electronic reporting system (“ESPI”) operated by the PFSA. The content and scope of such information is determined in the Offering Act, the Trading Act and relevant secondary legislation, including the Reports Ordinance and EU regulations. The information is published in the form of current and periodic reports (the content of which is regulated particularly by the Reports Ordinance), or in the form of confidential information reports (see the detailed description in “—Confidential Information” below). With respect to the Issuer, the obligation to publish the abovementioned information will arise at the time of admission of the series AA Shares to trading on the WSE.

Additionally, pursuant to the Offering Act, following the approval of the Prospectus by the PFSA, the Company will be required to provide (promptly, but no later than within 2 business days of the occurrence of or learning about the circumstance) details of any material errors or inaccuracies contained in the Prospectus or of any important circumstances that may influence the evaluation of the Offer Shares that occur or become known to the Company after the approval of the Prospectus until the date of expiry of the Prospectus, in the form of a supplement to the Prospectus, together with an application of the approval thereof. Upon approval of the supplement to the Prospectus, the Company will be required to publish the supplement in the same manner as the Prospectus was made public, promptly but no later within 24 hours of its approval by the PFSA.

Pursuant to the Offering Act, the Prospectus remains valid for 12 months after being approved. However, the Prospectus also expires at the end of the day of the later of: (i) allotment of the Offer Shares; or (ii) admission of all the securities covered under the Prospectus to trading on a regulated market. Additionally, the Prospectus also expires upon: (i) the Company submitting a statement on abandoning the completion of the Offering and on abandoning the application for admission of all the securities to trading on a regulated market, based on the Prospectus, which has not been made public yet; or (ii) the Company announcing, in the manner specified in Article 47 Section 1 of the Offering Act, cancellation of the

Offering or abandoning the application for admission of all the securities to trading on the regulated market, based on the Prospectus, which has not been made public yet.

Information resulting in any change in the contents of the Prospectus or supplements with respect to the organisation of or handling the subscription for the Offer Shares or admission of the Company's securities to on a regulated market, which does not represent any material errors or inaccuracies contained in the Prospectus, or important circumstances that may influence the evaluation of the Company's securities covered by the Prospectus, may be made public by the Company in the form of an updated report, without following the procedure described above, in the same manner as the Prospectus was published. Such an updated report should be simultaneously submitted to the PFSA.

#### **Trading in securities and transaction settlement**

Shares are traded on the WSE through investment firms (including, without limitation, brokerage houses, banks providing brokerage services and foreign investment firms providing brokerage services in Poland) registered as "Stock Exchange Members". A list of the current Stock Exchange Members can be found on the website of the WSE. As regards the technical aspect, since 15 April 2013, trading on the WSE has been handled through the transaction system: Universal Trading Platform (UTP), which replaced the previous WARSET system.

This transaction system ensures that prices are based on selling and buying orders. A schedule of selling and buying orders is prepared in order to determine the price of the securities. These orders are matched under strictly defined rules and the transactions are completed during stock exchange sessions. In order to improve the liquidity of listed instruments, Stock Exchange Members and other entities may take on the role of market makers who place buying or selling orders for the given securities on their own account (under an appropriate agreement with the WSE). The liquidity of financial instruments may also be supported by entities acting as market makers for the issuer based on a relevant agreement with the issuer of such financial instruments.

In principle, pursuant to Article 20 of the Trading Act, the WSE management board may suspend trade in financial instruments, inter alia: (i) upon an application by the issuer in order to ensure investors have general and equal access to information; and (ii) if the instruments fail to comply with terms and conditions prevailing on the relevant market operated by the WSE provided, however, that it does not materially violate the interests of investors or the proper functioning of the market. The WSE management board shall suspend trade in financial instruments for a period of no longer than one month upon the request of the PFSA, submitted in accordance with the provisions of the Trading Act. In addition, under the WSE Rules, the WSE management board may suspend trade in financial instruments in other instances including, inter alia, when an issuer violates laws and regulations applicable to the WSE.

According to the WSE Rules, trading sessions on the WSE are carried out Monday to Friday between 8:30 a.m. and 5:35 p.m., but until 31 December 2013 trading sessions will be held between 8:30 a.m. and 5:05 p.m. In extraordinary circumstances, the WSE management board decides otherwise for a specific period of time.

Trading session listings are made in a continuous trading system (continuous trading) or in a single-price system (single-price trading). In addition to continuous trading and single-price trading, block transactions are also carried out.

Opening and closing prices for the continuous trading system are determined on the basis of brokers' orders, the types of which are determined by the WSE management board. In determining opening and closing prices, the following rules apply in order of priority: (i) maximising the volume of turnover; (ii) minimising the difference between the number of financial instruments covered by sell orders and buy orders, which may be executed at the determined price; and (iii) minimising the difference between the price being determined and the reference price.

The above rules also apply in determining the price for single-price trading, which is established on the basis of brokers' orders with a price limit or brokers' orders without a price limit.

Price variations are restricted both in the continuous trading system and in the single-price system. In principle, price variations are limited to 10% with respect to shares and 3 percentage points with respect to



## POLISH SECURITIES MARKET REGULATIONS AND OBLIGATIONS RELATING TO THE ACQUISITION AND DISPOSAL OF SHARES

---

bonds (according to the relevant provisions of the WSE Rules, these limits may be subject to an increase of up to 21% for shares and 6 percentage points for bonds in relation to the reference price). In extraordinary circumstances, the price variation limit may be further widened.

A block transaction (i.e. a transaction concluded outside the continuous trading system and the single-price system) may, in principle, be executed if at least one WSE member submits a buy order and a sell order for the same number of securities (other than derivatives) at the same price and with the same settlement date. The minimum value of a block transaction for a period of 12 consecutive months, starting from the 1<sup>st</sup> of April of the given year, is determined by the Management Board of the WSE annually, on the last session day of March of the given year. Until determined by the Management Board of the WSE, the minimum block transaction value for shares of companies first listed in the given year and the shares of companies first listed in December of the preceding year must not be lower than:

- PLN 2 million in respect of shares included in the WIG20 Stock Index (the index of the twenty largest companies on the WSE);
- PLN 1 million in respect of shares included in the mWIG40 Stock Index (the index of medium companies on the WSE);
- PLN 0.25 million for other shares.

The difference between the price of the financial instrument set out in the order and the last price of that financial instrument from a trading session cannot exceed 10%. If a block transaction is executed outside trading hours on the WSE then the price for securities in the order cannot differ more than 40% from a reference rate equal to the arithmetical average of the prices of all transactions in the relevant securities during the last trading session on the WSE weighted with their turnovers. In extraordinary circumstances, the WSE management board may agree to execute a transaction that does not satisfy the minimum value and price variation limits. The terms and conditions of block transactions involving derivatives or ETF units are defined by the WSE management board.

Brokerage commissions charged by entities running brokerage operations in Poland are not fixed by the WSE or other regulatory bodies but depend on the size of a transaction and the rates of a brokerage house executing the transaction and, in the case of transactions executed on the WSE, on transaction fees charged by the WSE to its members.

Transactions involving shares admitted to trading on a regulated market are cleared by KDPW\_CCP and settled by the NDS as a settlement agent. Clearing of transactions in financial instruments involves the specification of the amount of cash and non-cash consideration derived from the transactions entered into, based on the adopted clearing method, to which the parties to the clearing are obliged or entitled. In order to perform the obligations of the parties to the transactions, the NDS is responsible for settling the transactions in financial instruments through debiting or crediting deposit accounts, collective accounts or securities accounts (as applicable) with reference to the disposal or acquisition of the underlying financial instruments and, in accordance with amounts due in settlement, crediting or debiting the bank account or other cash account specified by the parties to the transaction or settlement.

Pursuant to Article 7 of the Trading Act, the transfer of dematerialised shares (see “—Dematerialisation” below) to another entity on the secondary market takes place once the relevant entries are made in the corresponding securities accounts. Securities accounts are kept on behalf of investors by entities registered as NDS participants. This may include, amongst others, brokerage houses, banks running brokerage operations or keeping securities accounts and foreign investment firms that carry out brokerage activities in Poland through a local branch office.

In accordance with laws and regulations in force, all transactions on the regulated market of the WSE are executed on a delivery vs. payment basis and the rights are transferred three days after a transaction. In general, each investor is required to hold a securities account and a cash account with an investment firm or entity running custody operations in Poland while each investment firm and entity running custody operations in Poland are required to hold appropriate accounts with the NDS and a cash account with a clearing bank. As part of securities deposit or the securities registration system operated by the NBP, entities authorised to keep securities accounts may also keep collective accounts, i.e. accounts on which dematerialised securities not held by persons for whom such accounts are kept may be recorded, while

such securities are actually held by other person or persons. Collective accounts may be kept only on behalf of entities referred to in the Trading Act.

Pursuant to regulations of the WSE and the NDS, KDPW\_CCP is obliged to clear transactions executed by WSE members based on the list of transactions (post-session sets) delivered by the WSE. WSE members coordinate settlements for clients on whose account the transactions are executed.

## **Dematerialisation**

### ***Introduction***

The dematerialisation of securities amounts to the fact that securities which are (i) subject to a public offer, or (ii) admitted to trading on a regulated market, or (iii) introduced to an alternative system of trading, or (iv) issued by the State Treasury or the NBP—do not have a documentary form from the time of their registration by the NDS in the depository for securities maintained by the NDS.

Dematerialisation may not apply, if so decided by an issuer, to the securities which are (i) subject to a public offer and will not be admitted to trading on a regulated market or (ii) will be admitted to trading only in an alternative system of trading.

For the purposes of dematerialisation, an issuer of securities must sign an agreement with the NDS on the registration of such securities in the depository for securities maintained by the NDS. The agreement on the registration of shares in the depository for securities is also the basis for registering pre-emptive rights from such shares in the depository for securities.

Rights in dematerialised securities arise when the securities are first recorded in a securities account and represent the rights of the holder of the account. In the case of securities recorded in collective accounts, the rights in such securities are not vested in the account holder. In the territory of Poland, the holder of the rights to securities recorded on a collective account is the person indicated to the entity keeping such an account in a notice served by the account holder, the number of shares concerned is also specified in such a notice.

A share transfer agreement concerning dematerialised securities conveys the title to such securities as of the moment of making the relevant entries on the securities accounts. If dematerialised securities are purchased on the basis of a legal transaction in which their transfer occurs by operation of law, an entry on the securities account of the transferee is made at its request.

At the request of an account holder, the institution keeping its securities account should issue deposit certificates, separately for each class of securities recorded on the account. The deposit certificate corroborates the holder's authorisation to exercise the rights attached to the securities specified on the certificate, if those rights are not or cannot be exercised merely on the basis of entries on the securities account, save for the rights to participate in a general meeting. Deposit certificates are issued by brokerage houses, banks engaging in brokerage business, fiduciary banks, foreign investment firms and foreign legal persons engaging in brokerage business in Poland, in the form of branches of the NDS or NBP—if the designation of an account identifies the persons holding the rights attached to the securities.

Upon the issuance of a deposit certificate, the securities in the number specified in the certificate cannot be traded until the deposit certificate expires or is returned to the issuing institution prior to the end of its validity period. For that period the entity issuing the certificate will block an appropriate number of securities on that account. The same securities may be referred to in a number of different certificates, provided that each certificate is issued for a different purpose. In such event, the subsequently issued certificates should bear notes on the fact that the securities are blocked in relation to the previously issued certificates.

### ***Dematerialisation of Shares covered by the Offering Circular***

In order to fulfil the requirements specified in the Trading Act in connection with the Offer and the application for the admission and introduction of the series AA Shares to trading on the WSE's main market, the Issuer intends to conclude an agreement on registration of the series AA Shares with the NDS in the deposit kept by the NDS (dematerialisation of shares). The Trading Act also requires that prior to

concluding an agreement with the NDS the Company place the Share documents which are to be dematerialised in a deposit in Poland kept by an investment company, the NDS or a company appointed by the NDS to operate the deposit of securities. Centralny Dom Maklerski PEKAO S.A. keeps a deposit for the Issuer's Shares. The Issuer has signed an agreement which requires Centralny Dom Maklerski PEKAO S.A. to make a register of shareholders in whom rights are vested by the Shares pursuant to Article 6 Section 1 of the Trading Act. The Company intends to ask the NDS to dematerialise the Shares, with their holders being entered in the depository registers kept by Centralny Dom Maklerski PEKAO S.A. The Issuer intends to apply to the WSE for admission and introduction of the series AA Shares to stock exchange trading.

The Company wishes to emphasise that in some cases the manner of exercising the rights attached to dematerialised Shares will be different than the manner of exercising the rights attached to non-dematerialised shares, as the Company becomes a public company (which will occur upon the dematerialisation of at least one Share). Furthermore, after the Company becomes a public company, it will be subject to a different legal regime. In particular, the manner of convening the General Meetings will change. A description of the manner of exercising the general rights set forth in the section "Share capital and Shares" mainly refers to exercising the rights in dematerialised (bearer) Shares of the Company after the Company obtains the status of a public company. The holders of registered shares (non-dematerialised) are urged to note that at the date when the Company becomes a public company, in some cases the rules of exercising their rights from the Shares will change. The section "Share capital and Shares" does not provide exhaustive information on the rules of exercising the rights from non-dematerialised (registered) shares. The Company recommends that holders of registered shares seek legal advice as required.

#### *Reversal of dematerialisation of shares*

At the request of an issuer whose registered office is located in the territory of the Republic of Poland, the PFSA may grant a permit for the shares to be reversed into documentary form (reversal of dematerialisation of shares) upon satisfaction of the requirement set forth in the Offering Act. The legal effect of the permit being granted is that the obligations resulting from the Offering Act and arising in connection with the public offer of shares or with their admittance to trading on a regulated market within the territory of the Republic of Poland, and the obligations specified in the section of the Offering Act concerning significant blocks of shares in public companies, cease to apply. In its decision granting such a permit, the PFSA shall specify a period, not exceeding one month, upon the expiry of which the reversal is effected.

An application for the reversal of dematerialisation may be filed with the PFSA if a shareholders' meeting adopts a resolution on the reversal of dematerialisation in the presence of shareholders representing at least half of the company's share capital and with the majority of four-fifths of the votes cast. The shareholder(s) representing at least one-twentieth of the share capital may request an extraordinary general meeting to be convened and the resolution on the reversal of dematerialisation to be placed on its agenda.

The shareholder(s) who requested the resolution to reverse the dematerialisation to be placed on the agenda of the shareholders' meeting is first obliged to announce a tender offer for the sale of shares of the company by all remaining shareholders. The shareholder(s) who requested the resolution to reverse the dematerialisation to be placed on the agenda of the shareholders' meeting may only acquire shares in that company under the tender offer procedure in the period between submitting the request and closing the tender.

The obligation to announce the aforementioned tender offer does not arise if all of the shareholder(s) of the public company request the resolution to reverse the dematerialisation to be placed on the agenda of the general shareholders' meeting.

## **Manipulation**

The Trading Act prohibits any manipulation involving financial instruments, such as:

- placing orders or concluding transactions which are or may be misleading as to the actual demand, supply or price of a financial instrument, unless the reasons behind such activities were justified, and the orders placed or transactions concluded have not infringed the market practices established on a given regulated market;
- placing orders or concluding transactions which result in the unnatural or artificial pricing of one or more financial instruments, unless the reasons for acting accordingly were justified, and the orders placed or transactions concluded have not infringed the market practices established on a given regulated market;
- placing orders or concluding transactions with the intention of bringing about legal effects other than those for which a given legal act is actually performed;
- distributing in the public media, including the Internet, or in any other way, false or inaccurate information or rumours on financial instruments, which are or may be misleading: (a) by a journalist—if such person failed to exercise due professional care or obtained direct or indirect personal or material benefit for himself/herself or another person as a result of distributing such information, even if acting with due professional care; (b) by another person, if this person knew or could have known by exercising due care, that such information is untrue or misleading;
- placing orders or concluding transactions while misleading market participants, or taking advantage of them being misled, as to the price of financial instruments;
- ensuring control over the demand or supply of a financial instruments in breach of the principles of fair trading or in a manner resulting in a direct or indirect determination of the purchase or sale prices of financial instruments;
- acquiring or disposing of financial instruments towards the closing of quotations in a manner misleading to investors acting on the basis of the price determined at this stage of the quotations;
- obtaining material benefits resulting from the impact of opinions on financial instruments or their issuers expressed in the public media on an occasional or regular basis, on the price of financial instruments held, unless the existing conflict of interest has been fully and fairly disclosed to the public.

A person performing manipulation may be subject to a fine of up to PLN 5 million or imprisonment for a period from three months to five years, or both. A person collaborating with a person intending to manipulate is subject to a fine of up to PLN 2 million. In addition, the PFSA may in some cases of manipulation impose a pecuniary penalty up to PLN 200,000 or a pecuniary penalty up to tenfold the obtained financial benefit, or both.

## **Confidential information**

### *Definition of confidential information*

Confidential information is the information relating directly or indirectly to one or more issuers of financial instruments, one or more financial instruments or to the acquisition or disposal of such instruments, which has not been disclosed publicly and, if disclosed publicly, could have affected the price of such financial instruments or the prices of related derivative financial instruments, given that the information:

- is specific—when referring to circumstances or events which have occurred or may reasonably be expected to occur, and the nature of the information sufficiently enables assessment of the impact of such circumstances or events on the price or value of financial instruments or the price of related derivative financial instruments;

## POLISH SECURITIES MARKET REGULATIONS AND OBLIGATIONS RELATING TO THE ACQUISITION AND DISPOSAL OF SHARES

---

- having been disclosed publicly, could materially impact on the price or value of financial instruments or the price of related derivative financial instruments, and a reasonable investor could then use it when making investment decisions;
- as regards persons involved in executing instructions relating to financial instruments, is of a confidential nature even if disclosed to this person by an investor or another person aware of such instructions, and relates to instructions placed by the investor as to acquiring or disposing of financial instruments, given that both of the conditions listed above are met.

Any person (i) having access to confidential information due to this person's role in corporate bodies, shareholding or employment, professional practice, including a contractor relationship or another legal relation of a similar nature, or (ii) having confidential information as a result of committing a crime, or (iii) obtained confidential information in any other manner, if such person was aware, or by applying due care could have become aware that the information was confidential, they cannot: (a) take advantage of confidential information; (b) disclose confidential information, or (c) recommend or encourage another person, based on confidential information, to acquire or dispose of financial instruments to which the confidential information is related.

Taking advantage of confidential information includes acquiring or disposing, on one's own account or on account of a third party, financial instruments based on confidential information held by such a person, or performing, on one's own account or on account of a third party, another legal act which results or may result in disposing of the financial instruments referred to in the Trading Act.

A person found guilty of taking advantage of confidential information may be subject to a fine of up to PLN 5 million, imprisonment for between three months and five years, or both. Members of corporations, registered proxies or attorneys for the issuer, or its employees, registered auditors or other persons having a relationship of mandate with the issuer or another legal relationship of a similar nature may be subject to imprisonment for between six months and eight years and a fine.

Disclosing confidential information includes providing, allowing or facilitating access to confidential information for an unauthorised person referred to in the Trading Act.

A person found guilty of disclosing confidential information may be subject to a fine of up to PLN 2 million, imprisonment for up to three years, or both.

A person found guilty of making recommendations for or encouraging the acquisition or disposal of financial instruments to which the confidential information relates may be subject to a fine of up to PLN 2 million, imprisonment for up to three years, or both.

### ***Restrictions related to the acquisition of shares in a public company during closure periods***

Members of the management board, supervisory board, commercial proxies or attorneys of a public company, its employees, registered auditors or other persons having a contracted relationship with the public company or another legal relationship of a similar nature (persons having access to confidential information) cannot, during a closure period, acquire or dispose, on their own account or on behalf of third parties, the shares of the public company, derivative rights attached to the shares of the public company and other financial instruments related thereto, nor perform, on their own account or on behalf of third parties, any other legal actions which results or may result in the disposal of such financial instruments. The person referred to in the preceding sentence cannot, during a closure period and acting as a corporate body of a legal person, perform actions intended to result in an acquisition or disposal by this legal person, on its own account or on behalf of a third party, of shares of a public company, derivative rights attached to the shares of the public company and other financial instruments related thereto, nor perform, on their own account or on behalf of a third party, any other legal actions which result or may result in the legal person disposing of such financial instruments.

The restrictions listed in the preceding paragraph shall not apply to actions performed:

- by an entity conducting brokerage activities to which a person having access to confidential information entrusted the management of a portfolio of financial instruments in a manner which excludes this person from investment decisions made on his/her behalf; or



POLISH SECURITIES MARKET REGULATIONS AND OBLIGATIONS  
RELATING TO THE ACQUISITION AND DISPOSAL OF SHARES

---

- as part of the execution of an agreement imposing an obligation to dispose or acquire shares in a public company, derivatives rights attached to the shares of a public company and other financial instruments related thereto, concluded in writing with a certified date before the beginning of a given closure period; or
- as a result of placing a subscription by a person having access to confidential information responding to a tender offer for the sale or exchange of shares, in accordance with the provisions of the Offering Act; or
- in connection with an obligation of a person having access to confidential information to announce a tender offer for the sale or exchange of shares, in accordance with the provisions of the Offering Act; or
- in connection with the execution of a pre-emptive right of an existing shareholder of a public company; or
- in connection with an offer addressed to employees or members of the statutory bodies of a public company, provided that information on such an offer was publicly available before the beginning of a given closure period.

The closure period shall mean the following:

- (a) the period from the moment when a person having access to confidential information obtained confidential information relating to the shares of a public company, derivatives rights attached to the shares of a public company and other financial instruments related thereto until the moment of the said information becoming publicly available;
- (b) in the case of an annual report—two months before the publication of the report, or the period between the end of the relevant financial year and the publication of the report, if shorter than the first of the periods indicated, unless a person having access to confidential information did not have access to financial information based on which the report was prepared;
- (c) in the case of a semi-annual report—one month before the publication of the report, or the period between the end of the relevant semi-annual period and the publication of the report, if shorter than the first of the periods indicated, unless a person having access to confidential information did not have access to financial information based on which the report was prepared;
- (d) in the case of a quarterly report—two weeks before the publication of the report, or the period between the end of the relevant quarter and the publication of the report, if shorter than the first of the periods indicated, unless a person having access to confidential information did not have access to financial information based on which the report was prepared.

A person having access to confidential information who violates the restrictions described above may be punished by the PFSA with a pecuniary penalty of up to PLN 200 thousand.

Additionally, members of the managing or supervisory bodies of an issuer or its registered proxies, as well as executive officers of the issuer who have permanent access to confidential information pertaining directly or indirectly to the issuer, and decision making competencies affecting the development of the business prospects of the issuer, are required to notify the PFSA and the issuer of any acquisitions and disposals of the issuer's shares and related instruments admitted to trading on a regulated market or subject to applications for such admissions, if such transactions are effected by these persons on their own account or by their relatives. A breach of this obligation may be subject to a fine of up to PLN 100 thousand.

**Obligations under the Offering Act relating to significant blocks of shares in public companies**

*Disclosure obligations regarding the acquisition and sale of significant blocks of shares in public companies*

Pursuant to the Offering Act, any person who:

- (a) reached or exceeded 5%, 10%, 15%, 20%, 25%, 33%, 33⅓%, 50%, 75% or 90% of the total number of votes in a public company; or

## POLISH SECURITIES MARKET REGULATIONS AND OBLIGATIONS RELATING TO THE ACQUISITION AND DISPOSAL OF SHARES

---

- (b) held at least 5%, 10%, 15%, 20%, 25%, 33%, 33⅓%, 50%, 75% or 90% of the total number of votes in such a company, and as a result of reducing this share reached, respectively, 5%, 10%, 15%, 20%, 25%, 33%, 33⅓%, 50%, 75% or 90% or less of the total number of votes,

is obliged to notify the PFSA immediately and the relevant public company of this fact forthwith, no later than four business days from the date of learning about the change in their share in the total number of votes, or could have learned by exercising due care, and in the case of a change resulting from the acquisition of shares in a public company in a transaction concluded on a regulated market, no later than six trading days from the date of the transaction. Trading days shall be defined as specified by the company which operates a given regulated market (the WSE in the Company's case), in accordance with the Trading Act, and announced by the PFSA on its website.

The obligation to notify the PFSA and the public company shall also arise in the event of:

- (a) a change in the already held share of more than 10% of the total number of votes, by at least: (a) 2% of the total number of votes in the case of a public company whose shares have been admitted to trading on the official stock market; (b) 5% of the total number of votes in the case of a public company whose shares have been admitted to trading on a regulated market other than the official stock exchange market;
- (b) a change in the already held share of more than 33% of the total number of votes in a public company, by at least 1% of the total number of votes.

The notification may be prepared in English.

The requirement to notify the PFSA and the public company does not arise if upon the settlement in the depository for securities of a number of transactions executed on a regulated market on a single day, the change in the share of the total number of votes in the public company at the end of the settlement day does not result in reaching or exceeding any threshold which triggers the creation of obligations referred to above.

A public company is required to promptly pass any information received from its shareholders in exercising the obligations described above, simultaneously, for publication, to the PFSA and to the company operating the regulated market on which the company's shares are listed.

The PFSA may impose a fine of up to PLN 1 million on any person who acquires or disposes of securities in breach of these prohibitions.

The PFSA may release a public company from the obligation to publish information if disclosing such information could:

- (a) harm public interests;
- (b) cause material damage to the company's interests, provided that not publishing the information will not mislead the investors generally as to the evaluation of securities.

### ***Tender offer for the sale or exchange of shares in public company***

#### *Tender offer pursuant to Article 72 of the Offering Act*

The acquisition of a number of shares in a public company that results in the total number of votes being increased by more than:

- (a) 10% of the total number of votes within fewer than sixty days by an entity whose share in the total number of votes was lower than 33%;
- (b) 5% of the total number of votes within less than 12 months by a shareholder whose share in the total number of votes in that company was at least 33%
- may only be effected by announcing a tender for the sale or exchange of a number of such shares accounting for not less than, respectively, 10% or 5% of the total number of votes.

*Tender offer pursuant to Article 73 of the Offering Act*

A shareholder may exceed the 33% threshold of the total number of votes in a public company, subject to the exceptions described below, only as a result of a tender offer to sell or exchange shares in such company, concerning a number of shares which confers the right to 66% of the total number of votes, unless 33% of the total number of votes is to be exceeded as a result of a tender offer for the sale or exchange of all remaining shares in a company.

If a shareholder exceeds the 33% threshold of the total number of votes as a result of an indirect acquisition of shares (i.e. of obtaining the status of a dominant entity in a company or another legal person holding shares in a public company, or in another company or a legal person which is its dominant entity and acquisition or taking up of shares of a public company by a direct or indirect subsidiary), taking up newly issued shares, acquisition of shares as part of a public offer or a non-cash contribution to the company, a merger or demerger of the company, amendments to the company's articles of association, expiry of preference rights attached to shares, or otherwise as a result of a legal event other than a legal transaction, the shareholder or entity acquiring shares indirectly shall, within three months of the date of exceeding 33% of the total number of votes:

- (a) announce a tender offer to sell or exchange the company's shares, concerning the number of shares conferring the right to 66% of the total number of votes; or
  - (b) dispose of a sufficient number of shares as to be left with shares conferring the right to no more than 33% of the total number of votes
- unless within that period the share of such shareholder or entity acquiring shares indirectly in the total number of votes decreases to no more than 33% of the total number of votes, as a result of an increase in the share capital, amendments to the company's articles of association, or the expiry of preference rights attached to shares, as the case may be.

If a shareholder exceeds 33% of the total number of votes as a result of inheritance, then the obligation referred to above only applies if following such an acquisition the shareholder's voting rights increase further. The time period in which the shareholder must perform the obligation commences on the day of the event resulting in an increase in the shareholder's voting rights.

*Tender offer pursuant to Article 74 of the Offering Act*

A shareholder may exceed 66% of the total number of votes in a public company, subject to the exception described in the paragraph below, only as a result of a tender offer to sell or exchange the remaining shares in the company.

If the threshold of 66% of the total number of votes is exceeded as a result of an indirect acquisition of shares, taking up of shares of a new issue, acquisition of shares as part of a public offer or non-cash contribution to the company, merger or demerger of the company, amendments to the company's articles of association, expiry of preference rights attached to shares, or otherwise as a result of a legal event other than a legal transaction, the shareholder or entity acquiring shares indirectly shall, within three months of the date of exceeding 66% of the total number of votes, announce a tender offer for the sale or exchange of the remaining shares in the company, unless within that period the share of such shareholder or entity acquiring shares indirectly in the total number of votes decreases below 66% as a result of an increase in share capital, amendments to the company's articles of association, or the expiry of preference rights attached to shares, as the case may be.

If, within six months of a tender offer for the sale or exchange of all remaining shares in a public company, a shareholder acquires further shares in the company at a price higher than the price set in the tender offer other than by way of a tender offer or squeeze-out of the shares upon the request of a minority shareholder, the shareholder is obliged, within a month from the date of such an acquisition, to pay the difference in the share price to all persons that sold shares by accepting that tender offer, except for those from whom the shares were acquired at a reduced price, with respect to all shares constituting at least 5% of all the shares of the public company acquired from a person responding to the tender, where the entity was obliged to announce the tender and such person decided to reduce the share price.

## POLISH SECURITIES MARKET REGULATIONS AND OBLIGATIONS RELATING TO THE ACQUISITION AND DISPOSAL OF SHARES

---

If a shareholder exceeds 66% of the total number of votes as a result of inheritance, then the obligation referred to above only applies if following such an acquisition the shareholder's voting rights increase further. The time period in which the shareholder must perform the obligation commences on the day of the event resulting in an increase in the shareholder's voting rights.

### *Exceptions to the obligation of announcing the tender offer*

An obligation to announce the tender offer pursuant to Article 72 of the Offering Act shall not arise in the case of acquiring shares as part of an initial public offer, a non-cash contribution to the company, and merger or demerger of the company.

The obligation to announce the tender offer pursuant to Articles 72 and 73 shall not arise in the case of acquiring shares from the State Treasury (a) through an initial public offer; (b) within the period of three years of the closing of the sale of the shares by the State Treasury through an initial public offer.

The obligation to announce the tender offer pursuant to Articles 72 through 74 of the Offering Act shall not arise in the case of acquiring shares:

- (a) in a company whose shares have been introduced solely to an alternative trading system or have not been traded on a regulated market;
- (b) from an entity being a member of the same capital group;
- (c) by way of a procedure provided for in bankruptcy and rehabilitation regulations, or enforcement proceedings;
- (d) under an agreement on the establishment of financial collateral between qualifying entities, concluded on the terms and conditions defined in the Act on Certain Financial Collaterals;
- (e) encumbered with a pledge in order to satisfy a pledgee entitled, under other acts, to satisfy its claims by seizure;
- (f) through inheritance, except for cases referred to in items “—Tender offer pursuant to Article 73 of the Offering Act” and “—Tender offer pursuant to Article 74 of the Offering Act” above, where, despite obtaining the shares through inheritance, the requirement of announcing a tender offer stands.

### *Rules governing the announcement of tender offers*

In a tender offer referred to in Articles 72 and 73 of the Offering Act, only the following securities can be acquired in exchange for the shares subject to the tender offer: (a) dematerialised (i) shares of another company, (ii) depositary receipts, (iii) debentures or (b) bonds issued by the State Treasury. In a tender offer referred to in Article 74 of the Offering Act only the dematerialised shares of another company or other dematerialised securities carrying voting rights in the company can be acquired. Where the tender offer concerns all remaining shares of the company, its terms must allow the entity responding to the tender to sell its shares at a price determined in compliance with the detailed regulations of the Offering Act, as described below.

A tender offer may be announced after collateral is established for not less than 100% of the value of the shares covered by the tender offer. The collateral should be documented with a certificate issued by a bank or another financial institution which granted, or intermediated in the granting of, the collateral.

A tender offer shall be announced and carried out via an entity conducting brokerage activities in the territory of the Republic of Poland, which is obliged, no later than fourteen business days prior to the commencement of the subscription period, to simultaneously notify the PFSA and the company operating the regulated market on which the given shares are listed, of the intention to announce the tender offer. A copy of the tender offer document should be attached to the notification.

A tender offer may not be cancelled, unless another entity announces a tender offer for the same shares after the first tender offer has been announced. A tender offer for the remaining shares in a given company announced pursuant to Article 74 of the Offering Act may be cancelled only if another entity announces a tender offer for all remaining shares in the company at a price not lower than the price of the first tender offer.

POLISH SECURITIES MARKET REGULATIONS AND OBLIGATIONS  
RELATING TO THE ACQUISITION AND DISPOSAL OF SHARES

---

Upon receipt of notification of the announcement of a tender offer, the PFSA may, no later than three business days before the commencement of the subscription period, request that within a specified period of no fewer than two days, the tender offer document be amended or supplemented as necessary or that clarification of its wording be provided. The request referred to in the preceding sentence, served on the entity conducting brokerage activity which brokers the announcement and carries out the tender offer, is also deemed to have been served on the entity obligated to announce the tender offer. The commencement of the subscription period under a tender offer shall be suspended until the entity obligated to announce the tender offer completes the actions specified in the request.

In the period between the notification of a tender offer to the PFSA and the company operating the regulated market and the closing of the tender offer, the entity obliged to announce the tender offer and its subsidiaries or its dominant entities, or parties to a written or oral agreement concluded with the entity obliged to announce the tender offer regarding the acquisition of a public company's shares by these entities, or voting in concert at the shareholders' meeting or carrying out a consistent policy towards the company, may acquire shares in the public company to which the tender offer refers only as part of the tender offer and in a manner defined therein; may not dispose of shares in the public company to which the tender offer refers, or enter into any agreement under which they would be obliged to dispose of the shares, during the tender offer, as well as indirectly acquire shares of a public company to which the tender offer refers.

Upon the announcement of the tender offer, the entity required to announce it and the management board of the company concerned provide information regarding the tender offer, together with its content, to representatives of the company-level employee union organisations or, in case of the absence of such organisations, to the employees directly.

Upon the completion of the tender offer, the entity announcing the tender offer shall be obliged to notify, in the manner prescribed in the section “—Disclosure obligations regarding the acquisition and sale of significant blocks of shares in public companies,” of the number of shares acquired in the tender offer and the percentage of the total number of votes attached to them resulting from the tender offer.

*The price of shares proposed in the tender offer*

The share price proposed in a tender offer, if any shares in the company are traded on a regulated market, may not be lower than (i) the average market price for the six months preceding the announcement of the tender offer in which the shares were traded on the main market, or (ii) the average market price for a shorter period, if the shares were traded on the main market for a period shorter than that specified above.

If it is impossible to determine the price in accordance with the rules described above or for a company in respect of which composition or bankruptcy proceedings have been instituted, the price proposed in the tender offer may not be lower than the fair value.

Furthermore, the share price proposed in the tender offer may not be lower than (i) the highest price paid for the shares tendered in the tender offer by the entity obliged to announce the tender offer, its subsidiary or dominant entity, or parties to an agreement concluded with the entity obliged to announce the tender offer regarding the acquisition of a public company's shares by these entities, or voting in concert at the shareholders' meeting or carrying out a consistent policy towards the company, during the twelve-month period preceding the announcement of the tender offer, or (ii) the highest value of assets or rights, delivered in exchange for shares offered under the tender offer, during the twelve-month period before the tender announcement, by the entity obliged to announce the tender offer or entities referred to above.

The share price proposed in the tender offer for the sale or exchange of all remaining shares in a public company announced pursuant to Article 74 of the Offering Act may not be lower than the average market price for the three months, preceding the announcement of the tender offer, of trading in shares on a regulated market.

The price proposed in the tender offer may be lower than the price determined pursuant to the principles discussed above for shares constituting at least 5% of all the shares of the company to be acquired in the tender offer from a specific person accepting the tender offer, if the entity required to announce the tender offer and such persons so decide.



## POLISH SECURITIES MARKET REGULATIONS AND OBLIGATIONS RELATING TO THE ACQUISITION AND DISPOSAL OF SHARES

---

If the average market price of shares offered as part of the tender offer, determined in accordance with the principles discussed in this item, is significantly different than their fair value as a result of:

- (a) shareholders being granted any pre-emptive right, right to dividend, right to acquire shares in a surviving company following the spin-off of a public company and/or other property rights connected with holding shares in a public company;
- (b) a material deterioration of the financial standing or assets of the company as a result of events and/or circumstances that could not have been anticipated and/or prevented by the company;
- (c) a threat of permanent insolvency of the company

the entity announcing a tender offer may apply to the PFSA for consent to offer in a tender a price that is not in accordance with the criteria referred to above. The PFSA may give such consent, provided that the proposed price is not lower than the fair value of the shares and the announcement of the tender offer will not be contrary to the valid interests of shareholders, and may determine, by way of a decision, a time limit within which the tender offer with the price as specified in the decision should be announced. The PFSA will publish the decision regarding the application for consent to offer a tender price that is not in accordance with the criteria referred to above, together with its substantiation. Where the PFSA grants its consent, the price proposed in such a tender offer can be lower than the price set out in the PFSA's consent with respect to shares representing at least 5% of all shares of the public company that will be acquired under the tender offer from the person responding to the tender offer, if the entity required to announce the tender offer and such persons so decide.

The price proposed in a tender offer for an exchange of shares is the value of the dematerialised shares of the other company that will be transferred in exchange for the shares subject to the tender offer. The value of these shares with respect to shares traded on a regulated market is established as follows: (a) at the average market price for six months of trading in shares on the regulated market preceding the date of announcement of the tender offer; or (b) at the average price for a shorter period if the shares were traded on the regulated market for a period shorter than specified above. If the value of the shares cannot be established pursuant to the preceding sentence—they should be priced at their fair value.

The average market price referred to in the foregoing rules concerning the tender offer means an arithmetical mean of the average daily price weighted by trading volume.

No tender offers for the acquisition of the Shares were made in the last accounting year and until the date of the Offering Circular.

### *Penalties for breaching the obligations concerning tender offers*

A shareholder obliged to fulfil the obligations specified in Article 73 Section 2 and 3 of the Offering Act (see “—Tender offer pursuant to Article 73 of the Offering Act” above) or Article 74 Section 2 and 5 of the Offering Act (see “—Tender offer pursuant to Article 74 of the Offering Act” above) may not, until the date of fulfilment thereof, directly or indirectly acquire or take up shares in a public company in which it exceeded the threshold of the total number of votes specified in these regulations.

A shareholder may not exercise voting rights attached to shares in a public company which are the subject of a legal transaction or another legal event causing a given threshold of the total number of votes being reached or exceeded, if the reaching or exceeding of such threshold involved a breach of the obligation of announcing a tender offer pursuant to Article 72 of the Offering Act.

A shareholder may not exercise voting rights attached to all the shares in a public company if the exceeding of the threshold of the total number of votes involved a breach of the obligations specified, respectively, in Article 73 Section 1 (see “—Tender offer pursuant to Article 73 of the Offering Act” above) or Article 74 Section 1 of the Offering Act (see “—Tender offer pursuant to Article 74 of the Offering Act” above). The prohibition of exercising of the voting rights referred to in the preceding sentence shall also apply to all the shares in a public company held by the subsidiaries of the shareholder or the entity which acquired the shares in breach of the obligations specified in Article 73 Section 1 or Article 74 Section 1 of the Offering Act.

Any shareholder which exceeded the threshold of the total number of votes, in the instances referred to, respectively, in Article 73 Section 2 or 3 of the Offering Act (see “—Tender offer pursuant to Article 73 of the Offering Act” above) or Article 74 Section 2 or 5 of the Offering Act (see “—Tender offer pursuant to Article 74 of the Offering Act” above), may not exercise voting rights attached to all the shares in a public company, unless it fulfils the obligations set out in these regulations in a timely manner. The ban on exercising voting rights, referred to in the preceding sentence, shall also apply to all the shares in the public company held by the subsidiaries of the shareholder or entity which failed to fulfil the obligations specified in Article 73 Section 2 or 3 or Article 74 Section 2 or 5 of the Offering Act.

A shareholder may not exercise voting rights attached to shares in a public company acquired following a tender offer at a price determined in breach of Article 79 of the Offering Act (see “—The price of shares proposed in the tender offer” above).

An entity which acquired or took up shares in a public company in breach of the prohibition referred to in Article 77 Section 4 Item 3 of the Offering Act (the ban on indirect acquisition of shares in the public company which the tender offer concerns by the entity obliged to announce the tender offer and by the entities referred to in Article 79 Section 2 Item 1 of the Offering Act, in the period between the filing of the notification about the intention to announce the tender offer and the closing of the tender offer), and its subsidiaries, may not exercise voting rights attached to these shares. The prohibition referred to in the preceding sentence shall also apply to an entity which acquired or took up shares in breach of the prohibition referred to in the first paragraph of this item, as well as to the entities which, pursuant to Article 77 Section 4 Item 1 of the Offering Act, during the time between the filing of the notification of the intention to announce a tender offer and the closing of the tender offer, may acquire the shares of the company which the tender offer concerns only within the framework of the tender offer and only in the manner specified therein.

Voting rights attached to shares in a public company that have been exercised despite the prohibitions referred to in the foregoing paragraphs, and of the entity referred to in the fourth paragraph of this item, shall not be taken into account when counting the votes cast during a vote on a resolution of the shareholders’ meeting, subject to the provisions of other acts.

*Special instances relating to significant blocks of shares in public companies*

The obligations relating to significant blocks of shares in public companies discussed in this section also apply to:

- (a) an entity which reached or exceeded the statutory threshold of the total number of votes in connection with acquiring or disposing of deposit certificates issued in connection with shares of a public company;
- (b) an investment fund, also in a case when a given statutory threshold of the total number of votes specified in the regulations governing significant blocks of shares is reached or exceeded in connection with holding shares jointly by: (i) other investment funds managed by the same investment fund management company; (ii) other investment funds established outside the territory of the Republic of Poland and managed by the same entity;
- (c) an entity which reached or exceeded a given statutory threshold of the total number of shares specified in the regulations governing significant blocks of shares in connection with the holding of shares by: (i) a third party acting in its own name, but on behalf of or commissioned by that entity, excluding shares acquired as part of performing activities which consist in executing purchase or sale orders for financial instruments on the account of the orderer; (ii) as part of performing activities which consist in managing the portfolios including one or more financial instruments, in accordance with the Trading Act and the Act on Investment Funds, as far as they concern shares included in the managed portfolio of securities, which give the entity the right to exercise voting rights at the shareholders’ meeting on the behalf of the orderers; (iii) by a third party with which such an entity concluded an agreement to transfer the right to exercise voting rights;

## POLISH SECURITIES MARKET REGULATIONS AND OBLIGATIONS RELATING TO THE ACQUISITION AND DISPOSAL OF SHARES

---

- (d) a proxy who, in his/her capacity as representative of a shareholder at the shareholders' meeting, was authorised to exercise the voting rights attached to a share of a public company, if the shareholder has not issued any binding written instructions as to how to vote;
- (e) also, jointly on all parties to a written or oral agreement regarding the acquisition of shares in public company or voting in concert at the shareholders' meeting or carrying out a consistent policy towards a public company, even if only one of such entities undertook or intended to undertake actions giving rise to such obligations;
- (f) parties to an agreement referred to in the preceding item, which hold the number of shares in a public company which ensures that a given threshold specified in the provisions of the Offering Act has been jointly reached or exceeded.

In the instances specified in the items (e) and (f) above, the obligations set out in the provisions of the Offering Act concerning significant blocks of shares in public companies may be implemented by one of the parties to the agreement designated by the parties to the agreement.

The obligations set out in the provisions of the Offering Act concerning significant blocks of shares of a public company shall also arise when voting rights concern securities deposited and/or registered with an entity which may dispose of them at its discretion.

It is assumed that an agreement regarding the acquisition of shares in a public company or voting in concert at the shareholders' meeting or carrying out a consistent policy towards a public company exists when shares in the public company are held by: (a) spouses, their ascendants, descendants and siblings or relatives by affinity in direct line and of the same degree, as well as persons under their care or tutelage, and persons remaining in an adoption relationship; (b) persons sharing a household; (c) the principal and his/her attorney, other than an investment company, authorised to place orders to purchase or sell securities in a securities account; (d) associates within the meaning of the Accounting Act.

The number of votes which gives rise to the obligations referred to in the Offering Act with respect to significant blocks of shares in public companies includes (a) on the part of the dominant entity—the voting rights held by its subsidiaries; (b) on the part of the proxy holder who has been authorised to exercise the voting rights attached to shares of a public company on behalf of the shareholder represented at the shareholders' meeting, given that the shareholder has not issued any binding written instructions as to how to vote—the number of votes attached to the shares covered by the power of proxy; (c) the votes attached to all shares, even if the exercise of these voting rights is restricted or prohibited under the articles of association, contract or provisions of law.

### **Squeeze-out**

A shareholder in a public company that on its own or together with its subsidiaries or dominant companies or with companies which are parties to a written or oral agreement regarding the acquisition of shares in a public company or voting in concert at the shareholders' meeting or carrying out a consistent policy towards a public company, holds 90% or more of the total number of votes in such company, may demand, within three months of reaching or exceeding the relevant threshold, that the remaining shareholders sell all the shares held by them.

The squeeze-out price is determined in accordance with the principles set out in the Offering Act which concerns the determination of a share price under a tender offer (Article 79 Sections 1-3) provided that, if the 90% of total number of votes was reached or exceeded as a result of a tender offer for the sale or exchange of the remaining shares in the company announced pursuant to Article 74 of the Offering Act, the squeeze-out price may not be lower than the price proposed in this tender offer.

The acquisition of shares in a squeeze-out shall take place without the consent of the shareholder to whom the demand to sell is addressed.

The announcement of the demand to sell shares under a squeeze-out shall take place after the establishment of collateral of not less than 100% of the value of the shares that are to be squeezed out. The collateral should be documented with a certificate issued by a bank or another financial institution which granted, or intermediated in the granting of, the collateral.

## POLISH SECURITIES MARKET REGULATIONS AND OBLIGATIONS RELATING TO THE ACQUISITION AND DISPOSAL OF SHARES

---

The squeeze-out shall be announced and carried out via an entity conducting brokerage activities in the territory of the Republic of Poland, which is obliged, no later than fourteen business days before the commencement of the squeeze-out, to simultaneously notify the PFSA and the company operating the regulated market on which the given shares are listed, and if the company's shares are listed in a number of regulated markets, all such companies, of the intention to announce the tender offer. Information on the squeeze-out shall be attached to the notification by such an entity.

Once announced, a rescission of a squeeze-out is not permitted.

### **Sell-out**

A shareholder in a public company may demand that another shareholder, which holds 90% or more of the total number of votes, acquire the shares it holds in such company. The demand is made in writing within three months from the date on which such a shareholder reaches or exceeds the relevant threshold.

If the information, on reaching or exceeding the relevant threshold of 90% of the total number of votes referred to above is not published in the manner specified in the Offering Act, the period during which a shareholder must submit a demand shall commence on the date on which the shareholder of a public company entitled to demand the acquisition of shares held by it became aware or could have become aware, while exercising due care, that another shareholder had reached or exceeded the relevant threshold.

This demand shall be satisfied jointly by the shareholder that reached 90% or more of the total number of votes and by its subsidiaries and dominant entities within 30 days of its submission. The requirement to acquire the shares shall also be borne jointly and severally by parties to a written or oral agreement regarding the acquisition of shares in a public company by its parties or on concerted voting at a shareholders' meeting or carrying out a consistent policy towards a company, provided the parties to such agreement command in aggregate, together with dominant entities or subsidiaries, not less than 90% of the total number of votes.

A shareholder requesting the sell-out of shares on the basis specified above is entitled to be offered a price not lower than that determined in accordance with the provisions of Article 79 Sections 1 through 3 of the Offering Act, which concerns the determination of a share price under a tender offer, provided that if 90% of the total number of votes was reached or exceeded as a result of a tender offer for the sale or exchange of the remaining shares in the company announced pursuant to Article 74 of the Offering Act, the sell-out price may not be lower than the price proposed in this tender offer.

### **Mandatory notifications of a new domination relationship under the CCC**

A shareholder which qualifies as a "dominant" shareholder over a company within the meaning of Article 4 Section 1 item 4) of the CCC, is obliged to notify the subsidiary of the dominant relationship within two weeks of its establishment, otherwise the voting rights attached to the Shares representing over 33% of the share capital of the subsidiary shall be suspended. A General Meeting resolution adopted in breach of the CCC provisions relating to notification of any dominant relationship is invalid, unless it satisfies the requirements on quorums and a voting majority irrespective of the invalid votes.

The parent company of a company within the meaning of the CCC is a commercial company which: (a) holds, directly or indirectly, a majority of votes at the general meeting, also as a pledgee or beneficial owner, or in the management board, also under agreements with other persons; or (b) has the power to appoint or remove a majority of the management board members, also under agreements with other persons; or (c) has the power to appoint or remove a majority of the supervisory board members, also under agreements with other persons; or (d) members of its management board constitute over a half of the management board members of another company; or (e) holds, directly or indirectly, a majority of votes in a subsidiary partnership, or holds such a majority at the general meeting of a subsidiary cooperative, also under agreements with other persons; or (f) has a decisive influence over the activities of the company, in particular under management contracts or profit distribution agreements regarding the company.

The shareholder of the company, or a member of the management board or supervisory board may request the commercial company which is a shareholder of the company to provide information on whether or not

it is in any dominant or subsidiary relationship with a commercial company or cooperative which is also a shareholder of the company. An authorised shareholder may also request disclosure of the number of shares or votes held in the company by the commercial company to which the request is addressed, also as a pledgee or beneficial owner, or under agreements with other persons. The request for information and any replies thereto should be made in writing. The answers to questions should be given to an authorised shareholder and the company within ten days of the receipt of such request. If the request for information was received by its addressee in the two weeks before the date of the general meeting, then the term for reply should commence on the date following the day that the general meeting ended. From the commencement of the term to the date of reply, the company obliged to reply cannot exercise the rights attached to the shares held by it.

The abovementioned provisions apply accordingly after the dominant relationship ceases. The company that is no longer the parent company in relation to the company is obliged to give notification of the end of such a domination relationship.

### **Notification requirements ensuing from anti-monopoly regulations**

#### *European Union regulations*

A concentration of undertakings operating in Poland may also be subject to European Law. The Concentration Regulation applies to “Concentrations having an EU dimension”. A given concentration has an EU dimension where:

- the combined, aggregate, worldwide turnover of all the undertakings concerned exceeds EUR 5 billion and
- the aggregate turnover in the EU of each of at least two of the undertakings concerned exceeds EUR 250 million,

unless each of the undertakings concerned achieves more than two-thirds of its aggregate turnover in the EU within one and the same Member State.

A concentration which does not satisfy the above criteria is nevertheless deemed to have an EU dimension where the following conditions are satisfied jointly:

- the combined, aggregate, worldwide turnover of all the undertakings concerned exceeds EUR 2.5 billion,
- in each of at least three Member States, the combined aggregate turnover of all the undertakings concerned exceeds EUR 100 million,
- in each of at least three Member States included for the purpose of point (b) above, the aggregate turnover of each of at least two of the undertakings concerned exceeds EUR 25 million; and
- the aggregate turnover in the EU of each of at least two of the undertakings concerned exceeds EUR 100 million,

unless each of the undertakings concerned achieves more than two-thirds of its aggregate turnover in the EU within one and the same Member State.

A concentration governed by the Concentration Regulation arises where the change of control on a lasting basis results from:

- the merger of two or more previously independent undertakings or parts of undertakings, or
- the acquisition, by one or more persons already controlling at least one undertaking, or by one or more undertakings, whether by acquisition of securities or assets, by contract or by any other means, of direct or indirect control over the whole or parts of one or more undertakings.

A concentration governed by the Concentration Regulation also arises where a joint venture is created which permanently performs all functions of a standalone business entity.

Concentrations with an EU dimension defined in the Concentration Regulation must be notified to the European Commission prior to their implementation and following the conclusion of the agreement, the



announcement of a public takeover bid or the acquisition of a controlling interest, however in certain cases concentration may be notified at an earlier stage. Concentration shall be suspended until the final decision of the EC or the lapse of the time provided for the issuance of such a decision. If the EC finds that a notified concentration will not significantly impact on effective competition on the common market or a significant part thereof, in particular as a result of creating or strengthening a dominant position, the EC will deem such concentration to be consistent with the common market.

In principle, concentrations governed by the Concentration Regulation are not subject to notification to the anti-monopoly authorities of a Member State.

#### *Act on Competition and Consumer Protection*

The AMO President must be notified of a contemplated concentration of entrepreneurs if:

- the aggregate global turnover of the entrepreneurs engaged in the concentration in the fiscal year preceding the year of the notification exceeded the equivalent of EUR 1 billion; or
- if the aggregate turnover in Poland of the entrepreneurs engaged in the concentration in the fiscal year preceding the year of the notification exceeded the equivalent of EUR 50 million.

The turnover referred to in the preceding paragraph includes:

- the turnover of the direct participants in the concentration; and
- the turnover of other members of the capital groups to which the direct participants belong.

The AMO President shall consent to a concentration as a result of which competition on the market will not be materially reduced, in particular through the emergence or consolidation of a dominant position on the market.

The provisions of the Act on Competition and Consumer Protection apply not only to entrepreneurs within the meaning of the regulations dealing with the freedom of economic activity, but also to natural persons exercising control within the meaning of the provisions of the Act on Competition and Consumer Protection over at least one entrepreneur who takes further actions falling within the scope of supervision of concentration ensuing from the provisions of the Act on Competition and Consumer Protection, even if such natural persons did not engage in a business activity within the meaning of the regulations on the freedom of economic activity.

The obligation to notify the AMO President of a contemplated concentration referred to above applies in relation to (i) an intention to merge two or more independent entrepreneurs, (ii) a plan to take, by way of acquisition of shares or other securities, or otherwise, direct or indirect control over one or more entrepreneurs by one or more entrepreneurs, (iii) establishing of a joint venture by entrepreneurs, (iv) acquisition by an entrepreneur of assets of another entrepreneur (the whole enterprise or its part), if the turnover attributable to such assets in any of the two years preceding the notification exceeded EUR 10 million in the territory of Poland.

Within the meaning of the Act on Competition and Consumer Protection, the taking over of control shall mean any form of direct or indirect obtaining of rights which, severally or jointly, taking into account all the legal or factual circumstances, make it possible to exert a decisive influence on a certain entrepreneur or entrepreneurs.

Notification of a contemplated concentration is not required if the turnover of the entrepreneur, over which control is being taken, did not exceed the equivalent of EUR 10 million in Poland in either of the two fiscal years preceding the notification. Furthermore, no notification is required of a contemplated concentration:

- consisting of an interim acquisition or taking up of shares by a financial institution for the purpose of resale if the scope of business of that institution includes investing in shares of other enterprises on its own or other investors' behalf, provided that such resale takes place within one year of the acquisition or taking up of the shares, and that (a) that institution does not exercise the rights attached to the shares, except for the right to dividend, or (b) it only exercises such rights for the purpose of preparing the resale of the whole or part of a business, its assets or such shares;

POLISH SECURITIES MARKET REGULATIONS AND OBLIGATIONS  
RELATING TO THE ACQUISITION AND DISPOSAL OF SHARES

---

- consisting of an interim acquisition or taking up of shares by an entrepreneur for the purpose of securing receivables, provided it does not exercise the rights attached to those shares, except the right to sell them;
- occurring in the course of bankruptcy proceedings, except when the taking of control is by competing entities or entities from competing capital groups towards the entrepreneur which is being taken over;
- of entrepreneurs belonging to the same capital group.

The entrepreneurs participating in a concentration which requires notification are obliged to refrain from effecting the concentration pending the issuance of the AMO President's decision consenting to the concentration or the lapse of the deadline by which such a decision should be issued. The legal transaction effectuating the concentration may be consummated subject to the AMO President's decision consenting to the concentration or the lapse of the statutory deadlines for the completion of proceedings involving concentration. The implementation of a public offer to purchase or exchange shares of which the AMO President was notified shall not constitute a breach of the statutory duty to refrain from effecting a concentration pending the issuance of the AMO President's decision consenting to the concentration or the lapse of the deadline by which such a decision should be issued, if the acquirer does not exercise voting rights attached to the acquired shares or does so solely for the purpose of preserving the full value of its equity investment, or in order to prevent material damage that may occur to the entrepreneurs involved in the concentration.

The AMO President may impose a fine of up to 10% of the turnover for the preceding year on an entrepreneur who has effected a concentration without the AMO President's consent.

**TERMS AND CONDITIONS OF THE OFFERING**

**Offering**

In the Offering, the Selling Shareholder is offering 127,369,861 ordinary bearer shares AA series in the Company with a par value of PLN 10.92 per share with 14,152,206 additional series AA ordinary shares with a nominal value of PLN 10.92 each subject to the Over Allotment Option.

The Offer Shares are subject to a public offering on the territory of the Republic of Poland (“**Polish Offering**”) based on Polish language issue prospectus approved by the PFSA. The Over Allotment Option also forms part of the Offering. The Over Allotment Option is not the part of the Polish Offering. In jurisdictions outside of the Republic of Poland, the Offering consists of limited promotional activity constituting a private placement and the Offer Shares are being offered to the Qualified Institutional Buyers (“**QIBs**”) in the United States pursuant to Rule 144A under the U.S. Securities Act of 1933, as amended (“**U.S. Securities Act**”), and to other Institutional Investors outside the United States (and outside Poland) in reliance on Regulation S under the U.S. Securities Act and in compliance with the relevant regulations of the jurisdictions where such marketing activities are conducted. For the purposes of such marketing activities constituting private placement with respect to the Offer, being in compliance with the applicable provisions of law in any jurisdiction in which such marketing activities are taken, this international marketing document has been drafted in English (“**Offering Circular**”) which has not and will not be approved by the PFSA nor by any other regulatory body in any jurisdiction, in particular in the jurisdiction where such marketing activities are conducted.

Potential investors should consider that the Prospectus is the sole legally-binding document (within the meaning of the Offering Act) that has been prepared for the purposes of the Polish Offering and which contains information on the Group and the Offer Shares.

**Proposed timetable of the Offering**

Information on the proposed timetable of the Offering is set forth below. The time is given according to Warsaw time.

<b>18 November 2013</b>	publication of the Prospectus, commencement of the book building process for Institutional Investors
<b>19 November 2013</b>	commencement of the subscription period for Retail Investors commencement of the subscription period for Qualified Retail Investors (based on the rules described in the Prospectus)
<b>19 November 2013</b>	completion of the subscription period for Qualified Retail Investors (if not completed earlier in line with the Prospectus)
<b>2 December 2013 (by 23:59)</b>	completion of the subscription period for Retail Investors
<b>3 December 2013</b>	completion of the book building process among the Institutional Investors  determination of the final number of the Offer Shares to be offered in the Offering, the final number of the Offer Shares to be offered to the various investor categories, as well as the Retail Investors’ Sale Price and the Institutional Investors’ Sale Price  execution of the pricing supplement to the Underwriting Agreement determining the Retail Investors’ Sale Price and the Institutional Investors’ Sale Price and the final number of the Offer Shares to be offered in the Offering and the final number of the Offer Shares to be offered to the various investor categories  publication of the Retail Investors’ Sale Price and the Institutional Investors’ Sale Price, the final number of the Offer

## TERMS AND CONDITIONS OF THE OFFERING

---

	Shares to be offered in the Offering and the number of the Offer Shares to be offered to the various investor categories
<b>4-6 December 2013</b>	acceptance of purchase orders from the Institutional Investors
<b>6 December 2013</b>	submission of purchase orders for the sale of the Offer Shares to Retail Investors and Qualified Retail Investors through the WSE system and registration of the Offer Shares in the securities accounts of Retail Investors and Qualified Retail Investors
<b>On or about 9 December 2013</b>	submission of purchase orders, if any, by the Underwriters in performance of their obligations under the Underwriting Agreement allotment of the Offer Shares
<b>On or about 10 December 2013</b>	registration of the Offer Shares in the securities accounts of the Institutional Investors (provided that all the data, presented by investors for the registration of the Offer Shares in their securities accounts, is complete and correct)
<b>On or about 11 December 2013</b>	first day of listing the Series AA Shares on the WSE

Investors who placed purchase orders for the Offer Shares prior to the publication of the Retail Investors' Sale Price and the Institutional Investors' Sale Price, the information on the final number of the Offer Shares offered in the Offering and on the final number of the Offer Shares offered to the various investor categories may avoid the legal consequences of their purchase orders, by submitting a written representation to that effect, within two business days from the date of the publication of the supplement to the Prospectus in accordance with Article 54 section 1 item 3 of the Offering Act.

The timetable above may be subject to change. Certain events provided therein are beyond the control of the Company or the Selling Shareholder. The Selling Shareholder, in agreement with the Joint Global Coordinators and the Joint Bookrunners, reserves the right to change the above timetable for the Offering, including the opening and closing dates of the subscription periods for the Offer Shares. Information about any changes to the proposed timetable of the Offering will be published in accordance with Article 52.2 of the Offering Act, i.e. in the form of an updating communication published in the same manner as the Prospectus.

Any change of the dates of opening and closing of the period (subject to change of the date of the completion of the subscription period for Qualified Retail Investors in line with the Prospectus) for accepting purchase orders and the announcement of such changed dates, if any, will occur not later than on the dates immediately preceding the original dates of opening and closing of the period for accepting purchase orders for the Offer Shares.

Changes of dates for other events referred to in the Offering timetable will be publicly announced not later than on the relevant date.

### **Revocation, withdrawal from or suspension of the Offering**

At any time prior to the commencement date of the subscription period for Retail Investors and Qualified Retail Investors, the Selling Shareholder, in agreement with the Joint Global Coordinators and the Joint Bookrunners, may revoke the sale of the Offer Shares in the Offering without stating any reasons for its decision, thereby effectively revoking the Offering.

From the commencement of the subscription period for the Offer Shares offered in the Offering to Retail Investors and Qualified Retail Investors not later than until 09:00 Warsaw time on the working day preceding the first day of listing the Series AA Shares on the WSE, which is the commencement of distribution of the information on clearing or transfers in order to record the Offer Shares in the securities accounts of the Institutional Investors (currently planned for 10 December 2013), the Selling Shareholder may, in agreement with the Joint Global Coordinators and the Joint Bookrunners, withdraw from the sale of the Offer Shares in the Offering, provided that such withdrawal may only occur for reasons which, in the opinion of the Selling Shareholder, are material and which may include, among other things: (i) the

occurrence of a sudden or unforeseeable change in the economic or political situation in Poland or abroad, which may have a material adverse effect on the financial markets, Poland's economy, the Offering or the Group's operations (such as terrorist acts, wars, disasters or floods); (ii) the occurrence of a sudden or unforeseeable change or event other than those stated under item (i) above which could have a material adverse impact on the Group's operations or which could result in the Group incurring material damage or in any material disruption to its operations; (iii) the occurrence of a material adverse change in the Group's business, financial condition or operating results; (iv) a suspension of, or material limitation in trading of, securities on the WSE or on any other exchange, if such circumstances could have a material adverse effect on the Offering; (v) an unsatisfactory number of applications for the Offer Shares in the book building process; (vi) in the opinion of the Joint Global Coordinators and the Joint Bookrunners, an insufficient number of the Shares expected to be traded on the WSE which would not warrant the required liquidity of the Shares; (vii) the occurrence of a sudden and unforeseeable change which could have a direct, material and adverse effect on the Group's operations, or (viii) the termination of the Underwriting Agreement.

Upon the publication of the Prospectus, information regarding the revocation or withdrawal from the sale of the Offer Shares in the Offering will be published in the same manner as the Prospectus. In case of withdrawal from the sale of the Offer Shares in the Offering, any received purchase orders for the Offer Shares will be deemed void, and all payments made will be refunded, without any interest or damages, no later than 14 days following the announcement of the withdrawal from the sale of the Offer Shares in the Offering.

In case of the withdrawal from the sale of the Offer Shares in the Offering until the submission of orders for the sale of the Offer Shares to Retail Investors and Qualified Retail Investors through the WSE system, the purchase orders will be deemed void and any payments made will be returned without interest or damages not later than 14 days from the date of announcing the withdrawal from the sale of the Offer Shares in the Offering.

In case of the withdrawal from the sale of the Offer Shares in the Offering after instructions have been issued to sell the Offer Shares to Retail Investors and Qualified Retail Investors through the WSE and not later than 09:00 Warsaw time on the working day preceding the first day of listing the Series AA Shares on the WSE (currently planned for 10 December 2013), the entities accepting purchase orders from Retail Investors and Qualified Retail Investors shall return the Offer Shares previously acquired by the Retail Investors and the Qualified Retail Investors in accordance with the powers of attorney granted by Retail Investors and the Qualified Retail Investors on the purchase order forms for the Offer Shares and in accordance with the instructions issued by the Offering Agent. Any payments made by Retail Investors and Qualified Retail Investors for the Offer Shares will be returned to them without any interest or damages within 14 days following the return of these Offer Shares to the Selling Shareholder's securities account. The payments will be made to the cash account maintained for the Retail Investor's or Qualified Retail Investor's securities account through which the purchase order was made, in accordance with the rules prevailing at the given investment firm.

This mechanism for the return of the Offer Shares upon the withdrawal from the sale of the Offer Shares in the Offering is intended to protect investors against the impact of adverse or exceptional and unforeseeable events which may occur during the Offering.

These rules for the revocation and withdrawal from the sale of the Offer Shares in the Offering shall also apply to Institutional Investors up to the time by which the Selling Shareholder is entitled to revoke or withdraw from the sale of the Offer Shares in the Offering.

A decision to suspend the Offering, without providing any reason for doing so, may be taken at any time before the commencement of the subscription period for Retail Investors and Qualified Retail Investors by the Selling Shareholder in agreement with the Joint Global Coordinators and the Joint Bookrunners. From the commencement of the subscription period for the Retail Investors and Qualified Retail Investors up to the the submission of orders for the sale of the Offer Shares to Retail Investors and Qualified Retail Investors through the WSE system (i.e. 6 December 2013), the Selling Shareholder, in agreement with the Joint Global Coordinators and the Joint Bookrunners, may decide to suspend the Offering only for reasons that are (in the opinion of the Selling Shareholder) material, which may include, among other things, any event that might adversely affect the success of the Offering or cause increased investment risks for the



## TERMS AND CONDITIONS OF THE OFFERING

---

purchasers of the Offer Shares. The decision to suspend the Offering may be made without specifying a new timetable for the Offering, which may be determined at a later date.

Information regarding the suspension of the Offering will be published in the form of a supplement to the Prospectus after such supplement has been approved by the PFSA. Such supplement will be published in the same manner as the Prospectus.

If the decision to suspend the Offering is made in the period between the commencement of the subscription period for Retail Investors and Qualified Retail Investors and the submission of orders for the sale of the Offer Shares to Retail Investors and Qualified Retail Investors through the WSE system (i.e. 6 December 2013), any purchase orders received and any payments made will still be considered valid, however, investors will have the right to void the legal validity of their purchase orders by submitting a relevant representation within two business days from the date of the publication of the supplement to the Prospectus relating to the suspension of the Offering.

### **Sale Price**

The Sale Price of the Offer Shares for the Retail Investors and the Qualified Retail Investors (“**Retail Investors’ Sale Price**”) and the Sale Price of the Offer Shares for the Institutional Investors (“**Institutional Investors’ Sale Price**”) is PLN 17.00.

The Investors will not bear any additional costs or taxes in connection with submission of purchase orders for the Offer Shares, except for the costs (if any) associated with opening and maintaining a securities account (unless such Investor already has an account) and any broker’s commissions payable under any relevant agreements or pursuant to the regulations of the entity accepting such purchase order. For information relating to taxation, see “Taxation”.

### **Final number of Offer Shares**

Final number of the Offer Shares offered in the Offering is 141,522,067 including 14,152,206 Offer Shares subject to the Over Allotment Option. The final number of the Offer Shares offered to Retail Investors is 24,369,952, the final number of Offer Shares offered to Qualified Retail Investors is 7,076,103 and the final number of the Offer Shares offered to Institutional Investors is 110,076,012, including 14,152,206 Offer Shares subject to the Over Allotment Option.

### **Placing of the Purchase Orders**

The Selling Shareholder, in agreement with the Joint Global Coordinators and the Joint Bookrunners, will appoint, at its sole discretion, those Institutional Investors to whom invitations to submit a purchase order for the Offer Shares will be sent, and who will be entitled to purchase of the Offer Shares in a number specified in an invitation to place a purchase order and to make payments for the Offer Shares to an account stated in such invitation. Invitations to the Institutional Investors in Poland will be sent by the Offering Agent, also acting on behalf of the Joint Global Coordinators and the Joint Bookrunners. Invitations to the Institutional Investors located outside of Poland will be sent by the Joint Global Coordinator or the Joint Bookrunner through which the foreign Institutional Investor participated in the book building process, on such terms as are agreed between the Joint Global Coordinators and the Joint Bookrunners.

Purchase orders placed by the Institutional Investors who were invited by the Offering Agent acting on behalf of the Joint Global Coordinators and the Joint Bookrunners to subscribe for Offer Shares will be accepted at the office of the Offering Agent (Dom Maklerski PKO Banku Polskiego w Warszawie, ul. Puławska 15, Warsaw). For information on the detailed rules governing the placement of purchase orders, the Institutional Investors should contact the Offering Agent.

Each Institutional Investor may submit one or several purchase orders for such number of Offer Shares as is indicated in the invitation to place a purchase orders addressed to that Institutional Investor. Purchase orders which jointly cover a number of Offer Shares greater than that stated in the preceding sentence, will be treated as purchase orders for the maximum number of the Offer Shares which may be covered by a purchase orders filed by the relevant Institutional Investor. Institutions which manage assets on behalf of

third parties may file a single collective purchase order in favour of specific customers, attaching to the order a list of such customers containing such data as required in the purchase order form.

A purchase orders for the Offer Shares is unconditional and irrevocable (subject to the withdrawal right under Article 51a and Article 54 section 1 item 3 of the Offering Act), cannot contain any objections, and is binding on the person who filed it until the allotment of the Offer Shares in the Offering or until the date of the withdrawal from the sale of the Offer Shares in the Offering.

#### **Terms of payment for the Offer Shares**

The Institutional Investors are required to pay for their purchase orders by the end of the last day on which purchase orders from the Institutional Investors are accepted, in Polish zloty, in the amount representing a product of the number of the Offer Shares subscribed for by the Institutional Investor and the Institutional Investors' Sale Price, in compliance with the instructions stated in the invitation to file a purchase order.

If an order is not paid in full by an Institutional Investor, such order will be deemed validly placed for such number of Offer Shares as corresponds to the amount actually paid by the Institutional Investor, calculated as the product of the number of Offer Shares and the Institutional Investors' Sale Price.

#### **Allotment of the Offer Shares**

The Offer Shares will be allotted upon the end of the period of accepting purchase orders from the Institutional Investors. The allotment of the Offer Shares to their purchasers will be made on or about 9 December 2013.

The Offer Shares will be allotted to the individual Institutional Investors based on their purchase orders, on the condition that such orders have been fully paid for in accordance with the rules described in this Offering Circular, in a number of which each individual Institutional Investors will be notified in the invitation to submit a purchase order.

Upon completion of the book building process, invitations for submitting purchase orders for the Offer Shares will be sent to the Institutional Investors. The Institutional Investors to whom the invitations will be sent will be allotted the Offer Shares in the number as stated in the invitations, provided that a purchase order is duly filed and the relevant number of Offer Shares paid for.

Any Offer Shares with respect to which Retail Investors or Qualified Retail Investors voided the legal validity of their purchase orders in accordance with Article 51a and Article 54 section 1 Item 3 of the Offering Act may be allotted to the Institutional Investors, both to those who did participate in the book building process and those who did not; provided that they have duly filed and paid for the purchase orders filed in response to the invitation to file such purchase orders for the Offer Shares on the terms and conditions specified in this section.

The Offer Shares in respect of which any Institutional Investors have voided the legal validity of their purchase orders in compliance with Article 51a of the Offering Act, failed to deliver their purchase orders in response to the invitation or failed to make the timely payments in respect of the orders placed, may be allotted to the Institutional Investors, both to those who did participate in the book building process and those who did not, provided that they duly filed and paid for the purchase orders filed in response to the invitation to file such purchase orders for the Offer Shares on the terms and conditions specified in this section. Alternatively, such Offer Shares may be allotted to the Underwriters.

If an Institutional Investor has only made a partial payment for the Offer Shares or has placed a purchase order for a number of Offer Shares lower than that specified in the invitation, such Institutional Investor will be allotted as many Offer Shares as such Institutional Investor has paid for or a lower number of Offer Shares may be allotted at the sole discretion of the Selling Shareholder to such Institutional Investor than for which it has been paid.

The Institutional Investors who have not been allotted any Offer Shares or whose purchase orders for the Offer Shares were invalidated or otherwise not granted will be reimbursed, in the same manner as any excess payments will be reimbursed, within 14 days from the date of the allotment of the Offer Shares or the date of the announcement of the withdrawal from the sale of the Offer Shares in the Offering, without any interest or damages to an account stated in the purchase order.

## TERMS AND CONDITIONS OF THE OFFERING

---

Insofar as required by law, information regarding the results of allotment of the Offer Shares will be made public in a current report pursuant to and 56.1 of the Offering Act provided that the listing of the Shares may commence before the public announcement of the results of allotment of the series AA Shares.

### **Settlement**

The Offering Agent will issue settlement or transfer instructions, in order to transfer the Offer Shares to the securities accounts of the Institutional Investors. If the data provided by an Institutional Investor for the purposes of transferring the Offer Shares was incomplete or incorrect, such Institutional Investor must take account of the fact that the Offer Shares will be transferred to its securities account at a later date once such Institutional Investor has supplemented or corrected the data.

The Managers, including the Offering Agent, will not be responsible for a failure to transfer the Offer Shares due to the data provided by an Institutional Investor for the purposes of transferring the Offer Shares having been incomplete or incorrect.

If it is impossible to transfer the Offer Shares allotted to an Institutional Investor into a securities account designated by such investor, or if no details of any securities account are provided, the Offer Shares will be registered in the accounts maintained by the Offering Agent.

### **Listing of the Shares**

The Shares have not been and are not traded on any regulated market.

The Company intends to apply to the WSE for the admission and introduction of 269,139,114 ordinary bearer series AA shares, including all the Offer Shares, to trading on the main market of the WSE in the continuous trading system.

In relation to (i) the Offering and (ii) the admission and introduction of Series AA Shares to stock exchange trading, the Company intends to ultimately have 269,139,114 ordinary bearer series AA shares registered in the NDS.

The Company has applied to the NDS for the registration of the Offer Shares subject to this Offer in the register of securities kept by the NDS. Their effective registration occurred on 27 November 2013. The Company also applied to the NDS for the registration of the remaining Shares, provided that their registration will hinge upon their admission and introduction to trading and listing on the WSE.

The admission to trading and the listing of the series AA Shares on the WSE requires i.a.: (i) the WSE's management board resolving to admit and introduce the series AA Shares to trading and listing on the WSE, after the Company qualifies for such admission and listing and (ii) the execution of an agreement between the Company and the NDS with respect to the registration of Series AA Shares.

**UNDERWRITING, STABILISATION AND LOCK-UP**

**Underwriting Agreement**

On 18 November 2013 the Selling Shareholder and the Company entered into a conditional standby underwriting agreement concerning the purchase orders of the Institutional Investors (the “**Underwriting Agreement**”) with J.P. Morgan Securities plc, UBS Limited, Merrill Lynch International; Citigroup Global Markets Limited, UniCredit Bank Austria AG, Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Oddział—Dom Maklerski PKO Banku Polskiego w Warszawie, Banco Espirito Santo de Investimento S.A. Spółka Akcyjna, Oddział w Polsce, (“**Underwriters**”), Dom Maklerski Banku Handlowego S.A., UniCredit Bank AG, London Branch, UniCredit CAIB Poland S.A., Dom Maklerski mBanku S.A. and Ipopema Securities S.A. Dom Maklerski Bank Ochrony Środowiska SA and Biuro Maklerskie Alior Bank Spółka Akcyjna.

Pursuant to the Underwriting Agreement and conditions described in the Underwriting Agreement, certain Managers and Underwriters agreed, subject to the satisfaction of certain conditions described below procure purchasers for the Offer Shares and failing which to purchase and pay at the Offer Price for the Offer Shares not otherwise purchased and paid for by the Institutional Investors to whom these Offer Shares have been initially allocated.

The Underwriting Agreement contains, inter alia, the following conditions precedent concerning the performance of the commitment to underwrite the Offering: (i) no changes or events occur which, in the Global Coordinators’ opinion, result in any adverse change of the Group’s condition (financial or other), results of operations, business, properties or prospects, as compared to the status described in the Prospectus; (ii) no force majeure events; (iii) representations and warranties of the Company and the Selling Shareholder contained in the Underwriting Agreement being true and correct on the date of performance of the underwriting commitment, (iv) the Company or its advisers deliver legal opinions, disclosure letters and comfort letters in the form and substance agreed with the Underwriters; (v) the Selling Shareholder or its legal adviser delivers legal opinion in the form and substance agreed with the Underwriters; (vi) the Company and the Selling Shareholder perform the obligations set out in the Underwriting Agreement; and (vii) a pricing supplement (“**Pricing Supplement**”) to the Underwriting Agreement is agreed, determining the Retail Investors’ Sale Price, the Institutional Investors’ Sale Price and the final number of the Offer Shares to be offered to the Retail Investors and the Institutional Investors.

The Pricing Supplement was executed on 3 December 2013.

If any of the conditions set out in the Underwriting Agreement is not satisfied or waived, the Underwriters’ obligation to purchase of the Offer Shares pursuant to the Underwriting Agreement will expire. The Underwriting Agreement may be terminated in the situations described therein, in particular if any of the representations or warranties of the Company or the Selling Shareholder is untrue or incorrect or in case of material change on financial markets.

The Underwriting Agreement is governed by the laws of England and Wales and contains provisions that are customary in international offerings similar to the Offering, including representations and warranties provided by the Company and the Selling Shareholder.

In the Underwriting Agreement, the Selling Shareholder and the Company agreed to indemnify and hold harmless the Managers and the Underwriters and other specified persons against certain claims, obligations or costs which may be sought or incurred by the Managers, Underwriters or other specified persons in connection with the Underwriting Agreement (so called indemnification clause).

The Underwriting Agreement contains standard covenants by the Managers with respect to the territorial range of undertaken promotional activities and commitment to undertake promotional activities only towards particular categories of Institutional Investors and in each case in compliance with the laws of the jurisdiction where such activities are to be conducted.

The Underwriting Agreement provides that the Company and the Selling Shareholder are subject to lock-up restrictions with respect to the distribution of Shares and issuing of shares. The commitments related to these lock-up arrangements, are described in section “**Lock-up Agreements**”.

Information regarding the commission due to the Managers, including the fee for underwriting subscriptions of the Institutional Investors in the Offering is provided in “Additional information—Costs of the Offering—Costs of the Offering incurred by the Selling Shareholder—Managers’ commission”.

### **Stabilisation transactions**

On 3 December 2013 the Selling Shareholder and Powszechna Kasa Oszczędności Bank Polski S.A. Oddział—Dom Maklerski PKO Banku Polskiego w Warszawie and UniCredit CAIB Poland S.A. (“**Stabilising Managers**”) entered into a stabilisation agreement (“**Stabilisation Agreement**”).

The purpose of the Stabilisation Agreement is, in particular, to allow the Stabilising Managers to effect and settle stabilising transactions as well as finance the stabilising transactions.

The Stabilising Managers, in connection with the Offering, will have the right to acquire, on the Warsaw Stock Exchange, the Series AA shares in the number not greater than 10% of the final number of the Offer Shares and, at the same time, not greater than the number of Series AA Shares sold under Over Allotment Option (as defined below) in order to stabilise the price of the Series AA Shares at a level higher than that which would otherwise prevail. The acquisition of the Series AA Shares for the purposes of stabilisation will be subject to the provisions of the Stabilisation Regulation. The purchase transactions related to the Series AA Shares may be effected only during the period commencing on the first listing day of the Series AA Shares on the WSE and terminating 30 days of that date (“**Stabilisation Period**”). The transactions to purchase the Series AA Shares may only be effected at a price not higher than the Sale Price for the Institutional Investors.

The Stabilising Managers will not, however, be required to take any stabilisation actions. If the Stabilising Managers take any such actions, they may be discontinued at any time, but not later than before the end of the Stabilisation Period.

No assurance may be given that such stabilisation actions, if taken, will bring the expected results.

The Selling Shareholder will lend the Series AA Shares to the Stabilising Managers for the purpose of an over-allotment option (“**Over Allotment Option**”) based on which the series AA shares will be allotted in the Offering in an amount of 14,152,206. The Offer Shares will be sold only in respect of those subscriptions placed by the Institutional Investors for whom the Managers will be acting which have not been satisfied by allotting Shares as part of the Polish Offering. The Over Allotment Option is not a part of the Polish Offering.

The Selling Shareholder granted the Stabilising Managers, under that agreement, an option to buy the Series AA Shares in a number equal to the Series AA Shares allotted under the Over Allotment Option less the number of the shares purchased by the Stabilising Managers in the stabilization transactions (“**Greenshoe Option**”). The Greenshoe Option is granted in connection with “auxiliary stabilisation” as defined in the Stabilisation Regulation in order to cover the Stabilising Managers’ short positions. The Greenshoe Option may be exercised at once until the expiry of the Stabilisation Period. The Greenshoe Option will be exercised at the Sale Price for the Institutional Investors. The costs of granting the Greenshoe Option will be determined with reference to the stabilising actions performed. The Stabilising Managers are entitled to a commission and cost reimbursement from the Selling Shareholder as specified in the Stabilisation Agreement.

The number of the Series AA Shares to be subject to the Greenshoe Option will be equal to the number of the Series AA Shares subject to the Over-Allotment Option less the number of the shares acquired by the Stabilising Managers as a result of stabilising actions.

Information on the stabilisation will be published as set out in the Stabilisation Regulation.

### **Lock-up agreements**

#### ***Selling Shareholder***

In the Underwriting Agreement the Selling Shareholder agreed that until the lapse of 180 days following the first listing date of the shares of the Company on the WSE, the Company will not, without the prior written consent of the Joint Global Coordinators (such consent to be notified to the Joint Bookrunners by the Joint Global Coordinators as soon as reasonably practicable after being granted), subject to agreed



exceptions, issue, offer, sell, transfer or otherwise dispose or encumber of (or publicly announce the issuance, pledging, offering, sale, transfer or other disposal or encumbrance of) any Shares (or any other securities convertible into, exercisable for or exchangeable for Shares, including participations granting, directly or indirectly, the right to acquire or subscribe for Shares), and enter into any swap or other transaction (such as the grant of purchase options, rights or warrants on shares) that transfers, in whole or in part, the economic consequences of ownership of Shares or options.

***Company***

In the Underwriting Agreement the Company agreed that until the lapse of 180 days following the first listing date of the shares of the Company on the WSE, the Company will not, without the prior written consent of the Joint Global Coordinators (such consent not to be unreasonably withheld or delayed and to be notified to the Joint Bookrunners by the Joint Global Coordinators as soon as reasonably practicable after being granted), subject to agreed exceptions, issue, offer, sell, transfer or otherwise dispose or encumber of (or publicly announce the issuance, pledging, offering, sale, transfer or other disposal or encumbrance of) any Shares (or any other securities convertible into, exercisable for or exchangeable for Shares, including participations granting, directly or indirectly, the right to acquire or subscribe for Shares), and enter into any swap or other transaction (such as the grant of purchase options, rights or warrants on shares) that transfers, in whole or in part, the economic consequences of ownership of Shares or options.

**Conflict of interests**

Each of the Managers and their affiliates (most of them as parts of global or international financial services firms) is or may be engaged in the investment banking, securities, investment management and individual wealth management businesses. Their securities businesses are or may be engaged in securities underwriting, trading (customer and proprietary) and brokerage activities and foreign exchange, commodities and derivatives trading (customer and proprietary), as well as providing brokerage, investment banking, research, financing and financial advisory services. To the extent allowed by the applicable law and conflict of interest rules regarding providing brokerage and investment banking services: (a) in the ordinary course of the trading, brokerage and financing activities each of the Managers and their affiliates may at any time hold long- or short-term investments, finance investments, and may trade or otherwise structure and execute transactions, for their own account or the accounts of customers, in debt or equity securities or senior loans of any entity involved in the Offering, or in any currency or commodity involved in the Offering, or in any related derivative instrument; (b) each of the Managers and their affiliates, their directors, members of management or supervisory boards, executives and employees may also at any time invest for their own account or manage funds that invest for their own account in debt or equity securities issued by any entity involved in the Offering, or in any currency or commodity involved in the Offering, or in any related derivative instrument; (c) each of the Managers and their affiliates may at any time carry out ordinary course of brokerage activities for any entity involved in the Offering.

### SELLING RESTRICTIONS

This Offering Circular has been prepared on the basis that the promotion of the Offering and the promotional activities with respect to the Offer Shares (other than the offering to the public in the territory of Poland in accordance with the Prospectus Directive and the Offering Act) will be made: (i) pursuant to the exception under the Prospectus Directive (as implemented in the Member States) from the requirement to prepare and have any prospectus or other offering memorandum for offers of shares approved by or notified to the competent authority and then published; or (ii) outside the EEA pursuant to other applicable exemptions. Accordingly, any person making or intending to make any offering, sale or other transfer within the EEA, other than in Poland, of the Offer Shares may only do so in circumstances under which no obligation arises for the Company, the Selling Shareholder or the Managers to present an approved prospectus or other offering memorandum for such offering. Neither the Company, nor the Selling Shareholder, nor the Managers have authorised, nor will any of them authorise, the making of any offer of the Offer Shares through any financial intermediary, other than under the Prospectus or under this Offering Circular.

The Prospectus has been prepared solely for the purposes of the Offering to be carried out by way of a public offering in the meaning of Article 3 Section 3 of the Offering Act in the territory of Poland.

In connection with the Offering, certain limited promotional actions may be taken to provide information about the Offering to QIBs in the United States pursuant to Rule 144A of the U.S. Securities Act and to other Institutional Investors outside the United States (excluding Poland) pursuant to Regulation S under the U.S. Securities Act as well as the relevant regulations of the law in the jurisdictions where such promotion of the Offering will be conducted. Such limited promotional actions are necessary to be in compliance with the applicable provisions of law in any jurisdiction in which such actions will be taken as this Offering Circular has been drafted, which will not be approved by the PFSA or any other supervisory authority, specifically any authority having jurisdiction in the territory where such limited promotional action of the Offering will be conducted.

No action has been or will be taken by the Company, the Selling Shareholder or the Managers in any jurisdiction other than Poland that would permit a public offering of the Offer Shares, or the possession or distribution of the Prospectus or this Offering Circular or any other offering material relating to the Company or the Offer Shares in any jurisdiction where action for that purpose is required. Accordingly, the Offer Shares may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material or advertisements in connection with the Offering may be distributed or published, in or from any country or jurisdiction, except in compliance with any applicable rules and regulations of any such country or jurisdiction.

The distribution of this Offering Circular and the promotion of the Offering in certain jurisdictions may be restricted by law. Therefore, persons into whose possession this Offering Circular comes should inform themselves about and observe any such restrictions on the promotional activity related to the Offering or the distribution of this Offering Circular and the Offering, including those in the paragraphs that follow. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdictions.

This Offering Circular does not constitute an offer of, or the solicitation of an offer to subscribe for or buy, any of the Offer Shares, to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

This Offering Circular has not been approved and will not be approved by any authority in any jurisdiction.

#### **United States**

Neither the Offer Shares nor any other securities of the Company described in this Offering Circular have been or will be registered under the U.S. Securities Act or under any securities laws of any state in the United States or any other jurisdiction, and, subject to certain exceptions, may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. The Offer Shares may only be resold: (i) outside of the United States in offshore transactions (as defined in Regulation S) in accordance with Regulation S; and (ii) to QIBs in the United States as defined under and in accordance with Rule 144A or pursuant to

another exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. In addition, until 40 days after the commencement of the Offering, any offer or sale of the Offer Shares within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than pursuant to the exemption from the registration requirement provided for by the U.S. Securities Act.

Neither the U.S. Securities and Exchange Commission nor any state securities commission nor any non-U.S. securities authority has approved or disapproved of the Offer Shares offered in the Offering or determined that this Offering Circular is accurate or complete. Any representation to the contrary is a criminal offence.

### **European Economic Area**

The Prospectus has been approved by the PFSA, the supervisory authority for capital markets in Poland solely for the purposes of the public offering of the Offer Shares in Poland and the seeking by the Company of the admission and introduction of the Shares to trading on the regulated market operated by the WSE. No offer of Offer Shares to the public is being made in any other Member State. However, the Offer Shares may be offered in another Member State based on this Offering Circular under certain exemptions from the obligation to prepare the prospectus under the Prospectus Directive, if such exemptions have been implemented in that Member State, provided that any such offering will not result in a requirement to publish the Prospectus by the Company, or any of the Selling Shareholder or Managers under Article 3 of the Prospectus Directive or any relevant implementing legislation.

In relation to each Member State of the EEA (other than Poland) which has implemented the Prospectus Directive (each, a “**Relevant Member State**”), that with effect from and including the date on which the Prospectus Directive is implemented in that Member State (the “**Relevant Implementation Date**”) there will be no offer of Offer Shares to the public in that Relevant Member State, other than:

- to a legal entity which is a qualified investor as defined in the Prospectus Directive;
- to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the Directive 2010/73/EU, 150 natural or legal persons (other than qualified investors as defined in Article 2(1)(e) of the Prospectus Directive); or
- in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Offer Shares shall require the Company or any Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive within the territory of the Relevant Member State.

For the purposes of this Offering Circular, the expression an “offer of Offer Shares to the public” in relation to any Offer Shares in any Relevant Member State means the communication, in any form and by any means, of sufficient information on the terms of the offer and the Offer Shares to be offered so as to enable an investor to decide to purchase or subscribe for the Offer Shares, while the scope and form of such communication may vary in individual Relevant Member States due to measures implementing the Prospectus Directive in such a Relevant Member State, and the expression “**Prospectus Directive**” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in each Relevant Member State and the expression “2010 PD Amending Directive” means Directive 2010/73/EU.

### **United Kingdom**

This Offering Circular and any other material in relation to the Offer Shares described herein is only being distributed in the United Kingdom to, and is only directed at, persons that are qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive that also: (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the “**Order**”); or (ii) who fall within Article 49(2)(a) to (d) of the Order (companies and other entities of significant net value); or (iii) to whom it may otherwise lawfully be communicated (all such persons together being referred to as “**relevant persons**”).

## SELLING RESTRICTIONS

---

Any person in the United Kingdom that is not a relevant person should not act or rely on the information included in the Offering Circular or use it as basis for taking any action. In the United Kingdom, any investment or investment activity that the Offering Circular relates to may be made or taken exclusively by relevant persons. Any person in the United Kingdom that is not a relevant person should not act or rely on this Offering Circular or any of its contents.

### **Canada**

The securities will not be qualified for sale under the securities laws of any province or territory of Canada. The Offer Shares will not be offered, sold or distributed, directly or indirectly, in Canada or to or for the benefit of any resident of Canada, other than in compliance with applicable securities laws. Neither the Offering Circular nor any other offering material in connection with any offering of the securities will be distributed in Canada other than in compliance with applicable securities laws.

### **Japan**

The Offer Shares have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Law No. 25 of 1948, as amended). The Offer Shares are not and may not be subject to an indirect or direct offering or sale in Japan or to, or for the benefit of, any Japanese resident (which term as used herein includes any corporation or other entity organised under the laws of Japan), or to others for direct or indirect offering or sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except (i) pursuant to an exemption from the registration requirements of the Securities and Exchange Law of Japan and in compliance with any other provisions thereof; and (ii) in compliance with any other applicable requirements of the laws of Japan.

### **DIFC**

This prospectus relates to an Exempt Offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority (“**DFSA**”). This Offering Circular is intended for distribution only to persons of a type specified in the Offered Securities Rules of the DFSA. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this Offering Circular nor taken steps to verify the information set forth herein and has no responsibility for the Offering Circular. The Offer Shares to which this prospectus relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the Offer Shares should conduct their own due diligence on the Offer Shares. If you do not understand the contents of this Offering Circular you should consult an authorised financial advisor.

In relation to its use in the DIFC, this Offering Circular is strictly private and confidential and is being distributed to a limited number of investors and must not be provided to any person other than the original recipient, and may not be reproduced or used for any other purpose. The interests in the Offer Shares may not be offered or sold directly or indirectly to the public in the DIFC.

### **Switzerland**

The Offer Shares may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange (“**SIX**”) or on any other stock exchange or regulated trading facility in Switzerland. This Offering Circular has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under art. 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this Offering Circular nor any other offering or marketing material relating to the Offer Shares or the Offering may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this Offering Circular nor any other offering or marketing material relating to the Offering, the Company, the Offer Shares have been or will be filed with or approved by any Swiss regulatory authority. In particular, this document will not be filed with, and the offer of Offer Shares will not be supervised by, the Swiss Financial Market Supervisory Authority FINMA (FINMA), and the offer of Offer Shares has not been and will not be authorised under the Swiss Federal Act on Collective Investment Schemes (“**CISA**”).

The investor protection afforded to acquirers of interests in collective investment schemes under the CISA does not extend to acquirers of Offer Shares.

**Australia**

This Offering Circular and the Offering is only made available in Australia to persons to whom a disclosure document is not required to be given under Chapter 6D of the Corporations Act 2001. This Offering Circular is not a prospectus, product disclosure statement or any other form of formal “disclosure document” for the purposes of the Corporations Act, and is not required to, and does not, contain all the information which would be required in a disclosure document under the Corporations Act. If you are in Australia, this document is made available to you provided you are a person to whom an offer of securities can be made without a disclosure document such as a professional investor or sophisticated investor for the purposes of Chapter 6D of the Corporations Act.

The persons referred to in this Offering Circular may not hold Australian financial services licences and may not be licensed to provide financial product advice in relation to the securities. No “cooling-off” regime will apply to an acquisition of any interest in the Company.

This Offering Circular does not take into account the investment objectives, financial situation or needs of any particular person. Accordingly, before making any investment decision in relation to this Offering Circular, you should assess whether the acquisition of any interest in the Company is appropriate in light of your own financial circumstances or seek professional advice.

This Offering Circular has not been, and will not be, lodged with the Australian Securities and Investments Commission (“ASIC”) as a disclosure document for the purpose of the Corporations Act 2001. No Offer Share may be offered for sale (or transferred, assigned or otherwise alienated) to investors in Australia for at least 12 months after the Offering, except in circumstances where disclosure to investors is not required under Chapter 6D of the Corporations Act 2001 or unless a disclosure document that complies with the Corporations Act 2001 is lodged with the ASIC. Each investor acknowledges the above and, by applying for securities under this Offering Circular, gives an undertaking not to sell those securities (except in the circumstances referred to above) for 12 months after their issue.



**TRANSFER RESTRICTIONS**

The Offer Shares have not been and will not be registered under the U.S. Securities Act or the applicable securities laws of any state or other jurisdiction of the United States and may not be offered, sold, pledged or transferred within the United States, except pursuant to an applicable exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable state securities laws.

Each purchaser of the Offer Shares outside the United States in compliance with Regulation S will be deemed to have represented and agreed that it has received a copy of this Offering Circular and such other information as it deems necessary to make an informed investment decision and that:

- the purchaser is authorised to consummate the purchase of the Offer Shares in compliance with all applicable laws and regulations;
- the purchaser acknowledges that the Offer Shares have not been and will not be registered under the U.S. Securities Act, or with any securities regulatory authority of any state of the United States, and, subject to certain exceptions, may not be offered or sold within the United States;
- the purchaser and the person, if any, for whose account or benefit the purchaser is acquiring the Offer Shares, was located outside the United States at the time the buy order for the Offer Shares was originated and continues to be located outside the United States and has not purchased the Offer Shares for the account or benefit of any person in the United States or entered into any arrangement for the transfer of the Offer Shares or any economic interest therein to any person in the United States;
- the purchaser is not an affiliate of the Company or a person acting on behalf of such affiliate;
- the Offer Shares have not been offered to it by means of any “directed selling efforts” as defined in Regulation S;
- the purchaser acknowledges that the Company shall not recognise any offer, sale, pledge or other transfer of the Shares made other than in compliance with the above-stated restrictions;
- if it is acquiring any of the Offer Shares as a fiduciary or agent for one or more accounts, the purchaser represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account; and
- the purchaser acknowledges that the Company, the Selling Shareholder, the Managers and their respective affiliates will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

Each purchaser of the Offer Shares within the United States purchasing pursuant to an exemption from the registration requirements of the U.S. Securities Act will be deemed to have represented and agreed that it has received a copy of this Offering Circular and such other information as it deems necessary to make an informed investment decision and that:

- the purchaser is authorised to consummate the purchase of the Offer Shares in compliance with all applicable laws and regulations;
- the purchaser acknowledges that the Offer Shares have not been and will not be registered under the U.S. Securities Act or with any securities regulatory authority of any state of the United States and are subject to restrictions on transfer;
- the purchaser:
  - (i) is a qualified institutional buyer (as defined in Rule 144A under the U.S. Securities Act);
  - (ii) is aware that the sale to it is being made pursuant to an exemption from the registration requirements of the U.S. Securities Act; and (iii) is acquiring such Offer Shares for its own account or for the account of a qualified institutional buyer;
- the purchaser is aware that the Offer Shares are being offered in the United States in a transaction not involving any public offering in the United States within the meaning of the U.S. Securities Act;

- if in the future, the purchaser decides to offer, resell, pledge or otherwise transfer such Offer Shares, or any economic interest therein, such Offer Shares or any economic interest therein may be offered, sold, pledged or otherwise transferred only: (i) to a person whom the beneficial owner and/or any person acting on its behalf reasonably believes is a qualified institutional buyer in a transaction meeting the requirements of Rule 144A; (ii) in compliance with Regulation S under the U.S. Securities Act; or (iii) in accordance with Rule 144 under the U.S. Securities Act (if available), in each case in accordance with any applicable securities laws of any state of the United States or any other jurisdiction;
- the purchaser acknowledges that the Offer Shares are “restricted securities” within the meaning of Rule 144(a)(3) under the U.S. Securities Act and no representation is made as to the availability of the exemption provided by Rule 144 for resales of any Offer Shares;
- the purchaser will not deposit or cause to be deposited such Offer Shares into any depositary receipt facility established or maintained by a depositary bank other than a Rule 144A restricted depositary receipt facility, so long as such Offer Shares are “restricted securities” within the meaning of Rule 144(a)(3) under the U.S. Securities Act;
- the purchaser acknowledges that the Company shall not recognise any offer, sale, pledge or other transfer of the Offer Shares made other than in compliance with the above-stated restrictions;
- if it is acquiring any of the Offer Shares as a fiduciary or agent for one or more accounts, the purchaser represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of such account; and (10) the purchaser acknowledges that the Company, the Selling Shareholder, the Managers and their respective affiliates will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

Each person in a Relevant Member State, other than persons receiving offers contemplated in the Prospectus in Poland, who receives any communication in respect of, or who acquires any Offer Shares under, the offers contemplated hereby will be deemed to have represented, warranted and agreed to and with each of the Managers, the Selling Shareholder and the Company that:

- it is a qualified investor within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive; and
- in the case of any Offer Shares acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, (i) the Offer Shares acquired by it in the offer have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than qualified investors, as that term is defined in the Prospectus Directive, or in other circumstances falling within Article 3(2) of the Prospectus Directive and the prior consent of the Joint Global Coordinators has been given to the offer or resale; or (ii) where Offer Shares have been acquired by it on behalf of persons in any Relevant Member State other than qualified investors, the offer of those Offer Shares to it is not treated under the Prospectus Directive as having been made to such persons.

For the purposes of this provision, the expression an “offer” in relation to any of the Offer Shares in any Relevant Member States means the communication in any form and by any means of sufficient information on the terms of the offer and any Offer Shares to be offered so as to enable an investor to decide to purchase or subscribe for the Offer Shares, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State.

**TAXATION**

*This section presents the key tax consequences of acquiring, holding, exercising or selling the Offer Shares arising under Polish tax regulations. The information provided is of general nature only and does not purport to constitute a complete or exhaustive analysis. Therefore, investors are urged to seek individual tax advice or an official ruling from the relevant administrative authorities.*

*The information below is based exclusively on the provisions of Polish tax law in force as at the date of this Offering Circular. As a consequence of the changes in legislation or interpretation of tax regulations, also arising from change in the judicial practice or administrative courts or tax authorities, the statements contained in this Offering Circular may cease to be valid. The changes may have a retroactive effect.*

*As used below, the term “dividend” as well as any other term shall have the same meaning as ascribed to them under Polish tax law.*

**Taxation of income from transfer of securities for consideration*****Taxation of natural persons’ income***

*Taxation of the income of natural persons who are subject to unlimited tax liability in Poland (persons whose place of residence for tax purposes is in Poland)*

In Poland, natural persons are subject to tax liability affecting their entire income (revenues) regardless of the location of the source of such revenues (unlimited tax liability) if they have their place of residence in the territory of the Republic of Poland (Article 3 Section 1 of the PIT Act).

A person whose place of residence is in the Republic of Poland is the natural person who:

- (a) has his/her centre of personal or economic interests (centre of life interests) within the territory of the Republic of Poland; or
- (b) is present in the territory of the Republic of Poland for more than 183 days in a tax year (Article 3 Section 1a of the PIT Act).

These rules apply without prejudice to double taxation conventions signed by the Republic of Poland (Article 4a of the PIT Act). In particular, these conventions may define a natural person’s “place of residence” in a different manner or further clarify the notion of the “centre of life interests”.

Income generated by natural persons subject to unlimited tax liability in Poland earned on the transfer of securities for consideration (including shares) is taxed with personal income tax pursuant to the PIT Act.

Income on the transfer of securities for consideration is the difference between total revenues earned on such activity in the calendar year and the costs of generating these revenues, calculated pursuant to the PIT Act (Article 30b Section 2 item 1 in conjunction with Section 6 of the PIT Act).

Revenue on the transfer of securities for consideration is the value expressed as the price in the relevant agreement. However, if for no justifiable reason the price set out in the agreement significantly deviates from the market value of the transferred securities, the revenue on the transfer of securities for consideration is assessed by the relevant tax authority or tax inspection authority, at the level of the market value of these securities (Article 19 Section 1 in conjunction with Article 17 Section 2 of the PIT Act).

Revenue on the transfer of securities for consideration is revenue due, even if not yet received (Article 17 Section 1 item 6 of the PIT Act).

Tax deductible expenses in respect of the transfer of securities for consideration are the expenses incurred on acquiring or taking up the securities. These costs can only be recognised when revenue is generated on the transfer of the relevant securities for consideration (Article 23 Section 1 item 38 of the PIT Act).

If a taxpayer transfers securities which were acquired at different prices and it is impossible to determine a uniform purchase price for the securities so transferred, then for the purpose of determining income on such a disposal the transaction shall be deemed to concern the securities which were acquired first. The presumption referred to in the preceding sentence is applied separately to each securities account (Article 24 Section 10 of the PIT Act).

The personal income tax rate applicable to natural persons having their place of residence for tax purposes in Poland in relation to the transfer of securities for consideration is 19% of the income earned (Article 30b Section 1 of the PIT Act).

Income earned on the transfer of securities for consideration does not trigger the obligation of the tax remitter to deduct the tax or the obligation to remit tax advances during the fiscal year. After the end of the fiscal year, based on the information on the amount of income earned provided to the taxpayer individually by sole proprietors, corporate persons and their organisational units and unincorporated organisational units, by the end of February of the year following the relevant fiscal year, the taxpayer is obliged to report the income generated during the fiscal year on the transfer of securities for consideration and—where taxable income was generated—calculate the relevant income tax charge in a tax return reporting his/her income earned (loss incurred) during the fiscal year (Article 30b Section 6 of the PIT Act). The tax return should be filed by April 30 of the year following the fiscal year in which the revenues on the transfer of securities for consideration were earned. By the same date the taxpayer should pay the due tax, as disclosed in the tax return.

Where income is generated on the transfer of securities for consideration, such income is not amalgamated with income generated from other sources of revenues (Article 30b Section 5 of the PIT Act).

Losses incurred on the transfer of securities for consideration in one fiscal year can be deducted from income generated from the same source of revenues in the following five consecutive fiscal years, provided that the deduction in any of these years does not exceed 50% of the amount of the loss. Losses incurred on this activity cannot be amalgamated with losses incurred by the taxpayer from other sources of revenue (Article 9 Section 6 of the PIT Act).

The above principles do not apply if securities are transferred for consideration as part of a professional business activity conducted by the taxpayer (Article 30b Section 4 of the PIT Act). In such a case these revenues will qualify as regular revenues on business activity, subject to progressive or flat tax, depending on the taxpayer's chosen taxation method and certain additional criteria concerning the taxpayer.

*Taxation of income of natural persons who are subject to limited tax liability in Poland (persons whose place of residence for tax purposes is not in Poland)*

Generally, the rules governing the taxation of income on the transfer of securities for consideration that are discussed above also apply to income generated within the territory of the Republic of Poland on the transfer of securities for consideration by persons who are not Polish tax residents.

Such persons are subject to tax liability only with respect to the income (revenues) generated within the territory of the Republic of Poland (limited tax liability—Article 3 Section 2a of the PIT Act).

The taxation principles discussed above apply to income generated in the territory of the Republic of Poland on the transfer of securities for consideration by persons who are not Polish tax residents without prejudice to the double taxation conventions signed by the Republic of Poland. However, a tax rate set out in the relevant convention can only apply, or such payment can only be avoided (if permitted under the convention), if the taxpayer evidences his/her tax residency by presenting an appropriate tax residency certificate (Article 30b Section 3 of the PIT Act).

***Taxation of income of legal (corporate) persons and organisational units with no legal personality***

*Taxation of corporate income tax payers which are subject to unlimited tax liability in Poland (those having their registered office or place of management in Poland)*

Taxpayers subject to corporate income tax in Poland are legal persons, capital companies under organisation and organisational units with no legal personality (other than companies and partnerships which are not afforded legal personality) (Article 1 Section 1 and 2 of the CIT Act).

Taxpayers who have their registered office or place of management in Poland are subject to tax liability with respect to all their income, wherever generated (unlimited tax obligation—Article 3 Section 1 of the CIT Act).

Income generated by taxpayers who are subject to unlimited tax liability in Poland on the transfer of securities for consideration (including shares) are subject to corporate income tax on the general terms set out in the CIT Act.

Income is the surplus of total revenues earned in the fiscal year over the costs of generating these revenues (Article 7 Section 2 of the CIT Act).

Revenue on the transfer of securities for consideration is the value expressed as the price in the relevant agreement. However, if for no justifiable reason the price set out in the agreement significantly deviates from the market value of the transferred securities, the revenue on the transfer of securities for consideration is assessed by the relevant tax authority or tax inspection authority, at the level of the market value of these securities (Article 14 Section 1 of the CIT Act).

Tax deductible expenses in respect of the transfer of securities for consideration are the expenses incurred on acquiring or taking up the securities. These costs can only be recognised when revenue is generated on the disposal of the relevant securities for consideration (Article 16 Section 1 item 8 of the CIT Act).

The revenues on the transfer of securities for consideration and the corresponding costs are amalgamated with other revenues and costs relevant to the same fiscal period. The tax rate applicable to income generated by corporate income tax payers is 19% of the tax base (Article 19 Section 1 of the CIT Act).

With respect to income on the transfer of securities for consideration, the taxpayer is required to settle the tax due on the disposal of the securities, and the entity making the payment does not withhold any tax. The taxpayer should settle the due income tax in its tax return on the amount of the tax income or loss generated in the relevant fiscal year (Article 27 Section 1 of the CIT Act). The deadline for filing the return is the end of the third month of the year following the fiscal year. The taxpayer should also pay the due tax by the same deadline. The taxpayer is not required to prepay tax during the fiscal year.

*Taxation of corporate income tax payers which are subject to limited tax liability in Poland (those not having their registered office or place of management in Poland)*

Generally, the rules governing the taxation of income on the transfer of securities for consideration that are discussed above, also apply to income generated within the territory of the Republic of Poland on the transfer of securities for consideration by legal persons who have no registered office or place of management in Poland. The provisions of the CIT Act also apply to income generated within the territory of the Republic of Poland by companies and partnerships which are not afforded legal personality and have their registered office or place of management in another state, provided that pursuant to the relevant tax regulations of such a state these companies are treated as legal persons and are subject to taxation on all their income, irrespective of the place where it is earned (Article 1 Section 3 of the CIT Act).

Such persons are subject to tax liability only with respect to the income earned within the territory of the Republic of Poland (limited tax liability—Article 3 Section 2 of the CIT Act).

The principles of taxation of income generated in Poland on the transfer of securities for consideration by corporate income taxpayers who have no registered office nor place of management in Poland discussed above, apply without prejudice to double taxation conventions signed by the Republic of Poland. Such a taxpayer may be required to present a tax residency certificate to corroborate the applicability of the tax rate or tax exemption based on the relevant double taxation convention.

### **Taxation of dividends and other revenues from a share of the profits of legal persons**

#### ***Taxation of income (revenues) of natural persons***

*Taxation of income (revenues) of natural persons who are subject to unlimited tax liability in Poland (persons whose place of residence for tax purposes is in Poland)*

Income (revenues) earned on a share of the profits of legal persons who have their registered office in Poland, earned by natural persons subject to unlimited tax liability in the territory of the Republic of Poland, is subject to a flat 19% income tax on the revenue earned (Article 30a Section 1 item 4 of the PIT Act).

Income (revenues) from a share of the profits of legal persons is the income (revenues) actually received from such shares (Article 24 Section 5 of the PIT Act). This includes income from dividends and other



revenues from a share of the profits of legal persons (such as distributions resulting from the redemption of shares or assets received in relation to the liquidation of a legal person).

The entity which provides the aforesaid income (revenues) to the taxpayer by making a disbursement or making cash or cash equivalents available to the taxpayer (such legal person being referred to as the “tax remitter”) is required to withhold a flat rate income tax on the disbursements made (benefits delivered) (Article 41 Section 4 of the PIT Act). The tax remitter is required to file with the relevant tax office an annual return on an appropriate form by the end of January of the year following the relevant fiscal year (Article 42 Section 1a of the PIT Act).

By the end of February of the year following the respective fiscal year the tax remitter is obliged to submit to the taxpayer and the tax office managed by the head of the tax authority appropriate for the taxpayer’s place of residence, personalised information on a prescribed form (Article 42 Section 2 item 1 of the PIT Act).

Pursuant to Article 45 Section 3b of the PIT Act, if the tax is not withheld by the tax remitter, the natural person is obliged to settle the tax personally, in his/her annual return filed by the end of April of the year following the relevant fiscal year.

There is a specific situation with respect to income from securities recorded on securities accounts or collective accounts, as defined in the Trading Act. Tax remitters who are responsible for withholding the tax on income (revenues) from dividends, redeemed shares, liquidation proceeds or—in the case of a merger or de-merger of companies—on cash payments received by the shareholders of a target company, merged companies or de-merged companies, are the entities keeping the securities accounts for the taxpayers, if such income (revenues) was generated in the territory of the Republic of Poland and is related to the securities recorded on these accounts, and the distributions are made to the taxpayers through the intermediary of such entities (Article 41 Section 4d of the PIT Act). However, with respect to the securities recorded on collective accounts, tax remitters who are responsible for withholding the tax on income (revenues) from dividends, redeemed shares, liquidation proceeds or—in the case of a merger or de-merger of companies—on cash payments received by the shareholders of a target company, merged companies or de-merged companies, are the entities keeping such collective accounts which act as intermediaries in the distribution of such proceeds. The tax is withheld on the date of distribution of the relevant funds to the holder of the collective account (Article 41 Section 10 of the PIT Act).

If dividend income (revenues) and other revenues from interests in the profit of legal persons are distributed to taxpayers whose rights thereto derive from securities recorded on collective accounts and the identity of such taxpayers was not disclosed to the tax remitter pursuant to a procedure set out in the Trading Act, the tax is withheld at the rate of 19% of the total income (revenues) remitted by the tax remitter to all of the taxpayers through the holder of the collective account (Article 30a Section 2 of the PIT Act). If the remitter makes a distribution pursuant to the above procedure, it is not obliged to prepare personalised statements of income with respect to such taxpayers (Article 42 Section 8 of the PIT Act), whereas the taxpayers are obliged to disclose the amount of such income in their annual tax returns (Article 45 Section 3c of the PIT Act).

*Taxation of income (revenues) of natural persons who are subject to limited tax liability in Poland (persons whose place of residence for tax purposes is not in Poland)*

Generally, the above rules governing the taxation of dividend income (revenues) and other revenues from interests in profits of legal persons who have their registered office in Poland, also apply to income earned by natural persons subject to limited tax liability in the territory of the Republic of Poland.

The above principles of taxation of income from a share of the profits of legal persons generated in the territory of the Republic of Poland by natural persons who are not Polish tax residents apply without prejudice to double taxation conventions signed by the Republic of Poland. However, the tax rate set out in the relevant convention can only apply, or such payment can only be avoided (if permitted under the convention), if the taxpayer corroborates his/her tax residency by presenting an appropriate tax residency certificate (Article 30a Section 2 of the PIT Act).

By the end of February of the year following the relevant fiscal year the tax remitter is required to send to the taxpayer, and to the tax office managed by the tax office head responsible for handling the taxation of foreign persons, personalised information on an appropriate form (Article 42 Section 2 item 2 of the

PIT Act). Additionally, at the written request of the taxpayer, the tax remitter should prepare, within 14 days from the filing of such a request, and send the personalised information referred to above to the taxpayer and the tax office managed by the tax office head responsible for handling the taxation of foreign persons (Article 42 Section 4 of the PIT Act).

If income (revenues) from dividends or other revenues from interests in profits of legal persons are remitted to the taxpayers whose rights thereto derive from securities recorded on collective accounts and their identity was not disclosed to the remitter pursuant to the procedure set out in the Trading Act, the tax remitter is not obliged to make or remit personalised information regarding the level of income with respect to such taxpayers (Article 42 Section 8 of the PIT Act).

### ***Taxation of income (revenues) of legal (corporate) persons and organisations without legal personality***

*Taxation of income (revenues) of corporate income tax payers subject to unlimited tax liability in Poland (those having their registered office or place of management in Poland)*

Income (revenues) earned on a share of the profits of legal persons who have their registered office in Poland earned by corporate income tax payers who are subject to unlimited tax liability in Poland is subject to a flat 19% income tax on the revenue earned (Article 22 Section 1 of the CIT Act).

Income (revenues) from a share of the profits of legal persons is the income (revenues) actually received on such shares (Article 10 Section 1 of the CIT Act). This includes income from dividends and other revenues from a share of the profits of legal persons (e.g. distributions resulting from redemption of shares or assets received in relation to a liquidation of a company).

The entity which makes disbursements to the taxpayer against the aforesaid income (revenues) (“tax remitter”) is required to withhold a flat rate income tax on the disbursements made (Article 26 Section 1 of the CIT Act).

The tax remitter is required to file with the relevant tax office an annual return on an appropriate form by the end of the first month of the year following the relevant fiscal year (Article 26a of the CIT Act). Additionally, by the seventh day of the month following the month in which the tax was collected the tax remitter is required to distribute information concerning the amount of the collected tax to the taxpayers (Article 26 Section 3 item 1 and Section 3a of the CIT Act).

*Taxation of income (revenues) of corporate income tax payers subject to limited tax liability in Poland (those not having their registered office or place of management in Poland)*

Generally, the principles of taxation discussed above apply to income earned on a share of the profits of legal persons who have their registered office in Poland, earned by corporate income tax payers who are subject to limited tax liability in Poland.

Income from dividends and other revenues from a share of the profits of legal persons generated within the territory of the Republic of Poland by persons subject to limited tax liability are governed by the taxation principles described above, without prejudice to relevant double taxation conventions (Article 22a of the CIT Act). However, a tax rate set out in the relevant convention can only apply, or such payment can only be avoided (if permitted under the convention), if the taxpayer corroborates his/her tax residency by presenting an appropriate tax residency certificate (Article 26 Section 1 of the CIT Act).

The tax remitter making a disbursement of dividends or other revenues from a share of the profit of a legal person to corporate income tax payers who are subject to limited tax liability in Poland, is required to deliver information concerning such disbursement and the amount of collected tax by the end of the third month following the end of the fiscal year in which the disbursements were made, to the taxpayer and to the tax office managed by the tax office head responsible for handling the taxation of foreign persons (Article 26 Section 3 item 2 and Section 3a of the CIT Act). At the written request of the taxpayer, the tax remitter should prepare, within 14 days of receiving such a request, and send the information referred to above to the taxpayer and the tax office managed by the tax office head responsible for handling the taxation of foreign persons (Article 26 Section 3b of the CIT Act).

*Income tax exemption available to Polish and foreign legal persons holding major blocks of Shares*

In certain instances, the income referred to above earned by corporate income tax payers who are subject to either limited or unlimited tax liability may be exempted from corporate income tax.

An income tax exemption applies to dividends and other revenues from a share of the profits of legal persons generated by a company whose entire income (regardless of where the income is earned) is taxed in Poland or in another EU member state or EEA member state (Article 22 Section 4 of the CIT Act) if all of the following conditions are met:

- the party that distributes dividends or other revenues from a share in profits of legal persons is an income tax payer, with its registered office or management in the territory of the Republic of Poland;
- the company that earns income (revenues) from dividends and other revenues from a share in profits of legal persons holds directly not less than 10% of all the shares in the share capital of the company paying the dividend or other revenues from participation in the profits of legal persons;
- the company that earns income (revenues) from dividends and other revenues from a share in profits of legal persons has continuously held the number of shares specified above for two years. The exemption also applies if the required two-year period expires after the income earning date. Should the above condition not be met, the company benefiting from the exemption will be required to pay the tax otherwise due by the 20<sup>th</sup> day of the month following the month in which such company forfeited the right to the exemption, including any accrued default interest; the interest is accrued as of the day following the day on which the company enjoyed the exemption for the first time (Article 22 Section 4a and 4b of the CIT Act);
- the company that earns income (revenues) from dividends and other revenues from a share in profits of legal persons is not exempted from income taxation on all its income regardless of where it is generated, and provided that the payer of such distribution obtains a written statement from that company confirming that this condition has been satisfied with respect to the payments to be made.
- the registered office of a foreign company earning the income is corroborated for tax purposes by a tax residency certificate issued by the relevant foreign tax authority (Article 26 Section 1c item 1 of the CIT Act).

If these conditions are met, the exemption will also apply if the recipient of dividends is a foreign establishment (within the meaning of Article 4a item 11 of the CIT Act) of a company whose entire income (regardless of the place where it is earned) is taxed in Poland or in another EU Member State or EEA member state. The existence of a foreign establishment should be corroborated by the company that benefits from the exemption by a certificate issued by the applicable tax authority of the country in which the company's registered office and/or place of management is located or by the applicable tax authority of the country in which the establishment is located (Article 26 Section 1c item 2 of the CIT Act).

Additionally, this exemption applies if the shares are held on the basis of ownership title and with respect to income received from shares held on the basis of ownership title or other than ownership, provided that such income (revenues) would qualify for the exemption should the possession of the shares not have been transferred.

This exemption may also apply to income (revenues) distributed to the recipient (company) if all of its income is subject to income tax in Switzerland, regardless of where it is generated, and the direct share in the company distributing such a dividend is no less than 25% (Article 22 Section 4c item 2 and Section 6 of the CIT Act). Also in this case it is necessary to present a tax residency certificate issued by the relevant foreign tax authority.

The exemption described above applies accordingly to cooperatives established pursuant to Regulation No. 1435/2003/EC of July 22, 2003 on the Statute for a European Cooperative Society (SCE) (EC OJ L 207/1 of August 18, 2003, as amended).

At the same time, the exemption may only be applied if the Polish tax authority is legally entitled, on the basis of a double taxation convention or another ratified international treaty to which the Republic of Poland is a party, to obtain tax information from tax authorities of the foreign state in which the taxpayer has its registered office or in which it generated the income (Article 22b of the CIT Act).

### **Transfer tax (tax on civil law transactions) payable on the sale of securities**

Transfer tax is payable on agreements concerning the sale or exchange of property or economic rights (including securities) if the subject of such agreements is property situated in the territory of the Republic of Poland, or the economic rights exercised within the territory of the Republic of Poland (Article 1 Section 1 item 1 letter a in conjunction with Article 1 Section 4 of the Transfer Tax Act).

As a rule, the sale of shares of companies that have their registered office in Poland is considered to constitute a sale of economic rights exercisable in Poland; therefore such transactions are subject to transfer tax at the rate of 1%. The tax base is the market value of the property or the economic rights (Article 6 Section 1 Item 1 of the Transfer Tax Act). The tax liability resulting from a sale agreement is borne by the buyer and arises upon the finalisation of the civil law transaction (Article 3 Section 1 item 1 of the Transfer Tax Act). The taxpayers are required to file, without any additional request from the tax office, a transfer tax return and calculate and remit the due tax within 14 days following the day on which the tax liability arose. This obligation does not apply if the transaction is executed in the form of a notarial deed where the transfer tax is collected by the notary who, in this case, acts as the tax remitter (Article 10 Section 1 and 2 of the Transfer Tax Act).

The sale of economic rights constituting financial instruments (i) to investment companies and foreign investment companies, (ii) executed through investment companies and foreign investment companies (iii) executed in organised trade, or (iv) executed outside organised trade by investment companies and foreign investment companies which had acquired such economic rights in organised trade, as defined in the Trading Act, is exempted from the transfer tax (Article 9 item 9 of the Transfer Tax Act).

### **Inheritance and donation tax on the acquisition of securities by natural persons**

Inheritance and donation tax is levied on the acquisition by natural persons of property located, and economic rights exercised within the territory of the Republic of Poland (including securities), by way of, among others, inheritance, ordinary legacy, further legacy, legacy per vindicationem, bequest, donation or donor's order (Article 1 Section 1 of the Inheritance and Donation Tax Act). The tax liability is borne by the person acquiring the property or economic rights (Article 5 of the Inheritance and Donation Tax Act) and it may arise at different times, depending on the form of such an acquisition (Article 6 of the Inheritance and Donation Tax Act).

Pursuant to Article 7 Section 1 of the Inheritance and Donation Tax Act, the tax base is, usually, the value of the acquired property and economic rights, after the deduction of any debts and encumbrances (net value), determined as at the date of acquisition and at the market prices prevailing on the date on which the tax obligation arises.

The amount of tax depends on the degree and kind of relationship or kinship or other personal ties between the donor and the beneficiary or the decedent and the heir. The tax rates grow progressively from 3% to 20% of the tax base, depending on the tax group to which the transferee qualifies. There is a tax-free amount defined for each of these groups.

Unless the tax is collected by the tax remitter, the taxpayers are required to file, within one month of the date on which the tax liability arose, a tax return disclosing the acquisition of property or economic rights on an appropriate form with the head of the relevant tax office (Article 17a Section 1 and 2 of the Inheritance and Donation Tax Act). The tax is payable within 14 days of receiving the decision of the head of the relevant tax office assessing the amount of the tax liability.

Securities acquired by close relatives (a spouse, descendants, ascendants, stepchildren, siblings, stepfather and stepmother) are tax-exempt subject to filing an appropriate notice with the head of the relevant tax office in due time (Article 4a Section 1 of the Inheritance and Donation Tax Act). The aforementioned exemption applies if, at the time of acquisition, the acquirer was a citizen of any of the EU member states, a European Free Trade Association member state being party to the EEA agreement or was a resident of Poland or such a state (Article 4 Section 4 of the Inheritance and Donations Act).

Tax is not levied on an acquisition of economic rights exercised in the territory of the Republic of Poland (including securities) if on the date of such acquisition neither the transferee nor the decedent nor donor were Polish citizens and had no place of permanent residence or registered office in the territory of the Republic of Poland (Article 3 Section 1 of the Inheritance and Donation Tax Act).

**Regulations concerning liability of the tax remitter**

Pursuant to Article 30 § 1 of the Tax Code, remitters who have failed to calculate, withhold and pay the tax to the appropriate tax authority are liable with all their assets for the tax that has not been withheld or for the amount of tax that has been withheld but has not been paid. This provision does not apply if otherwise stipulated by separate provisions of law or if the tax has not been withheld due to the fault of the taxpayer. In such cases the appropriate tax authority issues a decision on the liability of the taxpayer.

**CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS**

NOTICE PURSUANT TO INTERNAL REVENUE SERVICE CIRCULAR 230: ANY DISCUSSION OF U.S. FEDERAL TAX ISSUES CONTAINED OR REFERRED TO UNDER THE HEADING “CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS” IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, FOR THE PURPOSE OF AVOIDING TAX PENALTIES THAT MAY BE IMPOSED UNDER U.S. FEDERAL TAX LAWS. SUCH DISCUSSION WAS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE OFFER SHARES ADDRESSED HEREIN. EACH INVESTOR SHOULD SEEK ADVICE BASED ON THE PROSPECTIVE INVESTOR’S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

The following description is a summary of certain U.S. federal income tax consequences that may be relevant to the ownership and disposition of the Offer Shares. This description is based on the Internal Revenue Code of 1986, as amended (the “Code”), the U.S. Treasury Regulations and relevant judicial and administrative interpretations, in each case as in effect and available on the date of this Offering Circular. Changes in, or differing interpretations of, any of these authorities could affect the tax consequences described herein (possibly with retroactive effect).

This description addresses only the U.S. federal income tax considerations of U.S. Holders (described below) that are initial purchasers of the Offer Shares pursuant to the Offering and that will hold such Offer Shares as capital assets within the meaning of section 1221 of the Code (generally, as property held for investment). This description does not address the U.S. federal income tax considerations applicable to holders that may be subject to special tax rules, including:

- dealers or traders in securities or currencies or other persons who are required or elect to mark-to-market their holdings;
- tax-exempt entities, including pension plans;
- banks, financial institutions or insurance companies;
- real estate investment trusts, regulated investment companies or grantor trusts;
- individual retirement and other tax-deferred accounts;
- persons that received the Offer Shares as compensation for the performance of services;
- holders that own, directly, indirectly or through attribution, at least 10 percent of the voting power or value of the Company;
- persons that have a functional currency other than the U.S. dollar;
- persons that are residents of Poland for Polish tax purposes or that conduct a business or have a permanent establishment in Poland;
- holders who hold the Offer Shares as part of a position in a straddle or as part of a hedging, conversion, integration, constructive sale, or other risk reduction transaction for U.S. federal income tax purposes;
- certain former citizens or former long-term residents of the United States;
- partnerships and their partners, or other entities classified as pass-through entities for U.S. federal income tax purposes; or
- persons subject to the alternative minimum tax.



## TAXATION

---

Moreover, this description does not address the U.S. federal estate, gift or alternative minimum tax consequences, or any state, local or non-U.S. tax consequences relating to the acquisition, ownership and disposition of the Offer Shares. This description, furthermore, does not address the tax consequences of owning options or warrants or similar instruments on the Offer Shares, or any tax consequences applicable to the holder of an equity interest in a holder of the Offer Shares. In addition, this description does not address the 3.8% Medicare contribution tax.

For purposes of this description, a “U.S. Holder” is a beneficial owner of the Offer Shares that, for U.S. federal income tax purposes, is:

- an individual who is a citizen or resident of the United States;
- a corporation created or organized in or under the laws of the United States or any state or subdivision thereof, including the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust if (1) a court within the United States is able to exercise primary supervision over its administration and one or more United States persons have the authority to control all of the substantial decisions of such trust; or (2) such trust has a valid election in effect to be treated as a United States person for U.S. federal income tax purposes.

U.S. Holders should consult their own tax advisors with respect to the U.S. federal, state, local and non-U.S. tax consequences of acquiring, owning or disposing of the Offer Shares.

### *Distributions*

The gross amount of any actual or constructive distribution made to a U.S. Holder with respect to the Offer Shares, other than certain pro rata distributions, if any, of the Offer Shares to all its shareholders, will generally be includible in the income of a U.S. Holder as foreign-source dividend income to the extent such distributions are paid out of the Company’s current or accumulated earnings and profits as determined under U.S. federal income tax principles.

A dividend that a non-corporate U.S. Holder receives will generally be subject to a maximum U.S. federal income tax rate of 20% if the dividend is a “qualified dividend.” Subject to the foregoing, dividends on the Offer Shares will be treated as qualified dividend income if (1) the Company is eligible for the benefits of a comprehensive income tax treaty with the United States that the Internal Revenue Service has approved for the purposes of the qualified dividend rules, (2) the Company was not, in a year prior to the year in which the dividend was paid, and is not, in the year in which the dividend is paid, a passive foreign investment company (a “PFIC”) (see the discussion under “Passive Foreign Investment Company Considerations” below), and (3) certain additional conditions are met, including certain holding period requirements, the absence of certain risk reduction transactions and the absence of an election to treat the dividend income as “investment income” pursuant to section 163(d)(4) of the Code. The amount of qualified dividend income, if any, paid to a non-corporate U.S. Holder by the Company that is taken into account for purposes of calculating the U.S. Holder’s foreign tax credit limitation (as discussed below) must be reduced by the “rate differential portion” of such dividend. Further, in certain cases, a non-corporate U.S. Holder that has received qualified dividend income with respect to the Offer Shares may be required to treat a loss on the disposition of such Offer Shares as a “long-term capital loss” (applicable if the Offer Shares have been held for more than one year) regardless of the U.S. Holder’s actual holding period for the Offer Shares. Although the Company currently believes that distributions on the Offer Shares that are treated as dividends for U.S. federal income tax purposes should constitute qualified dividend income, no assurance can be given that this will be the case. U.S. Holders should consult their tax advisors regarding the tax rate applicable to the dividends received by them with respect to the Offer Shares, and any additional associated U.S. federal income tax consequences of receiving such dividends.

Generally, distributions by a corporation in excess of its current and accumulated earnings and profits, as determined under U.S. federal income tax principles, would be treated as a tax-free return of capital to the extent of the shareholder’s adjusted tax basis in the shares to which the distribution relates, with the balance of the distribution, if any, treated as taxable capital gain from the sale, exchange or other disposition of the shares. The Company has not maintained and does not plan to maintain calculations of

earnings and profits under U.S. federal income tax principles. Accordingly, it is unlikely that U.S. Holders will be able to establish that a distribution by the Company is in excess of its current and accumulated earnings and profits (as computed under U.S. federal income tax principles). Therefore, a U.S. Holder should expect that a distribution by the Company will generally be treated as taxable in its entirety as a dividend to U.S. Holders for U.S. federal income tax purposes even though the distribution may be treated in whole or in part as a non-taxable distribution for Polish tax purposes.

If the Company pays a dividend in Polish zloty, such dividend will be included in the gross income of a U.S. Holder in an amount equal to the U.S. dollar value of the Polish zloty calculated by reference to an acceptable spot market exchange rate in effect on the day of receipt regardless of whether the payment is in fact converted into U.S. dollars at that time. Such holder will have a tax basis for U.S. federal income tax purposes in the Polish zloty received equal to that U.S. dollar value. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date the dividend payment is included in income to the date the payment is converted into U.S. dollars will be treated as ordinary income or loss. Such income or loss generally will be treated as income or loss from sources within the United States for foreign tax credit limitation purposes. The amount of any distribution of property other than cash will be the U.S. dollar value of such property on the date of the distribution.

Dividends received by a U.S. Holder with respect to the Offer Shares will be treated as foreign source income, which may be relevant in calculating such holder's foreign tax credit limitation. Such dividends will not be eligible for the dividends received deduction generally allowed to corporate U.S. Holders. Subject to certain complex conditions and limitations, Polish tax withheld on dividends may be credited against a U.S. Holder's U.S. federal income tax liability. The limitation on foreign taxes eligible for credit is computed separately with respect to specific categories of income. Foreign taxes paid with respect to one category of income will generally be unavailable to set off, or otherwise reduce, a U.S. Holder's U.S. federal income tax liability with respect to income attributable to any other category. For this purpose, dividends paid by the Company generally will constitute "passive category income," or in the case of certain U.S. Holders, "general category income."

Further, in certain circumstances, if a U.S. Holder (i) holds Offer Shares for less than a specified minimum period during which it is not protected from risk of loss, or (ii) is obligated to make payments related to the dividends, the U.S. Holder will not be allowed a foreign tax credit for foreign taxes imposed on dividends paid on the Offer Shares.

If a U.S. Holder does not elect to claim a foreign tax credit for U.S. federal income tax purposes, such U.S. Holder may be entitled to claim a deduction for U.S. federal income tax purposes in respect of such holdings, but only in a year in which the U.S. Holder elects to do so for all creditable foreign taxes.

The rules concerning the availability of a foreign tax credit are complex. U.S. Holders should consult their own tax advisors with respect to the availability of the U.S. foreign tax credit in their particular circumstances.

#### *Sale or Exchange of the Offer Shares*

U.S. Holders generally will recognise capital gain or loss on the sale or exchange of the Offer Shares equal to the difference between the amount realized on the disposition thereof and their adjusted tax basis in the Offer Shares. For non-corporate U.S. Holders of Offer Shares, the maximum U.S. federal income tax rate applicable to such gain is generally 20 percent if the holding period of such U.S. Holders for the Offer Shares exceeds one year (i.e., if such gain is long-term capital gain). Any gain or loss recognised by U.S. Holders generally will be treated as U.S. source income or loss for U.S. foreign tax credit purposes. Consequently, such holders may not be able to utilise the foreign tax credit attributable to any Polish tax imposed on a sale or disposition unless such credit can be applied (subject to applicable limitations) against tax due on other income treated as derived from foreign sources in the appropriate income category. Capital gains recognized by corporate U.S. Holders generally are subject to U.S. federal income tax at the same rate as ordinary income. The deductibility of capital losses is subject to significant limitations.

If the payment received with respect to the sale or exchange of the Offer Shares is not in U.S. dollars, the amount realised generally will be the U.S. dollar value of the payment received determined on (1) the date of receipt of payment in the case of a cash basis U.S. Holder and (2) the date of disposition in the case of

an accrual basis U.S. Holder. If the Offer Shares are treated as traded on an “established securities market,” a cash basis U.S. Holder, or, if it so elects, an accrual basis U.S. Holder, will determine the U.S. dollar value of the amount realized by translating the amount received at an acceptable spot market exchange rate on the settlement date of the sale. If a U.S. Holder receives foreign currency upon a sale or exchange of the Offer Shares, the gain or loss, if any, recognised on the subsequent sale, conversion or disposition of such foreign currency will be ordinary income or loss, and will generally be income or loss from sources within the United States for foreign tax credit limitation purposes. However, if foreign currency received on the sale or exchange of the Offer Shares is converted into U.S. dollars on the date received by the U.S. Holder, a cash basis or electing accrual basis U.S. Holder should not recognise any gain or loss on such conversion.

### ***Passive Foreign Investment Company Considerations***

A non-U.S. corporation will be classified as a “passive foreign investment company,” or a PFIC, for U.S. federal income tax purposes in any taxable year in which, the corporation satisfies either of the following requirements:

- at least 75% of its gross income is “passive income,” or
- at least 50% of the average gross fair market value of its assets is attributable to assets that produce “passive income” or are held for the production of passive income.

Passive income for this purpose generally includes dividends, interest, royalties, rents, and gains from commodities and securities transactions. In addition, there is a look-through rule for investments in subsidiary corporations. Under this rule, if a non-U.S. corporation owns (directly or indirectly) at least 25 percent of another corporation, the non-U.S. corporation is treated as owning a proportionate share of the assets of the other corporation and earning its proportionate share of the income of the other corporation for purposes of determining if the non-U.S. foreign corporation is a PFIC.

Based upon the composition of its income, its assets and the nature of its business, the Company believes that it did not qualify as a PFIC for the tax year ending December 31, 2012, and believes that it will not be classified as a PFIC for its current taxable year. There can be no assurance, however, that the Company will not be considered to be a PFIC for any particular year because PFIC status is factual in nature, depends upon factors not wholly within the Company’s control, generally cannot be determined until the close of the taxable year in question, and is determined annually.

If the Company were a PFIC in any taxable year, materially adverse U.S. federal income consequences could result for U.S. Holders. For example, the PFIC rules would effectively prevent a U.S. Holder from treating gain on the sale of Offer Shares as capital gain (if the Company is a PFIC for any taxable year during the U.S. Holder’s holding period for the Offer Shares). In addition, the lower rates of taxation applicable to qualified dividend income derived by certain non-corporate U.S. Holders discussed above under “Distributions” do not apply to dividends paid with respect to shares in a PFIC. If the Company is classified as a PFIC in any year that a U.S. Holder is a shareholder, the Company generally will continue to be treated as a PFIC for that U.S. Holder in all succeeding years, even if the Company ceases to be a PFIC.

U.S. Holders should consult their tax advisors regarding the U.S. federal income tax consequences of holding an interest in a PFIC.

### ***Reporting Obligations of Individual Owners of Foreign Financial Assets***

Section 6038D of the Code generally requires U.S. individuals (and possibly certain entities that have U.S. individual owners) to file IRS Form 8938 if they hold certain “specified foreign financial assets,” the aggregate value of which exceeds \$50,000. The definition of specified foreign financial assets includes not only financial accounts maintained in foreign financial institutions, but also, unless held in accounts maintained by a financial institution, any stock or security issued by a person (other than a United States person), any financial instrument or contract held for investment that has an issuer or counterparty other than a United States person and any interest in a foreign entity.

---

***Information Reporting and Backup Withholding***

U.S. information reporting and backup withholding tax requirements apply to certain payments to certain non-corporate holders of the Offer Shares. Information reporting generally will apply to payments of dividends on, and to gross proceeds from the sale, redemption or disposition of the Offer Shares made within the United States or by a “U.S. payor” or “U.S. middleman” for U.S. federal income tax purposes to a holder of the Offer Shares, other than an exempt recipient, including a corporation, a payee that is not a United States person and that provides appropriate certification and certain other persons. Backup withholding tax will apply to any payments of dividends on the Offer Shares, or the proceeds from the sale, redemption or disposition of, the Offer Shares within the United States or by a U.S. payor or U.S. middleman to a holder, other than an exempt recipient, if such holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, such backup withholding tax requirements. The backup withholding tax rate currently is 28 percent.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment to a holder will be allowed as a credit against such holder’s U.S. federal income tax liability or a refund, provided that the holder has timely complied with all applicable reporting obligations or refund claim procedures.

The above description is not intended to constitute a complete analysis of all tax consequences relating to the acquisition, ownership and disposition of the Offer Shares. U.S. Holders should consult their own tax advisors concerning the tax consequences applicable to their particular situations.

**ADDITIONAL INFORMATION**

**Auditors**

KPMG Audyt spółka z ograniczoną odpowiedzialnością sp.k. with its registered office in Warsaw, ul. Chłodna 51, 00-867 Warszawa is the Company's independent auditor.

KPMG Audyt spółka z ograniczoną odpowiedzialnością sp.k. is a member of the National Chamber of Auditors (*Krajowa Izby Biegłych Rewidentów*) entered into the register of entities authorised to audit financial statements under entry No. 3546. KPMG Audyt spółka z ograniczoną odpowiedzialnością sp.k. has no material interest in the Company. In particular, as at the date of this Offering Circular it does not hold any Shares.

KPMG Audyt spółka z ograniczoną odpowiedzialnością sp.k. has audited the Consolidated Financial Statements that are presented in "Financial Information" and issued opinions thereon which contained no reservations. The opinion on the Consolidated Financial Statements was signed on behalf of KPMG Audyt spółka z ograniczoną odpowiedzialnością sp.k. by Zbigniew Libera, certified auditor registered under No. 90047.

KPMG Audyt spółka z ograniczoną odpowiedzialnością sp.k. has reviewed the Condensed Interim Consolidated Financial Statements that are presented in "Financial Information", and issued a report on the review which contained no reservations.

In addition, KPMG Audyt spółka z ograniczoną odpowiedzialnością sp.k. has reviewed the Company's standalone financial statements for the financial year ended on 31 December 2012 prepared in accordance with IFRS and the Company's standalone financial statements for the financial year ended on 31 December 2011 prepared in accordance with the Polish Accounting Standards and issued opinions thereon which contained no reservations. KPMG Audyt spółka z ograniczoną odpowiedzialnością sp.k. has also audited the consolidated financial statements of the Group for the financial year ended on 31 December 2011 prepared in accordance with the Polish Accounting Standards and issued opinions thereon which contained no reservations. The opinions on the above standalone financial statements of the Company and consolidated financial statements of the Group were signed on behalf of KPMG Audyt spółka z ograniczoną odpowiedzialnością sp.k. by Zbigniew Libera, certified auditor registered under No. 90047.

Deloitte Audyt sp. z o.o. has audited the standalone financial statements of the Company for the financial year ended on 31 December 2010 prepared in accordance with the Polish Accounting Standards and issued an opinion thereon which contained no reservations. Deloitte Audyt sp. z o.o. has also audited the consolidated financial statements of the Group for the financial year ended on 31 December 2010 prepared in accordance with IFRS and consolidated financial statements of the Group for the year ended on 31 December 2010 prepared in accordance with the Polish Accounting Standards and issued opinions thereon which contained no reservations. The opinions on the above standalone financial statements of the Company and consolidated financial statements of the Group were signed on behalf of Deloitte Audyt sp. z o.o. by Piotr Sokołowski, certified auditor registered under No. 9752.

In the period covered by the Financial Statements, none of the certified auditors authorised to audit the financial statements of the Company or the Group resigned or was dismissed.

Pursuant to the Articles of Association, the Supervisory Board appoints the entity authorised to audit the financial statements of the Company.

**Experts**

Statements or reports of the experts were not used in the Offering Circular.

**Entities engaged in the Offering**

The entities enumerated below are engaged in the Offering.



### **Managers**

The role of Joint Global Coordinators will be performed by J.P. Morgan Securities plc with its registered office in London at 25 Bank Street, London EC14 5JP, the United Kingdom and UBS Limited with its registered office in London at 1 Finsbury Avenue, London EC2M 2PP, the United Kingdom. The Joint Global Coordinators of the Offering are responsible for the coordination of the work necessary to prepare and conduct the Offering.

Apart from Joint Global Coordinators, the role of Joint Bookrunners will be performed by Merrill Lynch International with its registered office in London at 2 King Edward Street, London EC1A 1HQ, the United Kingdom, Citigroup Global Markets Limited with its registered office in London at Citigroup Centre, 33 Canada Square, Canary Wharf London E14 5LB, the United Kingdom, Dom Maklerski Banku Handlowego S.A. with its registered office in Warsaw at ul. Senatorska 16, 00-923 Warsaw, Poland, Powszechna Kasa Oszczędności Bank Polski S.A. Oddział—Dom Maklerski PKO Banku Polskiego w Warszawie with its registered office in Warsaw at ul. Puławska 15, 02-515 Warsaw, Poland, UniCredit CAIB Poland S.A. with its registered office in Warsaw at ul. Emilii Plater 53, 00-113 Warsaw, Poland, UniCredit Bank AG, London Branch with its registered office in London at Moor House, 120 London Wall, London EC2Y 5ET, the United Kingdom and Banco Espírito Santo de Investimento, S.A. Spółka Akcyjna Oddział w Polsce with its registered office in Warsaw at ul. Złota 59, 00-120 Warsaw, Poland.

The Offering Agent is Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Oddział—Dom Maklerski PKO Banku Polskiego w Warszawie, with its registered office in Warsaw at ul. Puławska 15, 02-515 Warsaw, Poland.

In addition, UniCredit Bank Austria AG with its registered office in Vienna at Schottengasse 6-8, 1010 Vienna, Austria, will act solely as the Underwriter and will not be involved in procuring investors.

The remaining Managers are IPOPEMA Securities S.A. with its registered office in Warsaw at ul. Prózna 9, 00-107 Warsaw, Poland, Dom Maklerski mBanku S.A. with its registered office in Warsaw at ul. Wspólna 47/49, 00-684 Warsaw, Poland, Dom Maklerski Banku Ochrony Środowiska S.A. with its registered office in Warsaw at ul. Marszałkowska 78/80, 00-517 Warsaw, Poland, and Biuro Maklerskie Alior Bank S.A. with its registered office in Warsaw at ul. Łopuszańska 38D, 02-232 Warsaw, Poland.

The Managers' fee is closely related to the proceeds of the sale of the Offer Shares (see “—Costs of the Offering” below). In connection with the Offering, the Managers provide services to the Selling Shareholder and the Company, including coordinating the public relations efforts with respect to the Offering, coordinating contacts and arranging meetings with investors, organising the book-building process in Poland and abroad, as well as with other tasks that are typically performed by investment companies under public share offerings. The Managers, including the Offering Agent, do not hold any material interests in the Company and in particular, as at the date of this Offering Circular they do not hold any Shares in the Company.

### **Legal Advisors**

#### ***Legal Advisors to the Selling Shareholder***

Linklaters C. Wiśniewski i Wspólnicy spółka komandytowa with its registered office in Warsaw at ul. Sienna 39, 00-121 Warsaw, Poland provides legal services to the Selling Shareholder in relation to the Offering with respect to Polish law (“**Linklaters**”).

The remuneration of Linklaters is not linked to the amount of proceeds from selling the Offer Shares. Furthermore, Linklaters has provided and may provide legal services to the Selling Shareholder pursuant to relevant agreements for the provision of legal advisory services. Linklaters does not hold any material interests in the Company. In particular, on the date of this Offering Circular it does not hold any Shares in the Company. As at the date of the Offering Circular, there is no conflict of interest between Linklaters and the Company of material importance to the issuance or the Offering.

#### ***Legal Advisors to the Company***

Legal Services related to the Offering will be provided to the Company by: Greenberg Traurig Grzesiak spółka komandytowa (with its registered office in Warsaw at ul. Książęca 4, 00-498 Warsaw, Poland)—with

## ADDITIONAL INFORMATION

---

respect to Polish law, Greenberg Traurig Maher LLP (with its registered office in London at 200 Gray's Inn Road, London, WC1X 8HF, the United Kingdom)—with respect to English law and Greenberg Traurig LLP (with its registered office in New York at MetLife Building, 200 Park Avenue, New York, NY 10166)—on American federal law (jointly referred to as “**Greenberg Traurig**”).

The remuneration of Greenberg Traurig is not linked to the amount of proceeds from selling the Offer Shares. Furthermore, Greenberg Traurig has provided and may provide legal services to the Selling Shareholder pursuant to relevant agreements for the provision of legal advisory services. Greenberg Traurig does not hold any material interests in the Company. In particular, as at the date of this Offering Circular it does not hold any Shares in the Company. As at the date of the Offering Circular, there is no conflict of interest between Greenberg Traurig and the Company of material importance to the issuance or the Offering.

### ***Legal Advisors to the Managers***

In connection with the Offering, legal services to the Managers are provided by: Allen & Overy, A. Pędzich spółka komandytowa (with its registered office in Warsaw at Rondo ONZ 1, 00-124 Warsaw, Poland)—with respect to Polish law; Allen & Overy LLP (with its registered office in London at One Bishop Square, London E1 6AD, the United Kingdom)—with respect to English law and American federal law (jointly referred to as “**Allen & Overy**”).

The remuneration of Allen & Overy is not linked to the amount of proceeds from selling the Offer Shares. Furthermore, Allen & Overy has provided and may provide legal services to the Selling Shareholder regarding their activity pursuant to relevant agreements for the provision of legal advisory services. Allen & Overy does not hold any material interests in the Company. In particular, as at the date of this Offering Circular it does not hold any Shares in the Company. As at the date of the Offering Circular, there is no conflict of interest between Allen & Overy and the Company of material importance to the issuance or the Offering.

### **Documents on Display**

During the period of validity of the Prospectus, the following documents or their copies are available for inspection at the Company's registered office (al. Grunwaldzka 472, 80-309 Gdańsk, Poland), as well as on the Company's website at [www.grupaenergia.pl](http://www.grupaenergia.pl):

- Articles of Association;
- Current excerpt of the Company from the Register of Entrepreneurs;
- Resolution No. 25 of the Extraordinary General Meeting of 3 September 2013 on dematerialisation of shares of ENERGA SA, registration of the Company's shares with the securities depository, authorizing the Management Board to enter into an agreement on registration of shares with the National Depository for Securities (*Krajowy Depozyt Papierów Wartościowych S.A.*) and applying for the admission and introduction of the Company's shares to trading on a regulated market operated by the Warsaw Stock Exchange with its registered office in Warsaw; and
- Condensed Interim Consolidated Financial Statements with a report of an independent certified auditor on a review of the Condensed Interim Consolidated Financial Statements; and
- Consolidated Financial Statements, with an opinion of an independent certified auditor on the audit of the Consolidated Financial Statements.

Moreover, for the Prospectus validity period, the standalone financial statements of the Group companies for the financial years ended on 31 December 2012 and 31 December 2011 together with the auditors' reports and opinions thereon are available for inspection at the Company's registered office.

### **The legal basis to apply for the admission and introduction of the Shares of the Company to trading on the main market of the WSE and for their registration in the NDS**

Resolution No. 25 of the Extraordinary General Meeting of 3 September 2013 on dematerialisation of shares of ENERGA SA, registration of the Company's shares with the securities depository, authorizing the Management Board to enter into an agreement on registration of shares with the National Depository

for Securities (*Krajowy Depozyt Papierów Wartościowych S.A.*) and applying for the admission and introduction of the series AA Shares to trading on a regulated market operated by the Warsaw Stock Exchange with its registered office in Warsaw constitutes the legal basis for applying for the admission and introduction of the Company's shares to trading on a regulated market operated by the WSE and their registration with the NDS.

### **Costs of the Offering**

#### *Costs borne by the Company*

As at the date of this Offering Circular, the Company estimates that the costs incurred by it in connection with the Offering will amount to approximately PLN 21 million. The costs referred to above embrace in particular the costs related to legal and financial counselling for the benefit of the Company, administrative expenses and other costs of the Company related to the Offering and arising from the provisions of law. The costs related to the Offering shall be charged to the Company's operating costs.

#### *Costs borne by the Selling Shareholder*

##### *Fees of the Managers*

In consideration for the services to be performed in connection with the Offering, the Selling Shareholder agrees to pay to the Managers an aggregate consideration being a sum of 1.04% (one and four hundredths per cent.) of the number of the Offer Shares finally allocated in the Offering multiplied by the final sale price per Offer Share. If the Offer Shares allocated to the given tranche have different sale prices, the above-mentioned consideration will be the total of the products of the number of the Offer Shares allocated in the given tranche and the final sale price per Offer Share allocated in the given tranche.

The abovementioned consideration for the Managers does not cover potential costs related to stabilization activities, which are not known as at the date of this Offering Circular. This is due to the fact that the amount of such consideration will depend on whether stabilization activities will be undertaken, number of stabilization activities and their volume.

The abovementioned consideration covers remuneration for the underwriting of the Offer and transaction fees connected with the Offer.

##### *Other costs*

In addition, the Selling Shareholder will commit to pay the Managers a lump sum in connection with the costs and expenses incurred by the Managers, for the services provided in connection with the Offer.

As at the date of this Offering Circular, the Selling Shareholder estimates that the costs borne in connection with the Offer (excluding the consideration for the Managers indicated above) will amount around PLN 0.6 million.

### **Place of registration of the Shares and ISIN Code**

The series AA Shares, including the Offer Shares, will be registered with the securities deposit maintained by Krajowy Depozyt Papierów Wartościowych S.A. (*the National Depository of Securities*) with its registered office in Warsaw, at ul. Książęca 4, 00-498 Warsaw, which will facilitate the exercise of the corporate rights of the Issuer's shareholders, subject to the terms set forth in the applicable regulations. The ISIN code (International Securities Identification Number) will be assigned to the series AA Shares by the NDS following the conclusion by the Issuer of an agreement on the registration of the Shares in the depository of securities kept by the NDS.

The Issuer does not expect to use the services of any payment agents.

### **Agreement with the Issuer's market maker**

The Issuer concluded an agreement with Dom Maklerski mBanku S.A. for acting as a market maker for the Issuer.

**Agreement on liability for information contained in the Prospectus and the Offering Circular**

In connection with the Offering, the State Treasury and the Company entered on 12 November 2013 into an agreement, within the meaning of Article 98 Section 6 of the Offering Act, to regulate the mutual obligations of the State Treasury and the Company in respect of the liability for the accuracy, reliability and completeness of information contained in the Prospectus and the Offering Circular. Pursuant to Article 98 Section 6 of the Offering Act, the liability of the entities indicated therein for the accuracy, reliability and completeness of information included in the Prospectus, Offering Circular and other documents prepared and made available, inter alia, in connection with the public offering, admission of securities to trading on the regulated market is joint and several and must not be limited or excluded, which does not prevent the entities from entering into an agreement setting forth their mutual obligations in respect of such liability. The agreement that the State Treasury and the Company executed stipulate the terms of their mutual liability for the the accuracy, reliability and completeness of information contained in the Prospectus and the Offering Circular, it being understood that the liability will be limited to the actual loss, excluding loss of profit. Furthermore, the agreement provides for the mutual obligation of each party to indemnify the other party against an obligation to pay any compensation to a third party if such third party raises any claims in connection with any inaccurate disclosure or failure to disclose, in the Prospectus or in the Offering Circular, the required information within the scope for which any given party is to be liable towards the other party under the agreement, as well as the manner of proceeding should such claims be raised.

---

**ABBREVIATIONS AND DEFINITIONS**

In this document, unless the context requires otherwise, the terms listed below shall have the following meanings:

“Accounting Act”	The Accounting Act of September 29, 1994 (consolidated text in: Dz. U. of 2013, Item 330, as amended).
“Act on Auditors”	The Act on Auditors and Auditors’ Corporation, Entities Authorised to Audit Financial Statements and on Public Supervision of 7 May 2009 (Dz. U. of 2009, No. 77, Item 649, as amended).
“Act on Certain Financial Collaterals”	The Act on Certain Financial Collaterals of 2 April 2004 (consolidated text in: Dz. U. of 2012, Item 942, as amended).
“Act on Competition and Consumer Protection”	The Act on Competition and Consumer Protection of 16 February 2007 (Dz. U. of 2007, No. 50, Item 331, as amended).
“Act on Disclosing Information on the Environment and Environmental Protection”	The Act on Disclosing Information on the Environment and Environmental Protection, Participation of the Public in Environmental Protection and on Environmental Impact Assessments of 3 October 2008 (Dz. U. of 2008, No. 199, Item 1227, as amended).
“Act on Exchange of Employee Shares”	The Act on Principles of Exchange of Employee Shares in the Process of Consolidation of Power Sector Companies of 7 September 2007 (Dz. U. of 18 October 2007, No. 191, Item 1367, as amended).
“Act on Limitation of Remunerations”	The Act on Limitation of Remunerations for Executive Officers in Certain Entities of 3 March 2000 (consolidated text in: Dz. U. of 2013, Item 254).
“Act on Preventing and Remedying Environmental Damage”	The Act on Preventing and Remedying Environmental Damage of 13 April 2007 (Dz. U. of 2007, No. 75, Item 493, as amended).
“AMO President”	The President of the Antimonopoly Office.
“ARE”	Agencja Rynku Energii Spółka Akcyjna with its registered office in Warszawie.
“Articles of Association”	The Issuer’s Articles of Association.
“availability ratio”	The ratio of the unit’s total of operating time and reserve standby time to calendar time.
“average load”	The ratio of gross electricity output (MWh) to the power plant’s operating time.
“BASE”	Contract for supply of 1MWh in every hour during 24h day.
“BAT”	Best Available Techniques (or Technologies).
“biomass”	In particular, solid or liquid substances of plant or animal origin, subject to biodegradation, obtained from agricultural or forestry products, waste and remains or industries processing their products as well as certain other biodegradable waste in particular agricultural raw materials.
“BREF”	BAT Reference Notes.



## ABBREVIATIONS AND DEFINITIONS

---

“brown certificate”	A biogas origin certificate—document issued by the ERO President pursuant to Article 9o of the Energy Law, confirming the generation of biogas.
“By-laws of the Supervisory Board”	By-laws of the Supervisory Board of the Company.
“CAGR”	Compounded Annual Growth Rate.
“CAPEX”	Capital Expenditures.
“Capital Market Supervision Act”	The Capital Market Supervision Act of 29 July 2005 (Dz. U. of 2005, No. 183, Item 1537, as amended).
“CCC”	The Code of Commercial Companies of 15 September 2000 (consolidated text in: Dz. U. of 2013, Item 1030).
“CCGT”	A combined steam and gas cycle, comprising a gas turbine, a heat recovery steam generator and a steam turbine. In the CCGT the heat recovered from exhaust gases of the gas turbine is used to generate steam. At the next stage, steam is used to power a steam turbine.
“CCIRS”	Cross Currency Interest Rate Swap contract where interest payments based on variable interest one in one currency are swapped for payments at a fixed rate in another currency.
“CCS Directive”	Directive 2009/31/EC of the European Parliament and of the Council of 23 April 2009 on the geological storage of carbon dioxide and amending Council Directive 85/337/EEC, European Parliament and Council Directives 2000/60/EC, 2001/80/EC, 2004/35/EC, 2006/12/EC, 2008/1/EC and Regulation (EC) No. 1013/2006 (OJ EU L 140/114 of 5 June 2009, as amended).
“CCS”	Carbon Capture and Storage; a set of technological processes used to capture CO <sub>2</sub> from industrial emissions caused by the combustion of fossil fuels, followed by its transport and underground storage in geological formations.
“CDM”	Clean Development Mechanisms; one of the flexible mechanisms introduced under Article 12 of the Kyoto Protocol.
“Central and Eastern Europe”	A group of countries comprising Estonia, Latvia, Lithuania, Poland, Czech Republic, Slovakia, Hungary, Romania, Bulgaria, Albania, Slovenia, Croatia, Bosnia and Herzegovina, Serbia, Montenegro and Macedonia.
“CER”	Certified Emission Reduction.
“certificate of origin”	RES certificate and cogeneration certificate.
“CHP”	Combined Heat and Power and, unless the context requires otherwise, a Combined Heat and Power plant.
“CIT Act”	The Corporate Income Tax Act of 15 February 1992 (consolidated text in: Dz. U. of 2011, No. 74, Item 397, as amended).
“Citi”	Citigroup Global Markets Limited, Dom Maklerski Banku Handlowego w Warszawie S.A.
“Civil Code”	The Civil Code of 23 April 1964 (Dz. U. of 1964 No. 16, Item 93, as amended).
“Civil Procedure Code”	The Civil Procedure Code of 17 November 1964 (Dz. U. of 1964 No. 43, Item 296, as amended).

“CO <sub>2</sub> ”	Carbon dioxide.
“co-combustion”	The generation of electricity or heat based on a process of combined, simultaneous combustion in one device of biomass or biogas together with other fuels; part of the energy thus generated can be deemed to be energy generated with the use of renewable sources.
“cogeneration certificate”	A certificate issued by the ERO President pursuant to Article 91 of the Energy Law and confirming that electricity has been generated in a high-efficiency cogeneration process by: (i) cogeneration units fired with fuel gas or with a total installed capacity below 1 MW (a yellow certificate); (ii) cogeneration units fired with coalbed methane freed and captured during underground mining work performed in operating hard coal mines, hard coal mines that are being decommissioned or that have been decommissioned or with gas obtained through the processing of biomass (a purple certificate); or (iii) other cogeneration units (a red certificate).
“cogeneration”	A technological process of simultaneous generation of heat and electricity or mechanical energy in the course of one and the same technological process.
“Commercial Code”	Ordinance of the President of the Republic of Poland of 27 June 1934—Commercial Code (Dz. U. of 1934 No. 57, Item 502, as amended).
“Commercialisation and Privatisation Act”	The Act on Commercialisation and Privatisation of Enterprises of 30 August 1996 (consolidated text in: Dz. U. of 2013, Item 216).
“Commodities Exchanges Act”	The Act on Commodities Exchanges of 26 October 2000 (consolidated text in: Dz. U. of 2010, No. 48, Item 284, as amended).
“Concentration Regulation”	Council Regulation (EC) No. 139/2004 of 20 January 2004 on the Control of Concentrations Between Undertakings (OJ EU L 24/1 of 29 January 2004, as amended).
“Condensed Interim Consolidated Financial Statements”	Unaudited Condensed Interim Consolidated Financial Statements of the ENERGA Group for a period of nine months ended 30 September 2013 together with an independent auditor’s report from their review, prepared in accordance with IAS 34 “Interim Financial Reporting”.
“Consolidated Financial Statements”	The audited consolidated financial statements of the ENERGA Group for the years ended 31 December 2012, 2011 and 2010, prepared in accordance with the IFRS.
“Construction Law”	The Construction Law of 7 July 1994 (consolidated text in: Dz. U. of 2010, No. 243, Item 1623, as amended).
“CRM”	Customer Relationship Management.
“CSO”	The Central Statistical Office of Poland ( <i>Główny Urząd Statystyczny</i> ).
“Current Report”	Current information submitted by the Issuer in the form and scope specified in the Ordinance of the Minister of Finance of 19 February 2009 regarding current and periodic information submitted by issuers of securities and on conditions of accepting as equivalent the information required by the provisions of the

## ABBREVIATIONS AND DEFINITIONS

---

	law of a non-EU member state (Dz. U. of 2009, No. 33, Item 259, as amended), disclosing information pursuant to the requirements set out in that ordinance.
“Customer Service Point”	Customer Service Point.
“Directive 2001/81/EC”	Directive 2001/81/EC of the European Parliament and of the Council of 23 October 2001 on national emission ceilings for certain atmospheric pollutants (OJ EU L 309/22 of 27 November 2001, as amended).
“Directive 2004/39/EC”	Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC (OJ EU L 145/1 of 30 April 2004, as amended).
“Directive 2006/32/EC”	Directive 2006/32/EC of the European Parliament and of the Council of 5 April 2006 on energy end-use efficiency and energy services and repealing Council Directive 93/76/EEC (OJ EU L 114/64 of 27 April 2006, as amended).
“Directive 2010/73/EU”	Directive 2010/73/EU of the European Parliament and of the Council of 24 November 2010 amending Directives 2003/71/EC on the prospectus to be published when securities are offered to the public or admitted to trading and 2004/109/EC on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market (OJ EU L 327/1 of 11 December 2010).
“Distribution System Operator”, “DSO”	A power company engaging in the distribution of gaseous fuels or electricity, responsible for traffic in the gas or electricity distribution systems, current and long-term security of operation of the system, the operation, maintenance, repairs and indispensable expansion of the distribution network, including connections to other gas or power systems.
“Dz. U.”	The official Polish journal of laws <i>Dziennik Ustaw Rzeczypospolitej Polskiej</i> .
“EBIT”	Earnings before interest and taxes.
“EBRD”	The European Bank for Reconstruction and Development.
“economic rights”	Transferable and exchange-traded rights arising from certificates of origin for energy generated from RES and cogeneration.
“EEA”	The European Economic Area: a free-trade zone covering the European Union and European Free Trade Association member states (except for Switzerland).
“Extraordinary General Meeting”	An Extraordinary General Meeting of the Issuer.
“EIB”	European Investment Bank.
“Emission Trading System Act”	The Act on the Greenhouse Gas Emission Trading System of 28 April 2011 (Dz. U. of 2011, No. 122, Item 695).
“EMTN”	Euro Medium Term Notes issued by us.
“ENERGA CUW”	ENERGA Centrum Usług Wspólnych spółka z ograniczoną odpowiedzialnością with its registered office in Gdańsk.

“ENERGA Elektrownie Ostrołęka”	ENERGA Elektrownie Ostrołęka Spółka Akcyjna with its registered office in Ostrołęka.
“ENERGA Hydro”	ENERGA Hydro Spółka z ograniczoną odpowiedzialnością with its registered office in Straszyn.
“ENERGA Kogeneracja”	ENERGA Kogeneracja Spółka z ograniczoną odpowiedzialnością with its registered office in Elbląg.
“ENERGA-OBRÓT”	ENERGA-OBRÓT Spółka Akcyjna with its registered office in Gdańsk.
“ENERGA-OPERATOR”	ENERGA-OPERATOR Spółka Akcyjna with its registered office in Gdańsk.
“Energy Efficiency Act”	The Energy Efficiency Act of 15 April 2011 (Dz. U. of 2011, No. 94, Item 551).
“Energy Law”	The Energy Law of 10 April 1997 (consolidated text in: Dz. U. of 2012, Item 1059, as amended).
“Environmental Act”	The Environmental Act of 27 April 2001 (consolidated text in: Dz. U. of 2008, No. 25, Item 150, as amended).
“ERO President”	The President of the Polish Energy Regulatory Office.
“ERO”	The Polish Energy Regulatory Office ( <i>Urząd Regulacji Energetyki</i> ).
“ERU”	Emission reduction units.
“ETS Directive”	Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC (OJ EU L 275/32 of 25 October 2003, as amended).
“EU”	The European Union.
“EUA”	European Union Allowances—transferable CO <sub>2</sub> emission allowances; one EUA allows an operator to release one metric ton of CO <sub>2</sub> .
“EU ETS”	European Union Greenhouse Gas Emission Trading Scheme—EU emission trading scheme. Its operating rules are set out in the ETS Directive.
“EUR”	The Euro—the common legal tender of 17 European Union states.
“European Commission”	The executive body of the European Union.
“European Regulations”	The combined laws of the European Union.
“EW”	Hydro power plant.
“Excise Tax Act”	The Excise Tax Act of 6 December 2008 (Dz. U. of 2011, No. 108, Item 626, as amended).
“Extraordinary General Meeting”	The Extraordinary General Meeting of the Issuer.
“Financial Market Supervision Act”	The Financial Market Supervision Act of 21 July 2006 (consolidated text in: Dz. U. of 2012, Item 1149, as amended).
“Financial Statements”	Consolidated Financial Statements and Condensed Interim Consolidated Financial Statements.

## ABBREVIATIONS AND DEFINITIONS

---

“Freedom of Business Activity Act”	The Freedom of Business Activity Act of 2 July 2004 (consolidated text in: Dz. U. of 2013, Item 672, as amended).
“Gas Tariff Ordinance”	Ordinance of the Minister of Economy of 28 June 2010 regarding policies for the creation and calculation of tariffs and settlements in gas fuels supply (Dz. U. of 2013, Item 820).
“GBP”	The Pound Sterling—the legal tender of the United Kingdom of Great Britain and Northern Ireland.
“GDP”	Gross Domestic Product.
“General Meeting” or “Annual General Meeting”	A General Meeting or an Annual General Meeting of the Issuer.
“generating unit”	A technically and commercially defined set of equipment belonging to a power company and used to generate energy and to transmit power.
“Geology and Mining Law”	Geology and Mining Law of 9 June 2011 (consolidated text in: Dz. U. of 2011, No. 163, Item 981).
“green certificate”, “RES certificate”	A certificate issued by the ERO President pursuant to Article 9e of the Energy Law and confirming the generation of electricity from RES.
“GW”	Gigawatt, a unit of capacity in the SI system, 1 GW = 10 <sup>9</sup> W.
“Heat Tariff Ordinance”	Ordinance of the Minister of Economy of 17 September 2010 regarding policies for the creation and calculation of tariffs and settlements in heat supply (Dz. U. of 2010 No. 194, Item 1291).
“high voltage (HV) grid”	A power grid with the voltage between 60 kV and 220 kV.
“high-efficiency cogeneration”	The generation of electric or mechanical power and useful heat through cogeneration, in such a way as to ensure savings of primary energy used in: (i) a cogeneration unit in the amount not lower than 10 per cent as compared to generation of electric power and heat in separated systems with reference efficiency values for separated generation; or (ii) cogeneration unit with an installed capacity under 1 MW as compared to generation of electric power and heat in separated systems with reference efficiency values for separated generation.
“IAS”	International Accounting Standards approved by the European Union, published in the years 1973-2001.
“IED Directive”	Directive 2010/75/EU of the European Parliament and of the Council of 24 November 2010 on industrial emissions (integrated pollution prevention and control) (OJ EU L 334/17 of 17 December 2010, as amended). To be transposed into national law by: 7 January 2013.
“IFRS”	International Accounting Standards, International Financial Reporting Standards and their Interpretations adopted by the Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards (OJ EU L 243/1 of 11 September 2002, as amended).
“Inheritance and Donations Tax Act”	The Inheritance and Donations Tax Act of 28 July 1983 (consolidated text in: Dz. U. of 2009, No. 93, Item 768, as amended).



“installed capacity”	The formal value of active power recorded in the design documentation of a generating system as being the maximum achievable capacity of that system, confirmed by the acceptance protocols of that system.
“Institutional Investors”	The investors invited pursuant to this Offering Circular or the Prospectus to participate in the book building process and place subscriptions for the Offer Shares, or to place subscriptions for the Offer Shares, respectively, which at the same time satisfy the criteria set out in clauses (1) to (4) of Part I of Annex II to Directive 2004/39/EC (qualified investors pursuant to Article 2 Section 1 e) of the Prospectus Directive promulgated in the Directive 2010/73/EU).
“Act on Investment Funds”	The Act on Investment Funds of 27 May 2004 (Dz. U. of 2004, No. 146, Item 1546, as amended).
“IPPC Directive”	Directive 2008/1/EC of the European Parliament and of the Council of 15 January 2008 concerning integrated pollution prevention and control (OJ EU L 24 of 29 January 2008, as amended). The directive shall remain in force until January 6, 2014.
“Transmission Network Operation and Maintenance Manual”	<i>Instrukcja Ruchu i Eksploatacji Sieci Przesyłowej</i> —a document prepared pursuant to the Energy Law by the transmission system operator; the document is designed for electricity networks and sets out details concerning the terms of use of these networks by system users, as well as the terms and methods of operating, maintaining and developing the networks; the manual, together with information regarding the users’ comments and the methods of their implementation, are filed with the ERO President for approval.
“Issuer”, “Company”, “ENERGA”	ENERGA Spółka Akcyjna with its registered office in Gdańsk.
“JI”	Joint Implementation—one of the flexibility mechanisms introduced under Article 6 of the Kyoto Protocol.
“Joint Bookrunners”	Merrill Lynch International, Citigroup Global Markets Limited, Dom Maklerski Banku Handlowego S.A., UniCredit CAIB Poland S.A. with its registered office in Warsaw, Powszechna Kasa Oszczędności Bank Polski S.A. Oddział—Dom Maklerski PKO Banku Polskiego w Warszawie with its registered office in Warsaw, UniCredit Bank AG, London Branch, Banco Espírito Santo de Investimento, S.A. Spółka Akcyjna Oddział w Polsce with its registered office in Warsaw.
“Joint Global Coordinators”	J.P. Morgan Securities plc with its registered office at 25 Bank Street, London EC14 5JP, UK and UBS Limited with its registered office at 1 Finsbury Avenue, London EC2M 2PP, UK.
“KRS”	The National Court Register ( <i>Krajowy Rejestr Sądowy</i> ).
“KSE”	The National Power System ( <i>Krajowy System Elektroenergetyczny</i> ).
“kV”	Kilo volt, an SI unit of electric potential difference, current and electromotive force; 1 kV = 10 <sup>3</sup> V.
“kWh”	Kilowatt-hour, a unit being a multiple of the SI electric energy unit. 1 kWh equals to the energy used by equipment of 1 kW power over one hour.

## ABBREVIATIONS AND DEFINITIONS

---

“Kyoto Protocol”	The Kyoto Protocol to the United Nations Framework Convention on Climate Change of 11 December 1997 (Dz. U. of 2005, No. 203, Item 1684), in force since 16 February 2005.
“Labour Code”	The Labour Code of 26 June 1974 (Dz. U. 1998 No. 21, Item 94, as amended).
“LCP Directive”	Directive 2001/80/EC of the European Parliament and of the Council of 23 October 2001 on the limitation of emissions of certain pollutants into the air from large combustion plants (OJ EU L 309/1 of 27 November 2001, as amended). The directive shall remain in force until 31 December 2015.
“Local Taxes Act”	The Act on Local Taxes and Fees of 12 January 1991 (Dz. U. of 2010, No. 95, Item 613, as amended).
“low voltage (LV) grid”	A power grid with a nominal voltage not exceeding 1 kV.
“Management Board Regulations”	Regulations of the Management Board of the Company.
“Management Board”	The Management Board of the Issuer.
“Managers”	The Joint Global Coordinators and the Joint Bookrunners and IPOPEMA Securities S.A. with its registered office in Warsaw at ul. Próżna 9, 00-107 Warszawa, Poland, Dom Maklerski mBanku S.A. with its registered office in Warsaw, at ul. Wspólna 47/49, 00-684 Warszawa, Poland, Dom Maklerski Banku Ochrony Środowiska S.A. with its registered office in Warsaw at ul. Marszałkowska 78/80, 00-517 Warsaw, Poland and Biuro Maklerskie Alior Bank S.A. with its registered office in Warsaw at ul. Łopuszańska 38D, 02-232 Warsaw, Poland.
“Material Subsidiaries”	ENERGA-OPERATOR, ENERGA Elektrownie Ostrołęka, ENERGA Kogeneracja, ENERGA-OBRÓT and ENERGA Hydro.
“maximum capacity”	The maximum sustained capacity of a generating unit or generator achievable during ordinary conditions of its operation.
“medium voltage (MV) grid”	A power grid with the voltage between 1 kV and 60 kV.
“Member State”	Member State of the European Union.
“MST Veto Act”	The Act on Special Rights of the Minister Relevant for the State Treasury and on Exercising These Rights in Certain Companies and Groups from the Electricity, Oil and Gas Fuel Sector of 18 March 2010 (Dz. U. of 2010, No. 65, Item 404).
“MST”	The Minister of State Treasury.
“must-run generation”, “GWS”	The generation of electricity forced to ensure the quality and reliability of the national power system. This applies to generating units in which generation must continue due to the technical limitations of the operation of the power system or the necessity of ensuring its adequate reliability.
“MW”	A unit of capacity in the SI system, 1 MW = 10 <sup>6</sup> W.
“MWe”	One megawatt of electric power.
“MWt”	One megawatt of heat power.
“NAP II”	<i>(Krajowy plan rozdziału uprawnień do emisji)</i> The national CO <sub>2</sub> credits allocation plan prepared for the years 2008-2012 for the

	EU ETS, adopted in the Ordinance of the Council of Ministers of July 1, 2008 (Dz. U. of 2008 , No. 202, Item 1248).
“NAP”	( <i>Krajowy plan rozdziału uprawnień do emisji</i> ) The National allocation plan prepared separately for the national emissions trading system and for the EU emissions trading system, devised by the National Emission Trading Scheme Administrator.
“NBP”	The National Bank of Poland, the Polish central bank with its registered office in Warsaw.
“NDS Rules”	The NDS Rules passed in the NDS Resolution No. 8/58/98 of 24 July 1998 (consolidated text adopted on 10 July 2013).
“NDS”	Krajowy Depozyt Papierów Wartościowych Spółka Akcyjna ( <i>National Depository for Securities</i> ), with its registered office in Warsaw at ul. Książęca 4, 00-498 Warsaw and, unless the context requires otherwise, the depository of securities kept by that company.
“New Lugano Convention”	Convention on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters executed in Lugano on 30 October 2007 (OJ EU L 339/3 of 21 December 2007).
“NO <sub>x</sub> ”	Nitrogen oxides.
“OECD”	Organisation for Economic Co-operation and Development.
“Offer Shares”	141,522,067 ordinary bearer shares of AA series of the Company, with the nominal value of PLN 10.92 each, including 14,152,206 Ordinary Shares under the Over Allotment Option, being subject to the Offering. Until dematerialised pursuant to the Trading Act, the Offer Shares will exist as registered shares.
“Offering”	The offering of the Offer Shares.
“Offering Act”	Offering Acts, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of 29 July 2005 (consolidated text: Dz. U. of 2009, No. 185, Item 1439, as amended).
“Offering Circular”	The Offering Circular prepared by us in the English language for the purpose of promoting the Offering outside Poland among selected qualified investors. The Offering Circular is not a Prospectus and will not be approved by any authority in any jurisdiction.
“Offering Agent”	Powszechna Kasa Oszczędności Bank Polski S.A. Oddział—Dom Maklerski PKO Banku Polskiego w Warszawie with its registered office in Warsaw at ul. Puławska 15, 02-515 Warsaw, Poland.
“OJ EU”	Official Journal of the European Union.
“Penal Code”	The Penal Code of 6 April 1997 (Dz. U. 1997 No. 88, Item 553, as amended).
“PFSA”	The Polish Financial Supervision Authority.
“PIT Act”	The Personal Income Tax Act of 26 July 1991 (consolidated text in: Dz. U. of 2012, Item 361, as amended).
“PLN”	The Polish złoty—the legal tender of the Republic of Poland.

## ABBREVIATIONS AND DEFINITIONS

---

“Poland’s Energy Policy until 2030”	A document styled “Polityka Energetyczna Polski do 2030 roku” ( <i>Poland’s Energy Policy until 2030</i> ), of September 2010 with attachments, including in particular Attachment No. 2 <i>Forecast of demand for fuels and energy until 2030</i> , passed by the Council of Ministers on September 29, 2010, and a document prepared at the request of the Ministry of Economy in September 2011, entitled <i>Update to the forecast of demand for fuels and energy until 2030</i> .
“Poland”	The Republic of Poland.
“Polish Accounting Standards”	Polish Accounting Standards, including the Accounting Act and secondary legislation published pursuant thereto.
“Polish Power Exchange”	Towarowa Giełda Energii S.A.
“PPA Act”	The Act on the Coverage of Stranded Costs Resulting to Generators in Relation to Accelerated Termination of Long-Term Power Purchase Agreements of 29 June 2007 (Dz. U. of 2007, No. 130, Item 905, as amended).
“PPAs”	Power purchase agreements, i.e. long-term agreements on the purchase of capacity and electricity entered into between Polskie Sieci Elektroenergetyczne S.A. and electricity generators in the years 1994-1998.
“Prospectus Regulation”	Commission Regulation (EC) No. 809/2004 of 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements (OJ EU L 149/1 of 30 April 2004, as amended).
“Prospectus”	The issue Prospectus of the Company approved by the PFSA.
“PSE”	Polskie Sieci Elektroenergetyczne Spółka Akcyjna with its registered office in Warsaw, holder of a licence for electricity transmission in Poland until 31 December 2030.
“Public Procurement Law”	The Public Procurement Law of 29 January 2004 (consolidated text in: Dz. U. 2013, Item 907).
“purple certificate”	A cogeneration certificate—document issued by the ERO President pursuant to Article 91 Section 1 Item 1a of the Energy Law, confirming that electricity has been generated in a high-efficiency cogeneration process by cogeneration units fired with coalbed methane freed and captured during underground mining work performed in operating hard coal mines, hard coal mines that are being decommissioned or that have been decommissioned or with gas obtained through the processing of biomass, within the meaning of Article 2 Section 1 item 2 of the Act of 25 August 2006 on biocomponents and liquid biofuels (Dz. U. of 2006, No. 169, Item 1199, as amended).
“Qualified Institutional Buyers”, “QIB”	Qualified institutional buyers within the meaning of Rule 144A of the U.S. Securities Act.
“Qualified Retail Investors”	Natural persons authorised to subscribe for the Offer Shares in this category of investors on terms set out in the Prospectus
“RAB”	Regulatory Asset Base.

“red certificate”	A cogeneration certificate—document issued by the ERO President pursuant to Article 91 Section 1 Item 2 of the Energy Law, confirming that certain electricity has been generated in a high-efficiency cogeneration process for all cogeneration units other than: (i) cogeneration units fired with coalbed methane freed and captured during underground mining work performed in operating hard coal mines, hard coal mines that are being decommissioned or that have been decommissioned or with gas obtained through the processing of biomass or (ii) cogeneration units fired with fuel gas or with a total installed capacity below 1 MW.
“Regulation S”	Regulation S issued under the US Securities Act.
“reliability ratio”	The ratio of outage time caused by defects to the total of operating time and outage time caused by defects.
“renewable energy source”, “RES”	A source of generation using wind power, solar radiation, aerothermal, geothermal and hydrothermal energy, waves, sea currents and tides, flow of rivers and energy obtained from biomass, landfill biogas as well as biogas generated in sewage collection or treatment processes or the disintegration of stored plant or animal remains.
“Reporting Ordinance”	Ordinance of the Minister of Finance of 19 February 2009 regarding current and periodic information submitted by issuers of securities and on the conditions of accepting as equivalent the information required by the provisions of law of a non-EU member state (Dz. U. of 2009 No. 33, Item 259, as amended).
“RES Certificates Ordinance”	Ordinance of the Minister of Economy of 18 October 2012 regarding detailed scope of obligations to obtain and submit green certificates for redemption, pay substitute fee, purchase electricity and heat from renewable sources and confirm data regarding electricity generated from renewable sources (Dz. U. 2012, Item 1229).
“Resolution on the Share Capital Decrease”	Resolution No. 23 of the Extraordinary General Meeting of 3 September 2013 on decreasing the Company’s share capital.
“Resolution on Preferred Shares”	Resolution No. 24 of the Extraordinary General Meeting of 3 September 2013 on determining the series of the Company shares and amendments to the Articles of Association.
“Retail Investors”	Natural persons authorised to subscribe for the Offer Shares in this category of investors on terms set out in the Prospectus.
“Reverse Split Resolution”	Resolution No. 22 of the Extraordinary General Meeting of 3 September 2013 on the reverse stock split in the Company, amendments to Articles of Association and authorisation of a subsidiary to purchase Company shares pursuant to Article 362 § 1 item 8 of the CCC in conjunction with Article 362 § 4 of the CCC.
“Rule 144A”	Rule 144A issued under the US Securities Act.
“Sale Price for Institutional Investors”	The Sale Price of Offer Shares for Institutional Investors determined by the Selling Shareholder in agreement with the Joint Global Coordinators and the Joint Bookrunners, which is PLN 17.00.



## ABBREVIATIONS AND DEFINITIONS

---

“Sale Price for Retail Investors”	The Sale Price of Offer Shares for Retail Investors and the Qualified Individual Investors determined by the Selling Shareholder in agreement with the Joint Global Coordinators and the Joint Bookrunners, which is PLN 17.00.
“Selling Shareholder”	The State Treasury of Poland.
Series AA Shares	269,139,114 ordinary bearer series AA Shares in the Company with a nominal value of PLN 10.92 each for which the Company will be seeking admission and introduction to trading on a regulated market (main market) of the WSE
“Shares”	All shares of the Issuer existing on the date of the Offering Circular, i.e. 414.067.114 shares.
“SO <sub>2</sub> ”	Sulphur dioxide.
“Stabilisation Agreement”	Stabilisation agreement between the Selling Shareholder and the Stabilising Managers concerning stabilisation of the price of the Offer Shares entered into on 3 December 2013.
“Stabilising Managers”	Powszechna Kasa Oszczędności Bank Polski S.A. Oddział—Dom Maklerski PKO Banku Polskiego w Warszawie and UniCredit CAIB Poland S.A.
“Stabilisation Regulation”	Commission Regulation (EC) No. 2273/2003 of 22 December 2003 implementing Directive 2003/6/EC of the European Parliament and of the Council as regards exemptions for buy-back programmes and stabilisation of financial instruments (OJ EU L 336/33 of 23 December 2003, as amended).
“State Treasury Collaterals and Guarantees Act”	The Act on Collaterals and Guarantees Granted by the State Treasury and Certain Legal Persons of 8 May 1997 (consolidated text in Dz. U. z 2012 roku, Item 657, as amended).
“State Treasury”	The State Treasury.
“Supervisory Board”	The Issuer’s Supervisory Board.
“tariff group”	A group of clients offtaking electricity or heat, or using services related to electricity or heat supplies, covered by a uniform set of prices or fee rates and their terms.
“Tariff Ordinance”	Ordinance of the Minister of Economy of 18 August 2011, regarding detailed policies for creating and calculating tariffs and settlements in electricity trading (Dz. U. of 2011 No. 189, Item 1126, as amended).
“Tax Code”	The Tax Code of 29 August 1997 (consolidated text in: Dz. U. of 2012, Item 749).
“TPA”, “Third Party Access”	A principle according to which clients may use a power grid of a power company without an obligation to purchase electricity from it.
“Trading Act”	The Act on Trading in Financial Instruments of 29 July 2005 (consolidated text in Dz. U. of 2010, No. 211, Item 1384, as amended).
“Transfer Tax Act”	The Act on Tax on Civil Law Transactions of 9 September 2000 (consolidated text in: Dz. U. of 2010, No. 101, Item 649, as amended).
“Transmission System Operator”, “TSO”	A power company engaging in the transmission of gaseous fuels or electric energy, responsible for traffic in a gas or power

	transmission system, current and long-term security of operation of that system, the operation, maintenance, repair and indispensable expansion of the transmission system, including connections with other gas or power systems.
“Treaty of Accession”	Treaty of April 16, 2003 between the Kingdom of Belgium, the Kingdom of Denmark, the Federal Republic of Germany, the Hellenic Republic, the Kingdom of Spain, the French Republic, Ireland, the Italian Republic, the Grand Duchy of Luxembourg, the Kingdom of the Netherlands, the Republic of Austria, the Portuguese Republic, the Republic of Finland, the Kingdom of Sweden, the United Kingdom of Great Britain and Northern Ireland (Member States of the European Union) and the Czech Republic, the Republic of Estonia, the Republic of Cyprus, the Republic of Latvia, the Republic of Lithuania, the Republic of Hungary, the Republic of Malta, the Republic of Poland, the Republic of Slovenia, the Slovak Republic, concerning the accession of the Czech Republic, the Republic of Estonia, the Republic of Cyprus, the Republic of Latvia, the Republic of Lithuania, the Republic of Hungary, the Republic of Malta, the Republic of Poland, the Republic of Slovenia and the Slovak Republic to the European Union (OJ EU L236/17 of September 23, 2003).
“TWh”	Terawatt hour—a unit being a multiple of the SI electric energy unit. 1 TWh equals to the energy used by equipment of 1 TW power over one hour.
“U.S. Securities Act”	United States Securities Act of 1933, as amended.
“ultra-high voltage (UHV) grid”	A power grid with the voltage of no less than 220 kV operated by the TSO.
“unbundling”	A process of the legal and organisational separation of the distribution business (distribution of electricity by the distributor) and the generation business (electricity generation in power plants) and the trading in electricity (sellers).
“Underwriters”	J.P. Morgan Securities plc, UBS Limited, Merrill Lynch International; Citigroup Global Markets Limited, UniCredit Bank Austria AG, Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Oddział—Dom Maklerski PKO Banku Polskiego w Warszawie and Banco Espirito Santo de Investimento S.A. Spółka Akcyjna, Branch in Poland.
“Underwriting Agreement”	A conditional agreement entered into on 18 November 2013 concerning the purchase orders of the Institutional Investors.
“V”	Volt, electrical potential unit, electric voltage and electromotive force in the International System of Units (SI) $1 \text{ V} = 1\text{J}/1\text{C} = (1 \text{ kg} \times \text{m}^2) / (\text{A} \times \text{s}^3)$ .
“VAT”	The Value Added Tax imposed pursuant to the VAT Act of 11 March 2004 (consolidated text in Dz. U. of 2011 No. 177 item 1054, as amended).
“vertically integrated enterprise”	A power company or group of enterprises whose mutual relations are defined in Article 3 Section 2 of the Concentration Regulation, engaged(i) in relation to gaseous fuels: the transmission, or distribution, or storage, or liquefaction and production or sales of such fuels, or (ii) in relation to electric

## ABBREVIATIONS AND DEFINITIONS

---

	energy: the transmission or distribution and generation or sales of such energy.
“W”	Watt, a unit of power in the International System of Units (SI) $1 \text{ W} = 1 \text{ J/s} = 1 \text{ kg} \times \text{m}^2 \times \text{s}^{-3}$ .
“CHP”	Combined Heat and Power and, unless the context requires otherwise, CHP power plant.
“WACC”	Weighted average cost of capital.
“Waste Management Act”	The Waste Management Act of 14 December 2012 (Dz. U. of 2013 Item 21).
“Water Management Act”	The Water Management Act of July 18, 2001 (consolidated text in: Dz. U. of 2012, Item 145, as amended).
“We”, “us”, the “Group”, “ENERGA Group”	The Issuer and its direct and indirect fully consolidated subsidiaries.
“white certificate”	An energy efficiency certificate—document issued by the ERO President pursuant to Article 21 of the Energy Efficiency Act, confirming energy savings as a result of a project or projects of the same type, aimed at the enhancement of energy efficiency, achieved by the winner of the tender referred to in Article 20 Section 1 of the cited Energy Efficiency Act.
“WSE Rules”, “Stock Exchange Rules”	Rules of the Warsaw Stock Exchange adopted in the Resolution of the Board of the Warsaw Stock Exchange No. 1/1110/2006 of January 4, 2006 (consolidated text as at 1 September 2013).
“WSE”, “Stock exchange”	Giełda Papierów Wartościowych w Warszawie Spółka Akcyjna (the Warsaw Stock Exchange), with its registered office in Warsaw at ul. Książęca 4, 00-498 Warsaw and, unless the context requires otherwise, the regulated market operated by this company (the WSE main market).
“yellow certificate”	A certificate issued by the ERO President pursuant to Article 91 of the Energy Law and confirming that electricity has been generated in a high-efficiency cogeneration process by cogeneration units fired with fuel gas or with a total installed capacity below 1 MW.

**FINANCIAL INFORMATION**

- 1. Independent auditor's review report on the Condensed Interim Consolidated Financial Statements**
- 2. Condensed Interim Consolidated Financial Statements**
- 3. Independent auditor's audit opinion on the Consolidated Financial Statements**
- 4. Consolidated Financial Statements**

**INDEPENDENT AUDITORS' REPORT  
ON REVIEW OF THE CONDENSED INTERIM  
CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD  
FROM 1 JANUARY 2013 TO 30 SEPTEMBER 2013**

To the Management of ENERGA SA

*Introduction*

We have reviewed the accompanying 30 September 2013 condensed interim consolidated financial statements of ENERGA SA Group with its parent company's registered office in Gdańsk, 472 Grunwaldzka Av. ("the condensed interim consolidated financial statements"), which comprise:

- the condensed interim consolidated profit and loss account for the three-month period and nine-month period ended 30 September 2013,
- the condensed interim consolidated statement of comprehensive income for the three-month period and nine-month period ended 30 September 2013,
- the condensed interim consolidated statement of financial position as at 30 September 2013,
- the condensed interim consolidated statement of changes in equity for nine-month period ended 30 September 2013,
- the condensed interim consolidated statement of cash flows for nine-month period ended 30 September 2013, and
- notes to the condensed interim consolidated financial statements.

Management of the Parent Entity is responsible for the preparation and presentation of these condensed interim consolidated financial statements in accordance with the IAS 34 *Interim Financial Reporting* as adopted by the European Union. Our responsibility is to express a conclusion on these condensed interim consolidated financial statements, based on our review.

*Scope of Review*

We conducted our review in accordance with the National Standard on Auditing no. 3 *General principles of review of the financial statements/condensed financial statements and conducting of other assurance services* issued by the National Council of Certified Auditors and the International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*.

A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with national standards on auditing and International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 September 2013 condensed interim consolidated financial statements ENERGA SA Group are not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union.

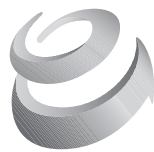


On behalf of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.  
registration number 3546  
ul. Chłodna 51, 00-867 Warsaw

---

Zbigniew Libera  
Key Certified Auditor  
Registration No. 90047  
Limited Liability Partner with power of attorney

Gdansk, 24 October 2013



***Energa***

**ENERGA SA Group**

**Condensed Interim Consolidated Financial Statements**

**prepared in accordance with IAS 34**

**for the nine-month period ended 30 September 2013**

**ENERGA SA Group**  
**Condensed Interim Consolidated Financial Statements**  
**as at and for the period of 9 months ended 30 September 2013 (in PLN)**

**TABLE OF CONTENTS**

CONDENSED INTERIM CONSOLIDATED PROFIT AND LOSS ACCOUNT .....	F-6
CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME .....	F-7
CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION .....	F-8
CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY .....	F-10
CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS .....	F-12
1. General information .....	F-13
2. Composition of the Group .....	F-13
3. Basis for preparation of the financial statements .....	F-18
4. Estimates .....	F-19
5. New standards and interpretations already published, but not yet effective .....	F-20
6. Explanations regarding the seasonality and cyclicity of operations in the period under review .....	F-20
7. Significant accounting policies .....	F-21
8. Restatement of comparative information .....	F-23
9. Operating segments .....	F-25
10. Property, plant and equipment .....	F-28
11. Impairment tests for property, plant and equipment .....	F-28
12. Cash and cash equivalents .....	F-29
13. Earnings per share .....	F-30
14. Dividend .....	F-30
15. Provisions .....	F-31
16. Assets classified as held for sale .....	F-33
17. Investment commitments .....	F-34
18. Transactions with related entities .....	F-35
19. Financial instruments .....	F-37
20. Contingent assets and liabilities .....	F-40
21. Business combinations and acquisitions .....	F-41
22. Information on subsequent events .....	F-47
23. Other information significantly affecting the assessment of assets, financial position and the financial result of the Group .....	F-48

**ENERGA SA Group**  
**Condensed Interim Consolidated Financial Statements**  
**as at and for the period of 9 months ended 30 September 2013 (in PLN)**  
**CONDENSED INTERIM CONSOLIDATED PROFIT AND LOSS ACCOUNT**

	Three-month period ended 30 September 2013 (unaudited)	Nine-month period ended 30 September 2013 (unaudited)	Three-month period ended 30 September 2012 (unaudited) (restated)	Nine-month period ended 30 September 2012 (unaudited) (restated)
<b>Continuing operations</b>				
Sales of products and goods for resale including excise tax . . . . .	1,882,403,504.83	5,896,065,003.02	1,849,639,504.96	5,766,556,240.83
Excise tax . . . . .	<i>(68,652,193.92)</i>	<i>(216,217,565.84)</i>	<i>(80,066,906.17)</i>	<i>(245,717,943.45)</i>
Sales of products and goods for resale	<u>1,813,751,310.91</u>	<u>5,679,847,437.18</u>	<u>1,769,572,598.79</u>	<u>5,520,838,297.38</u>
Sales of services . . . . .	919,710,885.45	2,815,267,235.22	842,762,962.66	2,680,870,395.20
Rental income . . . . .	14,480,063.27	42,371,767.34	13,604,364.51	39,460,391.55
<b>Revenue . . . . .</b>	<b><u>2,747,942,259.63</u></b>	<b><u>8,537,486,439.74</u></b>	<b><u>2,625,939,925.96</u></b>	<b><u>8,241,169,084.13</u></b>
Cost of sales . . . . .	2,330,000,773.50	7,062,093,106.08	2,367,069,684.28	6,936,890,435.69
<b>Gross profit . . . . .</b>	<b><u>417,941,486.13</u></b>	<b><u>1,475,393,333.66</u></b>	<b><u>258,870,241.68</u></b>	<b><u>1,304,278,648.44</u></b>
Other operating income . . . . .	37,033,394.84	97,717,203.89	31,618,599.76	81,934,445.60
Selling and distribution expenses . . .	75,279,060.96	213,519,108.14	70,811,777.59	206,623,383.43
General and administrative expenses . .	97,486,171.29	279,975,448.36	90,317,850.08	277,471,504.90
Other operating expenses . . . . .	99,820,778.10	146,489,326.16	45,645,326.17	103,501,143.38
Financial income . . . . .	26,459,859.13	129,610,591.30	19,393,217.13	65,043,221.19
Financial costs . . . . .	95,321,600.53	246,752,832.88	46,047,288.88	185,966,445.02
Share of profit (loss) of associates accounted for under the equity method . . . . .	<i>(116,129.07)</i>	<i>(512,849.86)</i>	<i>(153,107.15)</i>	<i>(179,621.29)</i>
<b>Profit before tax . . . . .</b>	<b><u>113,411,000.15</u></b>	<b><u>815,471,563.45</u></b>	<b><u>56,906,708.70</u></b>	<b><u>677,514,217.21</u></b>
Income tax . . . . .	45,178,885.53	212,049,032.38	37,013,422.13	162,525,641.16
<b>Net profit on continuing operations . . .</b>	<b><u>68,232,114.62</u></b>	<b><u>603,422,531.07</u></b>	<b><u>19,893,286.57</u></b>	<b><u>514,988,576.05</u></b>
<b>Discontinued operations &amp; non-current assets classified as held for sale</b>				
Net loss on discontinued operations . .	<i>(3,231,063.47)</i>	<i>(5,806,840.39)</i>	—	—
Net profit on disposal of non-current assets classified as held for sale . . . .	—	—	—	15,198,274.34
<b>Net profit for the period . . . . .</b>	<b><u>65,001,051.15</u></b>	<b><u>597,615,690.68</u></b>	<b><u>19,893,286.57</u></b>	<b><u>530,186,850.39</u></b>
Attributable to:				
Equity holders of the Parent Company . . . . .	65,185,761.79	610,823,045.35	20,099,943.26	529,572,808.51
Non-controlling interests . . . . .	<i>(184,710.64)</i>	<i>(13,207,354.67)</i>	<i>(206,656.69)</i>	614,041.88
<b>Earnings per share (in PLN)</b>				
—basic . . . . .	<b>0.01</b>	<b>0.13</b>	<b>0.00</b>	<b>0.11</b>
—diluted . . . . .	<b>0.01</b>	<b>0.13</b>	<b>0.00</b>	<b>0.11</b>

Accounting principles (policy) and additional explanatory notes to the condensed interim consolidated financial statements constitute an integral part thereof

**ENERGA SA Group**  
**Condensed Interim Consolidated Financial Statements**  
**as at and for the period of 9 months ended 30 september 2013 (in PLN)**  
**CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

	<u>Three-month period ended 30 September 2013</u> (unaudited)	<u>Nine-month period ended 30 September 2013</u> (unaudited)	<u>Three-month period ended 30 September 2012</u> (unaudited) (restated)	<u>Nine-month period ended 30 September 2012</u> (unaudited) (restated)
<b>Net profit for the period . . . . .</b>	<b>65,001,051.15</b>	<b>597,615,690.68</b>	<b>19,893,286.57</b>	<b>530,186,850.39</b>
<i>Items that will never be reclassified to profit or loss . . . . .</i>	<i>5,886,356.93</i>	<i>31,270,615.13</i>	<i>(43,956,269.17)</i>	<i>(44,248,642.46)</i>
Actuarial gains and (losses) on defined benefit plans . . . . .	7,267,107.32	38,605,697.69	(54,266,998.97)	(54,627,953.64)
Income tax on items that will never be reclassified to profit or loss . . . .	(1,380,750.39)	(7,335,082.56)	10,310,729.80	10,379,311.18
<i>Items that are or may be reclassified subsequently to profit or loss . . . . .</i>	<i>2,444,825.24</i>	<i>27,569,791.69</i>	<i>(126,383.49)</i>	<i>(226,115.21)</i>
Foreign exchange gains / (losses) arising on translation of foreign operations . . . . .	(1,355,998.13)	(702,955.31)	(126,383.49)	(226,115.21)
Cash flow hedges . . . . .	4,692,374.37	34,904,625.92	—	—
Income tax on items that are or may be reclassified subsequently to profit or loss . . . . .	(891,551.00)	(6,631,878.92)	—	—
<b>Net other comprehensive income . . . .</b>	<b><u>8,331,182.17</u></b>	<b><u>58,840,406.82</u></b>	<b><u>(44,082,652.66)</u></b>	<b><u>(44,474,757.66)</u></b>
<b>Total comprehensive income . . . . .</b>	<b><u>73,332,233.32</u></b>	<b><u>656,456,097.50</u></b>	<b><u>(24,189,366.09)</u></b>	<b><u>485,712,092.73</u></b>
Attributable to:				
Equity holders of the Parent Company . . . . .	73,431,078.48	669,516,404.98	(23,384,256.53)	485,696,503.72
Non-controlling interests . . . . .	(98,845.16)	(13,060,307.48)	(805,109.56)	15,589.01

Director of the Consolidated Reporting Department	Director of the Finance Management Center	President of the Management Board	Executive Vice-President of the Management Board Chief Financial Officer	Executive Vice-President of the Management Board Strategy and Investments
<i>Marek Pertkiewicz</i>	<i>Aleksandra Gajda—Gryber</i>	<i>Miroslaw Bieliński</i>	<i>Roman Szyszko</i>	<i>Wojciech Topolnicki</i>
(date and signature)	(date and signature)	(date and signature)	(date and signature)	(date and signature)

Accounting principles (policy) and additional explanatory notes to the condensed interim consolidated financial statements constitute an integral part thereof



**ENERGA SA Group**  
**Condensed Interim Consolidated Financial Statements**  
**as at and for the period of 9 months ended 30 September 2013 (in PLN)**  
**CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

	As at 30 September 2013 (unaudited)	As at 31 December 2012
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment . . . . .	11,356,144,255.05	10,000,916,278.54
Investment property . . . . .	15,336,780.12	17,059,989.82
Intangible assets . . . . .	376,440,845.86	378,562,656.81
Goodwill . . . . .	144,972,511.45	28,627,373.91
Investments in associates accounted for under the equity method . . . . .	1,954,732.22	2,580,465.79
Other investments . . . . .	1,340,679.81	979,752.87
Deferred tax assets . . . . .	225,484,930.99	209,870,367.02
Hedging derivatives . . . . .	50,368,796.18	—
Other non-current assets . . . . .	55,748,433.07	58,799,100.22
	<b>12,227,791,964.75</b>	<b>10,697,395,984.98</b>
<b>Current assets</b>		
Inventories . . . . .	291,555,284.78	376,927,918.39
Current tax receivables . . . . .	40,398,906.37	37,493,479.39
Trade receivables . . . . .	1,274,650,665.39	1,520,667,537.25
Deposits . . . . .	20,418,869.09	26,783,927.04
Other financial assets . . . . .	20,254,430.81	18,762,313.82
Cash and cash equivalents . . . . .	2,306,821,576.42	2,069,058,235.48
Other current assets . . . . .	235,838,869.29	155,515,557.95
	<b>4,189,938,602.15</b>	<b>4,205,208,969.32</b>
Assets classified as held for sale . . . . .	142,816,033.73	10,167,784.37
<b>TOTAL ASSETS</b> . . . . .	<b>16,560,546,600.63</b>	<b>14,912,772,738.67</b>

---

Accounting principles (policy) and additional explanatory notes to the condensed interim consolidated financial statements constitute an integral part thereof

**ENERGA SA Group**  
**Condensed Interim Consolidated Financial Statements**  
as at and for the period of 9 months ended 30 September 2013 (in PLN)  
**CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)**

	<u>As at 30 September 2013</u> (unaudited)	<u>As at 31 December 2012</u>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity attributable to equity holders of the Parent</b>		
Share capital . . . . .	4,521,612,884.88	4,968,805,368.00
Foreign exchange gains / (losses) arising on translation . . . . .	(655,786.76)	47,168.55
Reserve capital . . . . .	447,192,483.12	—
Supplementary capital . . . . .	521,490,425.42	471,235,040.86
Cash flow hedge reserve . . . . .	28,272,747.00	—
Retained earnings . . . . .	2,321,091,721.19	2,231,139,472.11
<b>Non-controlling interests . . . . .</b>	<b>26,565,850.81</b>	<b>47,295,416.25</b>
<b>Total equity . . . . .</b>	<b><u>7,865,570,325.66</u></b>	<b><u>7,718,522,465.77</u></b>
<b>Non-current liabilities</b>		
Loans and borrowings . . . . .	1,812,306,643.67	2,026,137,871.20
Bonds issued . . . . .	3,155,064,841.71	1,079,219,213.53
Non-current provisions . . . . .	652,831,868.95	710,785,797.70
Deferred tax liabilities . . . . .	516,849,548.68	519,686,227.18
Deferred income and non-current government grants . . . . .	462,669,451.39	456,009,751.82
Finance lease liabilities . . . . .	2,708,057.75	7,293,035.79
Other financial non-current liabilities . . . . .	2,597,478.59	1,716,671.65
Other non-current liabilities . . . . .	10,104,284.39	612,677.83
	<b><u>6,615,132,175.13</u></b>	<b><u>4,801,461,246.70</u></b>
<b>Current liabilities</b>		
Trade liabilities . . . . .	717,956,889.10	709,782,931.25
Other financial liabilities . . . . .	67,321,692.84	170,487,985.34
Current loans and borrowings . . . . .	283,425,789.58	389,638,937.15
Bonds issued . . . . .	50,898,740.11	—
Current income tax liability . . . . .	19,413,919.34	34,661,674.59
Deferred income and government grants . . . . .	30,181,386.64	28,932,720.91
Accruals . . . . .	87,386,454.29	117,765,024.23
Provisions . . . . .	376,130,534.05	555,345,320.17
Other current liabilities . . . . .	379,768,690.12	386,174,432.56
	<b><u>2,012,484,096.07</u></b>	<b><u>2,392,789,026.20</u></b>
Liabilities related to assets classified as held for sale . . . . .	67,360,003.77	—
<b>Total liabilities . . . . .</b>	<b><u>8,694,976,274.97</u></b>	<b><u>7,194,250,272.90</u></b>
<b>TOTAL EQUITY AND LIABILITIES . . . . .</b>	<b><u>16,560,546,600.63</u></b>	<b><u>14,912,772,738.67</u></b>

Director of the Consolidated Reporting Department  <i>Marek Pertkiewicz</i>  (date and signature)	Director of the Finance Management Center  <i>Aleksandra Gajda—Gryber</i>  (date and signature)	President of the Management Board  <i>Mirosław Bieliński</i>  (date and signature)	Executive Vice-President of the Management Board Chief Financial Officer  <i>Roman Szyszko</i>  (date and signature)	Executive Vice-President of the Management Board Strategy and Investments  <i>Wojciech Topolnicki</i>  (date and signature)
---	--	---	--	---

Accounting principles (policy) and additional explanatory notes to the condensed interim consolidated financial statements constitute an integral part thereof

**ENERGA SA Group**  
**Condensed Interim Consolidated Financial Statements**  
**as at and for the period of 9 months ended 30 September 2013 (in PLN)**  
**CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

Equity attributable to equity holders of the Parent Company

	Share capital	Foreign exchange gains/(losses) arising on translation	Reserve capital	Supplementary capital	Cash flow hedge reserve	Retained earnings	Total	Non-controlling interests	Total equity
<b>As at 1 January 2013</b> . . . . .	<b>4,968,805,368.00</b>	<b>47,168.55</b>	—	<b>471,235,040.86</b>	—	<b>2,231,139,472.11</b>	<b>7,671,227,049.52</b>	<b>47,295,416.25</b>	<b>7,718,522,465.77</b>
Actuarial gains and (losses) on defined benefit plans . . . . .	—	—	—	—	—	31,123,567.94	31,123,567.94	147,047.19	31,270,615.13
Foreign exchange gains/(losses) arising on translation of foreign operations . . . . .	—	(702,955.31)	—	—	—	—	(702,955.31)	—	(702,955.31)
Cash flow hedges . . . . .	—	—	—	—	28,272,747.00	—	28,272,747.00	—	28,272,747.00
Profit for the period . . . . .	—	—	—	—	—	610,823,045.35	610,823,045.35	(13,207,354.67)	597,615,690.68
<b>Total comprehensive income for the period</b> . . . . .	<b>—</b>	<b>(702,955.31)</b>	<b>—</b>	<b>—</b>	<b>28,272,747.00</b>	<b>641,946,613.29</b>	<b>669,516,404.98</b>	<b>(13,060,307.48)</b>	<b>656,456,097.50</b>
Retained earnings distribution	—	—	—	50,255,384.56	—	(50,255,384.56)	—	—	—
Reduction of share capital . . .	(447,192,483.12)	—	447,192,483.12	—	—	—	—	—	—
Dividends . . . . .	—	—	—	—	—	(496,880,536.80)	(496,880,536.80)	(1,755,096.60)	(498,635,633.40)
Purchase and disposal of shares in subsidiaries . . . . .	—	—	—	—	—	(4,858,442.85)	(4,858,442.85)	(5,914,161.36)	(10,772,604.21)
<b>As at 30 September 2013 (unaudited)</b> . . . . .	<b>4,521,612,884.88</b>	<b>(655,786.76)</b>	<b>447,192,483.12</b>	<b>521,490,425.42</b>	<b>28,272,747.00</b>	<b>2,321,091,721.19</b>	<b>7,839,004,474.85</b>	<b>26,565,850.81</b>	<b>7,865,570,325.66</b>

Accounting principles (policy) and additional explanatory notes to the condensed interim consolidated financial statements constitute an integral part thereof

**ENERGA SA Group**  
**Condensed Interim Consolidated Financial Statements**  
**as at and for the period of 9 months ended 30 September 2013 (in PLN)**  
**CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)**

	Equity attributable to equity holders of the Parent Company							Non-controlling interests	Total equity
	Share capital	Foreign exchange gains/(losses) arising on translation	Reserve capital	Cash flow hedge reserve	Retained earnings	Total			
<b>As at 1 January 2012</b> . . . . .	<b>4,968,805,368.00</b>	<b>283,467.20</b>	<b>362,500,154.89</b>	—	<b>2,494,195,354.73</b>	<b>7,825,784,344.82</b>	<b>59,726,065.92</b>	<b>7,885,510,410.74</b>	
Actuarial gains and (losses) on defined benefit plans . . . . .	—	—	—	—	(43,650,189.59)	(43,650,189.59)	(598,452.87)	(44,248,642.46)	
Foreign exchange gains/(losses) arising on translation of foreign operations . . . . .	—	(226,115.21)	—	—	—	(226,115.21)	—	(226,115.21)	
Profit for the period . . . . .	—	—	—	—	529,572,808.51	529,572,808.51	614,041.88	530,186,850.39	
<b>Total comprehensive income for the period</b> . . . . .	<b>—</b>	<b>(226,115.21)</b>	<b>—</b>	<b>—</b>	<b>485,922,618.92</b>	<b>485,696,503.71</b>	<b>15,589.01</b>	<b>485,712,092.72</b>	
Retained earnings distribution . . . . .	—	—	108,734,885.97	—	(108,734,885.97)	—	—	—	
Dividends . . . . .	—	—	—	—	(645,944,697.84)	(645,944,697.84)	(8,183,902.21)	(654,128,600.05)	
Purchase of shares in subsidiaries . . . . .	—	—	—	—	(289,681.71)	(289,681.71)	(222,470.92)	(512,152.63)	
<b>As at 30 September 2012 (unaudited, restated)</b> . . .	<b>4,968,805,368.00</b>	<b>57,351.99</b>	<b>471,235,040.86</b>	—	<b>2,225,148,708.13</b>	<b>7,665,246,468.98</b>	<b>51,335,281.80</b>	<b>7,716,581,750.78</b>	

F-11

Director of the Consolidated Reporting Department  
*Marek Pertkiewicz*  
 (date and signature)

Director of the Finance Management Center  
*Aleksandra Gajda—Gryber*  
 (date and signature)

President of the Management Board  
*Miroslaw Bieliński*  
 (date and signature)

Executive Vice-President of the Management Board  
 Chief Financial Officer  
*Roman Szyzsko*  
 (date and signature)

Executive Vice-President of the Management Board  
 Strategy and Investments  
*Wojciech Topolnicki*  
 (date and signature)

Accounting principles (policy) and additional explanatory notes to the condensed interim consolidated financial statements constitute an integral part thereof

**ENERGA SA Group**  
**Condensed Interim Consolidated Financial Statements**  
**as at and for the period of 9 months ended 30 September 2013 (in PLN)**  
**CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS**

	Nine-month period ended 30 September 2013	Nine-month period ended 30 September 2012
	(unaudited)	(unaudited) (restated)
<b>Cash flows from operating activities</b>		
Profit before tax	815,471,563.45	677,514,217.21
Profit/(loss) before tax on discontinued operations and disposal of non-current assets classified as held for sale	(5,806,840.39)	15,198,274.34
Adjustments for:	913,379,054.56	418,464,414.57
Share of profit (loss) of associates	512,849.86	179,621.29
Foreign currency gains/(losses)	5,069,242.43	(226,115.21)
Amortisation and depreciation	568,246,124.60	533,762,850.01
Net interest and dividends	134,039,332.41	90,452,547.64
Loss on investing activities	136,540,467.85	136,270,274.78
Change in receivables	217,858,532.48	45,510,141.21
Change in inventories	79,966,338.13	32,141,890.37
Change in payables excluding loans and borrowings	62,145,102.80	(205,857,300.34)
Change in prepayments and accruals	(109,575,624.12)	(115,639,888.18)
Change in provisions	(220,029,009.57)	(53,880,964.55)
Other	38,605,697.69	(44,248,642.45)
Income tax paid	(233,471,130.83)	(258,871,956.62)
<b>Net cash from operating activities</b>	<b>1,489,572,646.79</b>	<b>852,304,949.50</b>
<b>Cash flows from investing activities</b>		
Disposal of property, plant and equipment and intangible assets	18,320,638.48	16,560,593.66
Purchase of property, plant and equipment and intangible assets	(1,116,601,595.54)	(1,257,777,871.42)
Disposal of shares in associates	—	8,067,360.00
Disposal of other financial assets	31,048,203.67	11,396,801.34
Acquisition of other investments	(20,418,869.09)	(26,036,837.45)
Disposal of subsidiary	1,450,000.00	—
Acquisition of subsidiary, net of cash acquired	(1,212,330,245.99)	(545,182.94)
Dividends received	67,756.00	78,162.00
Interest received	780,107.34	277,132.19
<b>Net cash used in investing activities</b>	<b>(2,297,684,005.13)</b>	<b>(1,247,979,842.62)</b>
<b>Cash flows from financing activities</b>		
Proceeds from bond issue	2,088,700,000.00	—
Payment of finance lease liabilities	(6,555,588.11)	(1,038,417.71)
Proceeds from loans and borrowings	4,553,392.13	717,921,769.21
Repayment of loans and borrowings	(328,077,660.86)	(19,302,819.71)
Dividends paid	(497,166,222.70)	(653,803,931.39)
Interest paid	(139,536,897.53)	(108,209,464.61)
Other	(1,413,290.87)	(207,674.65)
<b>Net cash from financing activities</b>	<b>1,120,503,732.06</b>	<b>(64,640,538.86)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>312,392,373.72</b>	<b>(460,315,431.98)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>2,029,373,489.48</b>	<b>1,755,541,116.52</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>2,341,765,863.20</b>	<b>1,295,225,684.54</b>

Director of the  
Consolidated Reporting  
Department

*Marek Pertkiewicz*

(date and signature)

Director of the Finance  
Management Center

*Aleksandra Gajda—Gryber*

(date and signature)

President of the  
Management Board

*Miroslaw Bieliński*

(date and signature)

Executive Vice-President of  
the Management Board  
Chief Financial Officer

*Roman Szyszko*

(date and signature)

Executive Vice-President of  
the Management Board  
Strategy and Investments

*Wojciech Topolnicki*

(date and signature)

Accounting principles (policy) and additional explanatory notes to the condensed interim consolidated financial statements constitute an integral part thereof

**ENERGA SA Group**  
**Condensed Interim Consolidated Financial Statements**  
**as at and for the period of 9 months ended 30 September 2013 (in PLN)**

**ACCOUNTING PRINCIPLES (POLICIES) AND NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**1. General information**

ENERGA SA Group (the “Group”) consists of ENERGA Spółka Akcyjna (the “Parent Company”, the “Company”), its subsidiaries and the Group’s interests in associates (see Note 2). These condensed interim consolidated financial statements cover the period from 1 January to 30 September 2013 and include comparative information at 31 December 2012 for the condensed interim consolidated statement of financial position and for the period from 1 January to 30 September 2012 for the condensed interim consolidated profit and loss account, condensed interim consolidated statement of comprehensive income, condensed interim consolidated statement of cash flows and condensed interim consolidated statement of changes in equity.

The Parent Company is entered in the Register of Entrepreneurs of the National Court Register held by the District Court Gdańsk-Północ, 7th Commercial Division of the National Court Register under number KRS 0000271591.

The Parent Company has been given the following statistical number: REGON 220353024.

The primary activities of the Group companies are as follows:

1. distribution and sales of electricity and heat energy,
2. production of electricity and heat energy,
3. trade in electricity,
4. street and road lighting.

As at 30 September 2013, the Polish State Treasury is the Company’s parent and ultimate controlling party.

**2. Composition of the Group**

In the period of 9 months ended 30 September 2013, the Group consisted of ENERGA Spółka Akcyjna and the following consolidated companies:

a) Subsidiaries:

No.	Company name	Registered office	Line of business	Share capital of the entity [PLN]	Share of ENERGA SA in the share capital [%]	Share of ENERGA SA Group in the share capital [%]	Share of ENERGA SA Group in the total number of votes [%]
1	ENERGA—OPERATOR SA <sup>(1)</sup>	Gdańsk	energy distribution	1,221,110,400.00	100.00	100.00	100.00
2	ENERGA Elektrownie Ostrołęka SA	Ostrołęka	energy production	223,000,000.00	89.38	89.38	89.38
3	ENERGA Kogeneracja Sp. z o.o. <sup>(2)</sup>	Elbląg	energy production	141,976,500.00	78.07	97.67	100.00 <sup>(3)</sup>
4	ENERGA—OBRÓT SA	Gdańsk	electric energy trade	368,160,239.00	100.00	100.00	100.00
5	ENERGA Invest SA	Gdańsk	investment project management	3,250,000.00	100.00	100.00	100.00
6	ENERGA Obsługa i Sprzedaż Sp. z o.o.	Gdańsk	customer service	811,000.00	—	100.00	100.00
7	ENERGA Centrum Usług Wspólnych Sp. z o.o.	Gdańsk	accounting and payroll services	4,052,000.00	100.00	100.00	100.00
8	ENERGA Hydro Sp. z o.o. <sup>(4)</sup>	Straszyn	energy production	268,462,500.00	100.00	100.00	100.00
9	ENERGA Oświetlenie Sp. z o.o.	Sopot	lighting services	191,621,500.00	—	100.00	100.00

Accounting principles (policy) and additional explanatory notes to the condensed interim consolidated financial statements constitute an integral part thereof



**ENERGA SA Group**  
**Condensed Interim Consolidated Financial Statements (Continued)**  
as at and for the period of 9 months ended 30 September 2013 (in PLN)

**2. Composition of the Group (Continued)**

No.	Company name	Registered office	Line of business	Share capital of the entity [PLN]	Share of ENERGA SA in the share capital [%]	Share of ENERGA SA Group in the share capital [%]	Share of ENERGA SA Group in the total number of votes [%]
10	Międzynarodowe Centrum Szkolenia Energetyki Sp. z o.o. in liquidation . . . . .	Straszyn	hotel and training services	31,966,000.00	100.00	100.00	100.00
11	ENERGA Elektrociepłownia Kalisz S.A. <sup>(5)</sup> . . . . .	Kalisz	energy production	7,128,000.00	—	100.00	100.00
12	Energetyka Kaliska—Usługi Techniczne Sp. z o.o. . . . .	Kalisz	contracting and designing	1,712,000.00	—	100.00	100.00
13	ENERGA—OPERATOR Produkcja Sp. z o.o. . . . .	Kalisz	manufacture of power equipment	813,000.00	—	100.00	100.00
14	Multiserwis Sp. z o.o. in liquidation . . . . .	Kalisz	transport and real estate management	914,000.00	—	96.28	96.28
15	Zakład Budownictwa Energetycznego Sp. z o.o. . . . .	Koszalin	contracting and designing	27,980,000.00	—	100.00	100.00
16	Zakład Transportu Energetyki Sp. z o.o. in liquidation <sup>(6)</sup> . . . . .	Koszalin	renting and servicing of vehicles	—	—	—	—
17	ENERGA—OPERATOR Techniczna Obsługa Odbiorców Sp. z o.o. . . . .	Koszalin	technical customer service	4,838,500.00	—	100.00	100.00
18	Zakład Energetyczny Płock—Dystrybucja Zachód Sp. z o.o. in liquidation . . . . .	Sierpc	network operation and investment projects	757,500.00	—	100.00	100.00
19	ENERGA—OPERATOR Eksploatacja i Inwestycje Płock Sp. z o.o. . . . .	Płock	network operation and investment projects	909,500.00	—	100.00	100.00
20	ENERGA Bio Sp. z o.o. <sup>(4)</sup> . . . . .	Pruszcz Gdański	investment project management	—	—	—	—
21	ZEP—Centrum Wykonawstwa Specjalistycznego Sp. z o.o. . . . .	Płock	contracting and designing	456,500.00	—	100.00	100.00
22	ZEP—MOT Sp. z o.o. . . . .	Płock	sale and repair of motor vehicles	5,292,000.00	100.00	100.00	100.00
23	Zakład Energetyczny Płock—Centrum Handlowe Sp. z o.o. . . . .	Płock	procurement	1,075,500.00	—	100.00	100.00
24	ENERGA—OPERATOR Projektowanie Sp. z o.o. . . . .	Płock	contracting and designing	381,500.00	—	100.00	100.00
25	Przedsiębiorstwo Wielobranżowe Energetyki “ELEKTROINSTAL” Sp. z o.o. . . . .	Raciąż	contracting and designing	244,000.00	—	100.00	100.00
26	KONGRES Sp. z o.o. in liquidation . . . . .	Nowe Rumunki	hotel and training services	550,000.00	100.00	100.00	100.00

Accounting principles (policy) and additional explanatory notes to the condensed interim consolidated financial statements constitute an integral part thereof

**ENERGA SA Group**  
**Condensed Interim Consolidated Financial Statements (Continued)**  
as at and for the period of 9 months ended 30 September 2013 (in PLN)

**2. Composition of the Group (Continued)**

No.	Company name	Registered office	Line of business	Share capital of the entity [PLN]	Share of ENERGA SA in the share capital [%]	Share of ENERGA SA Group in the share capital [%]	Share of ENERGA SA Group in the total number of votes [%]
27	ZEP—AUTO Sp. z o.o. . . . .	Płock	sale and repair of motor vehicles	50,000.00	—	100.00	100.00
28	ENERGETYK Sp. z o.o. in liquidation . . . . .	Płock	contracting and designing	220,000.00	—	100.00	100.00
29	Przedsiębiorstwo Budownictwa Elektroenergetycznego ENBUD Słupsk Sp. z o.o. . . . .	Słupsk	contracting and designing	300,000.00	—	100.00	100.00
30	Zakład Transportu Energetyki ENTRANS Słupsk Sp. z o.o. in liquidation <sup>(7)</sup> . . . . .	Słupsk	sale of motor vehicles	—	—	—	—
31	Zakład Energetyczny Toruń—ENERGOHANDEL Sp. z o.o. . . . .	Toruń	procurement	8,010,000.00	—	100.00	100.00
32	Elektrownia Wodna we Włocławku Sp. z o.o. in liquidation <sup>(8)</sup> . . . . .	Włocławek	energy production	—	—	—	—
33	ENERGA SLOVAKIA s.r.o. <sup>(9)</sup> . . . . .	Bratislava	electric energy trade	2,839,833.00 €	—	100.00	100.00
34	ENERGA OPEC Sp. z o.o. . . . .	Ostrołęka	heat and energy distribution	13,919,000.00	—	99.99	99.99
35	Ekologiczne Materiały Grzewcze Sp. z o.o. . . . .	Gdańsk	biomass production	6,330,000.00	100.00	100.00	100.00
36	Elektrownia Ostrołęka SA . . . . .	Ostrołęka	contracting and designing	395,100,000.00	100.00	100.00	100.00
37	ENERGA Innowacje Sp. z o.o. <sup>(10)</sup> . . . . .	Gdańsk	organisation and management of innovative power project developments	10,002,000.00	50.01	99.95	100.00 <sup>(3)</sup>
38	ENERGA Serwis Sp. z o.o. . . . .	Ostrołęka	repairs and maintenance services	14,200,000.00	14.08	94.64	100.00 <sup>(3)</sup>
39	ENERGA Informatyka i Technologie Sp. z o.o. . . . .	Gdańsk	ICT	35,343,500.00	100.00	100.00	100.00
40	ENSPIRION Sp. z o.o. (previously ENERGA Agregator Sp. z o.o.) <sup>(11)</sup> . . . . .	Gdańsk	energy consulting and management of demand for electricity	5,000,000.00	—	100.00	100.00
41	ENERGA—OPERATOR Eksploatacja i Inwestycje Słupsk Sp. z o.o. . . . .	Słupsk	network operation and investment projects	6,900,000.00	—	100.00	100.00
42	ENERGA—OPERATOR Eksploatacja i Inwestycje Kalisz Sp. z o.o. . . . .	Kalisz	network operation and investment projects	5,600,000.00	—	100.00	100.00

Accounting principles (policy) and additional explanatory notes to the condensed interim consolidated financial statements constitute an integral part thereof

**ENERGA SA Group**  
**Condensed Interim Consolidated Financial Statements (Continued)**  
as at and for the period of 9 months ended 30 September 2013 (in PLN)

**2. Composition of the Group (Continued)**

No.	Company name	Registered office	Line of business	Share capital of the entity [PLN]	Share of ENERGA SA in the share capital [%]	Share of ENERGA SA Group in the share capital [%]	Share of ENERGA SA Group in the total number of votes [%]
43	ENERGA—OPERATOR Eksploatacja i Inwestycje Toruń Sp. z o.o. . . . . .	Toruń	network operation and investment projects	6,100,000.00	—	100.00	100.00
44	ENERGA—OPERATOR Eksploatacja i Inwestycje Elbląg Sp. z o.o. <sup>(12)</sup> . . . . .	Elbląg	network operation and investment projects	7,900,000.00	—	100.00	100.00
45	ENERGA—OPERATOR Eksploatacja i Inwestycje Gdańsk Sp. z o.o. . . . . .	Gdańsk	network operation and investment projects	7,100,000.00	—	100.00	100.00
46	AEGIR 1 Sp. z o.o. . . . . .	Gdańsk	energy production	50,000.00	—	100.00	100.00
47	AEGIR 2 Sp. z o.o. . . . . .	Gdańsk	energy production	50,000.00	—	100.00	100.00
48	AEGIR 3 Sp. z o.o. . . . . .	Gdańsk	energy production	50,000.00	—	100.00	100.00
49	AEGIR 4 Sp. z o.o. . . . . .	Gdańsk	energy production	50,000.00	—	100.00	100.00
50	AEGIR 5 Sp. z o.o. <sup>(13)</sup> . . . . .	Gdańsk	energy production	7,550,000.00	99.34	100.00	100.00
51	ENERGA Finance AB (publ) <sup>(14)</sup> . . . . .	Stockholm	financing activity	20,000,000.00 €	100.00	100.00	100.00
52	RGK Sp. z o.o. <sup>(15)</sup> . . . . .	Gdańsk	financing activity	788,000.00	100.00	100.00	100.00
53	Breva Sp. z o.o. <sup>(16)</sup> . . . . .	Gdańsk	energy production	15,588,000.00	100.00	100.00	100.00
54	Zakład Energetyki Ciepłej w Żychlinie Sp. z o.o. . . . . .	Żychlin	heat and energy distribution	2,458,300.00	—	97.67	100.00 <sup>(3)</sup>
55	Elektrownia CCGT Gdańsk Sp. z o.o. . . . . .	Gdańsk	energy production	19,500,000.00	100.00	100.00	100.00
56	Elektrownia CCGT Grudziądz Sp. z o.o. . . . . .	Grudziądz	energy production	18,000,000.00	100.00	100.00	100.00
57	Ciepło Kaliskie Sp. z o.o. . . . .	Kalisz	heat and energy distribution	43,257,000.00	—	87.90	90.00 <sup>(3)</sup>
58	EPW 1 Sp. z o.o. (previously DONG Energy Tuszyn Sp. z o.o.) <sup>(17)</sup> . . . . .	Pruszcz Gdański	energy production	2,500,000.00	—	100.00	100.00
59	EPW 2 Sp. z o.o. (previously DONG Energy Gąsiorowo Sp. z o.o.) <sup>(18)</sup> . . . . .	Pruszcz Gdański	energy production	1,700,000.00	—	100.00	100.00
60	EPW 3 Sp. z o.o. (previously DONG Energy Pancierzyn Sp. z o.o.) <sup>(19)</sup> . . . . .	Pruszcz Gdański	energy production	3,000,000.00	—	100.00	100.00
61	EPW Karcino Sp. z o.o. (previously DONG Energy Karcino Sp. z o.o.) <sup>(20)</sup> . . . . .	Pruszcz Gdański	energy production	34,550,000.00	—	100.00	100.00
62	EPW Parsówek Sp. z o.o. (previously DONG Energy 3 Sp. z o.o.) <sup>(21)</sup> . . . . .	Pruszcz Gdański	energy production	500,000.00	—	100.00	100.00
63	DGP Provider Sp. z o.o. . . . .	Gdańsk	real estate management	50,000.00	—	100.00	100.00
64	EKOTRADE SERWIS FM Sp. z o.o. . . . . .	Gdańsk	real estate management	50,000.00	—	100.00	100.00
65	EPW Energia Sp. z o.o. (previously Iberdrola Renewables Polska Sp. z o.o.) <sup>(22)</sup> . . . . .	Warsaw	energy production	894,376,000.00	—	67.30	67.30

Accounting principles (policy) and additional explanatory notes to the condensed interim consolidated financial statements constitute an integral part thereof

**ENERGA SA Group**  
**Condensed Interim Consolidated Financial Statements (Continued)**  
**as at and for the period of 9 months ended 30 September 2013 (in PLN)**

**2. Composition of the Group (Continued)**

No.	Company name	Registered office	Line of business	Share capital of the entity [PLN]	Share of ENERGA SA in the share capital [%]	Share of ENERGA SA Group in the share capital [%]	Share of ENERGA SA Group in the total number of votes [%]
66	EPW Energia Olecko Sp. z o.o. (previously Dong Energy Olecko Sp. z o.o.) <sup>(23)</sup>	Warsaw	energy production	2,000,000.00	—	19.00	19.00
(1)	On 10 October 2013 the share capital increase by PLN 617.8 m in return for a cash contribution by ENERGA SA was registered in the National Court Register.						
(2)	On 7 June 2013 the share capital increase by PLN 48.5 m, in return for the in-kind contribution in the form of shares in ENERGA Elektrociepłownia Kalisz S.A and ENERGA OPEC Sp. z o.o. and cash contribution by ENERGA SA and ENERGA Elektrownie Ostrołęka SA was registered in the National Court Register.						
(3)	The Group's share in the total number of votes is greater than its share in equity due to indirect shareholdings.						
(4)	On 3 April 2013 the legal merger of the companies ENERGA Bio Sp. z o.o. and ENERGA Hydro Sp. z o.o. was registered.						
(5)	On 13 September 2013 the Company's share capital decrease by PLN 9.3 m was registered in the National Court Register.						
(6)	On 17 June 2013 the company was deleted from the National Court Register.						
(7)	On 29 July 2013 the company was deleted from the National Court Register.						
(8)	On 27 February 2013 the company was deleted from the National Court Register.						
(9)	On 12 July 2013, the share capital increase by EUR 2.5 m covered by a cash contribution from ENERGA-OBRÓT SA was registered.						
(10)	On 27 March 2013 the share capital increase by PLN 5 m in return for a cash contribution by ENERGA SA was registered in the National Court Register.						
(11)	On 18 July 2013 the company was renamed to ENSPIRION Sp. z o.o.						
(12)	On 26 March 2013 the share capital increase by PLN 7.85 m in return for a cash contribution by ENERGA—OPERATOR SA was registered in the National Court Register.						
(13)	On 5 March 2013 the share capital increase by PLN 7.5 m in return for a cash contribution by ENERGA SA was registered in the National Court Register.						
(14)	On 13 February 2013, 27 March and 2 August 2013, the share capital increases by EUR 235 thousand, EUR .17 m and EUR 18 m respectively in return for cash contributions by ENERGA SA were registered.						
(15)	On 3 September 2013, the share capital increase by PLN 783.0 thousand covered by a non-cash contribution from ENERGA SA consisting of minority shares and interest was registered in the National Court Register.						
(16)	On 16 April 2013 and 31 May 2013 the share capital increases by PLN 1.3 m and PLN 14.2 m respectively in return for cash contributions by ENERGA SA were registered in the National Court Register. On 1 August 2013, a change of the company's registered offices was registered in the National Court Register.						
(17)	A change of the company's name was registered in the National Court Register on 16 October 2013.						
(18)	A change of the company's name was registered in the National Court Register on 29 August 2013.						
(19)	A change of the company's name was registered in the National Court Register on 30 August 2013.						
(20)	A change of the company's name was registered in the National Court Register on 21 August 2013.						
(21)	A change of the company's name was registered in the National Court Register on 14 September 2013.						
(22)	A change of the company's name was registered in the National Court Register on 9 September 2013. Only part of this entity is consolidated (see description in note 21.3).						
(23)	Only part of this entity is consolidated (see description in note 21.2).						

Accounting principles (policy) and additional explanatory notes to the condensed interim consolidated financial statements constitute an integral part thereof

**ENERGA SA Group**  
**Condensed Interim Consolidated Financial Statements (Continued)**  
**as at and for the period of 9 months ended 30 September 2013 (in PLN)**

**2. Composition of the Group (Continued)**

b) associated entities accounted for under the equity method

No.	Company name	Registered office	Line of business	Share capital of the entity [PLN]	Share of ENERGA SA in the share capital [%]	Share of ENERGA SA Group in the share capital [%]	Share of ENERGA SA Group in the total number of votes [%]
1	Oświetlenie Uliczne i Drogowe Sp. z o.o. . . . .	Kalisz	lighting services	73,010,000.00	42.20	42.20	42.20
2	SOEN Sp. z o.o. . . . .	Grudziądz	hotel and administration services	1,000,000.00	48.50	48.50	48.50
3	Słupskie Towarzystwo Koszykówki Sportowa S.A. <sup>(1)</sup> . . . . .	Słupsk	sports activities	513,500.00	—	—	—
4	Bio—Power Sp. z o.o. . . . .	Międzyrzec Podlaski	energy production	2,139,900.00	0.00	25.00	25.00

1) On 17 July 2013 the company's shares held by ENERGA Group companies were sold.

**Changes in the structure of the Group**

Acquisition of interests

Acquisitions of interests in Group entities are described in Note 21.

Incorporation of the company

On 4 July 2013, ENERGA-OPERATOR SA established two companies: DGP PROVIDER Sp. z o.o. and EKOTRADE SERWIS FM Sp. z o.o. (see description in note 23.5).

Disposals of shares

On 4 January 2013 the subsidiary ENERGA Bio Sp. z o.o. sold all its shares in Biogazownia Starogard Sp. z o.o. constituting 90% of the share capital of that company.

On 1 October 2013, ENERGA-OPERATOR SA sold all the shares it held in DGP PROVIDER Sp. z o.o. and EKOTRADE SERWIS FM Sp. z o.o. to industry investors.

Liquidation

On 27 February 2013 Elektrownia Wodna we Włocławku Sp. z o.o. in liquidation was deregistered from the National Court Register which completed the process of its liquidation.

On 17 June 2013 Zakład Transportu Energetyki Sp. z o.o. in liquidation was deregistered from the National Court Register which completed the process of its liquidation.

On 29 July 2013 Zakład Transportu Energetyki ENTRANS Słupsk Sp. z o.o. in liquidation was deregistered from the National Court Register which completed the process of its liquidation.

Mergers

Mergers of Group companies are described in Note 21.4.

**3. Basis for preparation of the financial statements**

These condensed interim consolidated financial statements have been prepared on the historical cost basis except for financial instruments measured at fair value through profit or loss and hedging derivatives.

---

Accounting principles (policy) and additional explanatory notes to the condensed interim consolidated financial statements constitute an integral part thereof

**ENERGA SA Group**  
**Condensed Interim Consolidated Financial Statements (Continued)**  
**as at and for the period of 9 months ended 30 September 2013 (in PLN)**

**3. Basis for preparation of the financial statements (Continued)**

These condensed interim consolidated financial statements are presented in zloty (“PLN”), and all amounts are stated in PLN, unless otherwise indicated.

These condensed interim consolidated financial statements have been prepared based on the assumption that the Group would continue as a going concern in the foreseeable future.

As at the date of these financial statements there is no evidence indicating significant uncertainty as to the ability of the Group to continue its business activities as a going concern.

**3.1. Statement of compliance**

These condensed interim consolidated financial statements of ENERGA SA Group have been prepared in accordance with the International Accounting Standard 34 “Interim financial reporting” as adopted by the European Union. They do not include all the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group’s financial position and performance since the last annual consolidated financial statements as at and for the year ended 31 December 2012.

**3.2. Functional and presentation currency**

The functional currency of the parent company and other Polish companies covered by these condensed interim consolidated financial statements and the presentation currency of these condensed interim consolidated financial statements is the Polish zloty except for ENERGA SLOVAKIA s.r.o. and ENERGA Finance AB (publ) where the functional currency of their individual financial statements is euro. For the purpose of these financial statements, the underlying accounts of the above-mentioned companies have been translated into PLN at the following rates: assets and liabilities, except equity—exchange rates at the reporting date; equity—exchange rates at the date of transaction and income and expenses—average exchange rates for the given financial period.

The following exchange rates were used for valuation purposes in the statement of financial position:

**Exchange rate at the end of each respective reporting period**

<u>Currency</u>	<u>30 September 2013</u>	<u>31 December 2012</u>
EURO .....	4.2163	4.0882

The weighted average exchange rates for each respective reporting period are as follows:

**Average exchange rate in the period**

<u>Currency</u>	<u>1 January - 30 September 2013</u>	<u>1 January - 30 September 2012</u>
EURO .....	4.2231	4.1948

**4. Estimates**

During the periods covered by these condensed interim consolidated financial statements no changes in the methods used in determining significant estimates occurred. Changes of estimates resulted from events that occurred during the reporting periods.

The preparation of the condensed interim consolidated financial statements in accordance with the International Accounting Standard 34 “Interim financial reporting” as adopted by the European Union (“EU”) requires the Management Board to adopt certain assumptions and estimates that affect the application of accounting policies and the amounts reported in these condensed interim consolidated

---

Accounting principles (policy) and additional explanatory notes to the condensed interim consolidated financial statements constitute an integral part thereof



**ENERGA SA Group**  
**Condensed Interim Consolidated Financial Statements (Continued)**  
**as at and for the period of 9 months ended 30 September 2013 (in PLN)**

**4. Estimates (Continued)**

financial statements and notes thereto. The assumptions and estimates are based on the Management Board's best knowledge of current and future activities and events. However actual results may differ from those anticipated. After 31 December 2012 there were no significant events that would result in the estimates as at 31 December 2012 being inappropriate or distorted.

**5. New standards and interpretations already published, but not yet effective**

The following standards and interpretations have been published by the International Accounting Standards Board or the International Financial Reporting Interpretations Committee, but have not yet become effective as at the date of these financial statements (not as yet adopted by the EU):

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2015),
- Amendments to IFRS 9 "Financial Instruments" and IFRS 7 "Financial Instruments: Disclosures"—mandatory effective date and transitional provisions (effective for annual periods beginning on or after 1 January 2015),
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 27 "Separate Financial Statements"—investment entities (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IAS 36 "Impairment of assets"—disclosures concerning the recoverable amount of non-financial assets (effective for annual periods beginning on or after 1 January 2014),
- IFRIC 21 "Levies" (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting" (effective for annual periods beginning on or after 1 January 2014).

In preparing these condensed interim financial statements the Group did not apply the following standards, amendments to standards and interpretations that were published and adopted by the EU but are not as yet become effective:

- Amendments to IAS 32 "Financial Instruments: Presentation"—Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014).

The Management believes that the introduction of the above-mentioned standards and interpretations will not have any substantial impact on the accounting policies applied by the Group, except for the application of the first phase of IFRS 9 will affect the classification and measurement of the Group's financial assets. The Group will assess this impact in combination with other phases, when published, to present a coherent assessment.

**6. Explanations regarding the seasonality and cyclicity of operations in the period under review**

Sales of electric energy and heat during the year are subject to seasonal fluctuations. Energy sales rise during the winter months and fall in the summer months. This is dependent on the ambient temperature and length of the day. The extent of fluctuations is determined by low temperatures and shorter days in winter and higher temperatures and longer days in summer. The seasonal nature of electric energy sales applies to a greater extent to small individual customers than to industrial sector clients. Observations from previous years indicate that mainly due to weather conditions, but also market conditions associated with the contracting processes, the ENERGA SA Group usually generates better results in the first half of the year.

---

Accounting principles (policy) and additional explanatory notes to the condensed interim consolidated financial statements constitute an integral part thereof

**ENERGA SA Group**  
**Condensed Interim Consolidated Financial Statements (Continued)**  
**as at and for the period of 9 months ended 30 September 2013 (in PLN)**

**7. Significant accounting policies**

In preparing these condensed interim consolidated financial statements the same generally accepted accounting principles were applied as those used in preparing the annual consolidated financial statements for the year ended 31 December 2012, with the exception of:

- amendments to standards and interpretations adopted by the EU which are effective for accounting periods beginning on or after 1 January 2013,
- the accounting of cash flow hedges.
- the standards for which the Group has decided to apply the early application option.

**Amendments to standards and interpretations adopted by the EU**

For annual periods beginning on or after 1 January 2013, the following new standards and interpretations adopted by the EU became effective and the Group took these into account in the preparation of these condensed interim consolidated financial statements:

- Amendments to IAS 1 “Presentation of Financial Statements”—Presentation of Items of Other Comprehensive Income, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 July 2012),
- Amendments to IFRS 1 “First-time Adoption of International Financial Reporting Standards”—Government Loans, adopted by the EU on 4 March 2013 (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IFRS 1 “First-time Adoption of International Financial Reporting Standards”—Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters, endorsed by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IFRS 7 “Financial Instruments: Disclosures”—Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2013).
- Amendments to IAS 12 “Income Taxes”—Deferred Tax: Recovery of Underlying Assets, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- IFRS 13 “Fair Value Measurement”, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine”, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).

The application of these changes had no significant effect on the financial position or operating results of the Group, or on the scope of information presented in these condensed interim consolidated financial statements of the Group.

**Standards applied before their effective date**

The Group has decided to apply following the standards:

- IFRS 10 “Consolidated Financial Statements”, endorsed by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014).

The early application of the above standard obligates the Group to apply also the following standards/amendments to standards:

- IFRS 11 “Joint Arrangements”, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),

---

Accounting principles (policy) and additional explanatory notes to the condensed interim consolidated financial statements constitute an integral part thereof

**ENERGA SA Group**  
**Condensed Interim Consolidated Financial Statements (Continued)**  
**as at and for the period of 9 months ended 30 September 2013 (in PLN)**

**7. Significant accounting policies (Continued)**

- IFRS 12 “Disclosure of Interests in Other Entities”, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IAS 27 (revised in 2011) “Separate Financial Statements”, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IAS 28 (revised in 2011) “Investments in Associates and Joint Ventures”, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 11 “Joint Arrangements” and IFRS 12 “Disclosure of Interests in Other Entities”—Transition Guidance, as adopted by the EU on 4 April 2013 (effective for annual periods beginning on or after 1 January 2013).

The Group believes that the early application of the above standards had no significant effect on the Group’s financial standing and performance for the comparative period as presented in these condensed interim consolidated financial statements. Accordingly, the Group has not restated its comparative information.

**Hedge accounting**

*Hedging derivatives and hedge accounting*

The Group has implemented the cash flow hedge accounting in order to eliminate accounting mismatches resulting from derivative-based hedges against the currency risk arising from intra-group foreign currency loans (see description in Note 19.6).

The Group may decide to designate selected derivatives as hedges under cash flow hedge for identified hedge relationship. The Group allows the use of cash flow hedge accounting only if certain criteria as referred to in IAS 39 are met, i.e.:

- At the inception of the hedge the Group formally designates and documents the hedging relationship and the risk management objective as well as strategy for undertaking the hedge. The documentation includes the identification of the hedge instrument, the hedged position, the nature of risk and the method for a current assessment of the effectiveness of the hedge in offsetting the risk of changes in cash flows associated with the hedged risk;
- The hedge is expected to be highly effective in offsetting changes in cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship;
- The forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss;
- The effectiveness of the hedge can be reliably assessed, i.e. cash flows related to the hedged position resulting from the hedged risk and the fair value of the hedge can be reliably determined;
- The hedge is assessed on an ongoing basis and determined to have been highly effective throughout the reporting periods for which the hedge was designated.

*Applicable accounting principles for derivatives designated as hedges under cash flow hedge accounting*

Changes in the fair valuation of derivative financial instruments designated as cash flow hedges are recognized in the revaluation reserve in proportion thereof that is an effective hedge, whereas any ineffective portion of the hedge is recognised to the income statement

**ENERGA SA Group**  
**Condensed Interim Consolidated Financial Statements (Continued)**  
**as at and for the period of 9 months ended 30 September 2013 (in PLN)**

**7. Significant accounting policies (Continued)**

The amounts of the cumulative fair value revaluations to the hedge, previously recognised in the revaluation reserve, are recognised to the income statement in the period or periods when the hedged position affects the income statement.

The Group ceases to use the cash flow hedge accounting principles in the event of one or more of the following events:

- The hedging instrument expires or is sold, terminated or exercised (for this purpose, the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such replacement or rollover is part of the entity's documented hedging strategy). In this case, the cumulative gain or loss on the hedging instrument that remains recognised directly in equity from the period when the hedge was effective remains separately recognised in equity until the forecast transaction occurs;
- The hedge no longer meets the hedge accounting criteria. In this case, the cumulative gain or loss on the hedging instrument that remains recognised directly in equity from the period when the hedge was effective remains separately recognised in equity until the forecast transaction occurs;
- The forecast transaction is no longer expected to occur, in which case any related cumulative gain or loss on the hedging instrument that remains recognised directly in equity from the period when the hedge was effective is recognised in profit or loss. The forecast transaction which ceases to be highly likely, may still be expected;
- The Group cancels any hedging relationship. For hedges of forecast transactions, the cumulative gain or loss on the hedging instrument that remains recognised directly in equity from the period when the hedge was effective remains separately recognised in equity until the forecast transaction occurs or is no longer expected to occur. If the transaction is no longer expected to occur, the cumulative gain or loss that was recognised directly in equity is recognised in profit or loss.

*Presentation*

In connection with the use of cash flow hedge accounting, the Group applies the following presentation:

- the effective portion of any change in the valuation of CCIRS hedges is recognised in the revaluation reserve,
- interest on CCIRS hedges is presented in the same line of the income statement in which the interest result on the hedged position is presented,
- any revaluation of CCIRS hedges is presented in the same line of the income statement in which the revaluation of the hedged position is presented,
- the ineffective portion of changes in the valuation of hedges is recognised in the result on financial instruments held for trading.

**8. Restatement of comparative information**

In these condensed consolidated financial statements comparative information for the nine and three months ended 30 September 2012 have been restated as compared to the information previously reported in connection with:

- changes in accounting principles and in the presentation of information disclosed in the Group's consolidated financial statements for the year ended 31 December 2012, mainly resulting from an early adoption of the amendments to IAS 19 "Employee Benefits", relating to the post-employment benefits;

---

Accounting principles (policy) and additional explanatory notes to the condensed interim consolidated financial statements constitute an integral part thereof

**ENERGA SA Group**  
**Condensed Interim Consolidated Financial Statements (Continued)**  
as at and for the period of 9 months ended 30 September 2013 (in PLN)

**8. Restatement of comparative information (Continued)**

- changes in the presentation of certain operating costs introduced in the current financial year—the changes were intended to increase the transparency and the usefulness of the information presented in the financial statements without affecting the net result presented;
- adjustment of provision calculated using actuarial methods. The Group has recalculated provisions relating to post-employment benefits and jubilee bonuses. The amount of provisions presented in the Group's published condensed interim consolidated financial statements for the period ended 30 September 2012 derived from the projection of provisions prepared by an independent actuary based on the key assumptions used to calculate provisions as at 31 December 2011. Comparative information for these consolidated financial statements includes the values originating from projection of provisions based on the actuarial assumptions updated as at 30 September 2012;
- recognition of the impairment allowance for property, plant and equipment associated with the Ostrołęka C project. The Group did not estimate the recoverable amount of assets associated with the execution of the suspended Ostrołęka C project and therefore an impairment test was not carried out for the purpose of the 30 September 2012 interim financial statements. Comparative information for these consolidated financial statements has been restated to include the results of the impairment test carried out as at 31 December 2012.

The adjustments relating to the prior period presented in the consolidated financial statements are presented in the table below:

Title	Previously reported (unaudited)	Recalculation of actuarial provisions	Impairment of Ostrołęka C project	Other adjustments	Total adjustments	Restated (unaudited)
Revenue . . . . .	8,260,186,571.88	—	—	(19,017,487.75)	(19,017,487.75)	8,241,169,084.13
Cost of sales . . . . .	6,875,032,557.88	11,033,206.83	122,582,711.42	(71,758,040.44)	61,857,877.81	6,936,890,435.69
Other operating income . . . . .	86,987,439.44	—	—	(5,052,993.84)	(5,052,993.84)	81,934,445.60
Selling and distribution expenses . . . . .	153,639,653.38	—	—	52,983,730.05	52,983,730.05	206,623,383.43
General and administrative expenses . . . . .	276,899,571.57	815,110.69	—	(243,177.36)	571,933.33	277,471,504.90
Other operating expenses . . . . .	108,554,137.22	—	—	(5,052,993.84)	(5,052,993.84)	103,501,143.38
Financial income . . . . .	80,241,495.53	—	—	(15,198,274.34)	(15,198,274.34)	65,043,221.19
Financial costs . . . . .	185,966,445.02	—	—	—	—	185,966,445.02
Share of loss of associates . . . . .	(179,621.29)	—	—	—	—	(179,621.29)
<b>Profit before tax . . . . .</b>	<b>827,143,520.49</b>	<b>(11,848,317.52)</b>	<b>(122,582,711.42)</b>	<b>(15,198,274.34)</b>	<b>(149,629,303.28)</b>	<b>677,514,217.21</b>
Income tax . . . . .	164,776,821.49	(2,251,180.33)	—	—	(2,251,180.33)	162,525,641.16
<b>Net profit on continuing operations . . . . .</b>	<b>662,366,699.00</b>	<b>(9,597,137.19)</b>	<b>(122,582,711.42)</b>	<b>(15,198,274.34)</b>	<b>(147,378,122.95)</b>	<b>514,988,576.05</b>
Net profit on disposal of non-current assets classified as held for sale . . . . .	—	—	—	15,198,274.34	15,198,274.34	15,198,274.34
<b>Net profit for the period . . . . .</b>	<b>662,366,699.00</b>	<b>(9,597,137.19)</b>	<b>(122,582,711.42)</b>	<b>—</b>	<b>(132,179,848.61)</b>	<b>530,186,850.39</b>
<b>Net other comprehensive income . . . . .</b>	<b>503,658.33</b>	<b>(44,978,415.99)</b>	<b>—</b>	<b>—</b>	<b>(44,978,415.99)</b>	<b>(44,474,757.66)</b>
<b>Total comprehensive income . . . . .</b>	<b>662,870,357.33</b>	<b>(54,575,553.18)</b>	<b>(122,582,711.42)</b>	<b>—</b>	<b>(177,158,264.60)</b>	<b>485,712,092.73</b>
Attributable to:						
Equity holders of the parent company . . . . .	662,148,672.18	(53,869,457.04)	(122,582,711.42)	0.00	(176,452,168.46)	485,696,503.72
Non-controlling interests . . . . .	721,685.15	(706,096.14)	—	(0.00)	(706,096.14)	15,589.01
<b>Earnings per share (in PLN) . . . . .</b>	<b>0.13</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(0.02)</b>	<b>0.11</b>

Accounting principles (policy) and additional explanatory notes to the condensed interim consolidated financial statements constitute an integral part thereof

**ENERGA SA Group**  
**Condensed Interim Consolidated Financial Statements (Continued)**  
**as at and for the period of 9 months ended 30 September 2013 (in PLN)**

**9. Operating segments**

The Group's internal and external reporting system is essentially based on industry segments. The Group's organisation and management are divided into segments, taking into account the nature of the products and services.

The Group distinguishes the following business segments: distribution of electricity, production, sales, services and others. In the previous reporting periods, the Group presented the segments (baseload power plants, Combined Heat Production and renewable sources of energy) which are currently disclosed as a single segment—generation.

In the sales segment, the Group changed the presentation of revenues and expenses related to the sale of electricity distribution services to end users. In the previous year, the Group presented expenses and revenues of the sales segment in relation to such services on a gross basis whereas since 2013 they are off-set. Accordingly, revenues of the distribution segment from the sale of electricity distribution services to the sales segment were accounted for as sales to external customers and the value of eliminated sales revenues between segments was adjusted.

EBITDA is calculated as the result from continuing operations before tax and financial income/expenses, depreciation and amortization.

The tables below show the breakdown of revenues and expenses for the period from 1 January to 30 September 2013 and the assets and liabilities as at 30 September 2013 assigned to individual segments, together with comparative information restated according to the new presentation of segments and new presentation policy, as described above.



**ENERGA SA Group**

**Condensed Interim Consolidated Financial Statements (Continued)**

**as at and for the period of 9 months ended 30 september 2013 (in PLN)**

**9. Operating segments (Continued)**

Nine-month period ended 30 September 2013 or as at 30 September 2013 (unaudited)	Distribution of electricity	Sales	Generation	Services	Other	Total	Consolidation eliminations and adjustments	Total activity
<b>Revenue</b>								
Sales to external clients . . . . .	2,761,400,315.73	4,919,865,814.33	835,570,387.73	3,432,619.40	17,217,302.55	8,537,486,439.74	—	8,537,486,439.74
Inter-segment sales . . . . .	37,663,055.13	328,938,967.99	280,238,825.66	258,515,791.78	52,654,949.21	958,011,589.77	(958,011,589.77)	—
<b>Total segment revenues</b> . . . . .	<b>2,799,063,370.86</b>	<b>5,248,804,782.32</b>	<b>1,115,809,213.39</b>	<b>261,948,411.18</b>	<b>69,872,251.76</b>	<b>9,495,498,029.51</b>	<b>(958,011,589.77)</b>	<b>8,537,486,439.74</b>
EBITDA . . . . .	1,136,067,469.92	188,035,301.15	198,575,106.52	26,412,056.28	(54,059,007.06)	1,495,030,926.81	6,341,852.68	1,501,372,779.49
Profit/(loss) on continuing operations before tax and finance income/expense . . . . .	656,403,670.86	168,422,286.49	123,908,453.24	15,010,728.98	(60,315,064.45)	903,430,075.12	29,696,579.77	933,126,654.89
Net finance income/expense . . . . .	(74,290,079.62)	27,029,753.79	(20,696,887.36)	(108,984.34)	607,107,908.46	539,041,710.93	(656,183,952.51)	(117,142,241.58)
Share of profit/(loss) of associates . . . . .	—	—	—	—	—	—	(512,849.86)	(512,849.86)
<b>Profit/(loss) before tax</b> . . . . .	<b>582,113,591.24</b>	<b>195,452,040.28</b>	<b>103,211,565.88</b>	<b>14,901,744.64</b>	<b>546,792,844.01</b>	<b>1,442,471,786.05</b>	<b>(627,000,222.60)</b>	<b>815,471,563.45</b>
Income tax . . . . .	131,587,042.88	36,969,816.83	19,794,120.97	3,759,234.75	5,526,784.48	197,636,999.91	14,412,032.47	212,049,032.38
Net loss on discontinued operations and disposal of assets classified as held for sale . . . . .	—	—	—	—	(5,806,840.39)	(5,806,840.39)	—	(5,806,840.39)
<b>Net profit/(loss) for the period</b> . . . . .	<b>450,526,548.36</b>	<b>158,482,223.45</b>	<b>83,417,444.91</b>	<b>11,142,509.89</b>	<b>535,459,219.14</b>	<b>1,239,027,945.75</b>	<b>(641,412,255.07)</b>	<b>597,615,690.68</b>
<b>Assets and liabilities</b>								
Cash and cash equivalents . . . . .	676,422,526.34	321,207,039.88	309,979,578.10	66,491,079.00	932,721,353.10	2,306,821,576.42	—	2,306,821,576.42
<b>Total assets</b> . . . . .	<b>11,059,446,597.59</b>	<b>2,276,679,733.83</b>	<b>4,221,377,532.12</b>	<b>239,614,526.88</b>	<b>10,794,311,623.57</b>	<b>28,591,430,013.99</b>	<b>(12,030,883,413.36)</b>	<b>16,560,546,600.63</b>
Financial liabilities . . . . .	2,936,227,125.40	1,910,455.00	1,525,752,098.98	4,051,807.56	5,271,345,308.21	9,739,286,795.15	(4,437,590,780.08)	5,301,696,015.07
<b>Total liabilities</b> . . . . .	<b>5,155,125,041.09</b>	<b>1,302,536,202.10</b>	<b>1,968,498,192.71</b>	<b>119,544,742.85</b>	<b>5,621,520,171.13</b>	<b>14,167,224,349.88</b>	<b>(5,472,248,074.91)</b>	<b>8,694,976,274.97</b>
<b>Other segment information</b>								
Capital expenditure . . . . .	842,321,944.01	20,492,296.60	1,218,034,328.59	11,542,347.57	19,778,850.84	2,112,169,767.61	(8,578,220.87)	2,103,591,546.74
Depreciation . . . . .	479,663,799.06	19,613,014.66	74,666,653.28	11,401,327.30	6,256,057.39	591,600,851.69	(23,354,727.09)	568,246,124.60
Impairment loss on property, plant and equipment and intangible assets . . . . .	167,859.01	—	123,657,318.97	—	6,986.94	123,832,164.92	(980.90)	123,831,184.02

Accounting principles (policy) and additional explanatory notes to the condensed interim consolidated financial statements constitute an integral part thereof

**ENERGA SA Group**

**Condensed Interim Consolidated Financial Statements (Continued)**

**as at and for the period of 9 months ended 30 september 2013 (in PLN)**

**9. Operating segments (Continued)**

<b>Nine-month period ended 30 September 2012 (unaudited, restated) or as at 31 December 2012</b>	<b>Distribution of electricity</b>	<b>Sales</b>	<b>Generation</b>	<b>Services</b>	<b>Other</b>	<b>Total</b>	<b>Consolidation eliminations and adjustments</b>	<b>Total activity</b>
<b>Revenue</b>								
Sales to external clients . . . . .	2,670,330,395.07	4,780,157,854.38	754,633,299.11	10,284,350.17	25,763,185.40	8,241,169,084.13	—	8,241,169,084.13
Inter-segment sales . . . . .	37,243,889.49	434,119,315.36	403,537,205.36	260,186,816.68	47,681,485.55	1,182,768,712.44	(1,182,768,712.44)	—
<b>Total segment revenues . . . . .</b>	<b>2,707,574,284.56</b>	<b>5,214,277,169.74</b>	<b>1,158,170,504.47</b>	<b>270,471,166.85</b>	<b>73,444,670.95</b>	<b>9,423,937,796.57</b>	<b>(1,182,768,712.44)</b>	<b>8,241,169,084.13</b>
EBITDA . . . . .	1,036,872,365.08	201,201,001.38	114,806,318.70	11,473,926.64	(47,438,654.76)	1,316,914,957.03	15,464,955.31	1,332,379,912.34
Profit/(loss) on continuing operations before tax and finance income/expense . . . . .	588,593,763.04	183,101,969.23	39,624,278.37	3,578,509.87	(54,783,962.39)	760,114,558.12	38,502,504.21	798,617,062.33
Net finance income/expense . . . . .	(110,583,238.59)	8,446,233.83	(1,829,368.31)	618,014.14	817,055,851.51	713,707,492.58	(834,630,716.41)	(120,923,223.83)
Share of profit/(loss) of associates . . . . .	—	—	—	—	—	—	(179,621.29)	(179,621.29)
<b>Profit/(loss) before tax . . . . .</b>	<b>478,010,524.45</b>	<b>191,548,203.06</b>	<b>37,794,910.06</b>	<b>4,196,524.01</b>	<b>762,271,889.12</b>	<b>1,473,822,050.70</b>	<b>(796,307,833.49)</b>	<b>677,514,217.21</b>
Income tax . . . . .	91,915,845.10	37,593,615.95	33,738,997.76	1,519,958.87	(7,983,158.69)	156,785,258.99	5,740,382.17	162,525,641.16
Net profit on discontinued operations and disposal of assets classified as held for sale . . . . .	—	—	—	—	15,198,274.34	15,198,274.34	—	15,198,274.34
<b>Net profit/(loss) for the period . . . . .</b>	<b>386,094,679.35</b>	<b>153,954,587.11</b>	<b>4,055,912.30</b>	<b>2,676,565.14</b>	<b>785,453,322.15</b>	<b>1,332,235,066.05</b>	<b>(802,048,215.66)</b>	<b>530,186,850.39</b>
<b>Assets and liabilities</b>								
Cash and cash equivalents . . . . .	715,428,864.26	246,149,828.69	396,599,606.77	20,490,914.73	690,389,021.03	2,069,058,235.48	—	2,069,058,235.48
<b>Total assets . . . . .</b>	<b>11,313,144,590.12</b>	<b>2,385,320,353.81</b>	<b>2,193,746,100.22</b>	<b>227,882,719.59</b>	<b>9,389,415,280.64</b>	<b>25,509,509,044.38</b>	<b>(10,596,736,305.71)</b>	<b>14,912,772,738.67</b>
Financial liabilities . . . . .	3,058,362,720.58	2,365,356.25	378,167,231.78	1,504,136.21	4,015,479,317.38	7,455,878,762.20	(3,960,882,740.32)	3,494,996,021.88
<b>Total liabilities . . . . .</b>	<b>5,557,421,177.71</b>	<b>1,360,692,069.19</b>	<b>803,766,234.95</b>	<b>125,934,373.85</b>	<b>4,357,225,049.98</b>	<b>12,205,038,905.68</b>	<b>(5,010,788,632.78)</b>	<b>7,194,250,272.90</b>
<b>Other segment information</b>								
Capital expenditure . . . . .	891,701,164.81	17,504,926.84	222,328,602.88	36,454,698.90	23,129,664.02	1,191,119,057.45	1,383,673.66	1,192,502,731.10
Depreciation . . . . .	448,278,602.04	18,099,032.15	75,182,040.33	7,895,416.77	7,345,307.63	556,800,398.91	(23,037,548.90)	533,762,850.01
Impairment loss on property, plant and equipment and intangible assets . . . . .	—	(93,678.34)	122,636,515.58	(81,310.05)	—	122,461,527.19	—	122,461,527.19

Accounting principles (policy) and additional explanatory notes to the condensed interim consolidated financial statements constitute an integral part thereof

**ENERGA SA Group**  
**Condensed Interim Consolidated Financial Statements (Continued)**  
**as at and for the period of 9 months ended 30 September 2013 (in PLN)**

**10. Property, plant and equipment**

In the 9 month period ended 30 September 2013, the Group:

- incurred capital expenditures on property, plant and equipment and property, plant and equipment under construction in the amount of PLN 989.8 m,
- acquired through acquisition of businesses (see description in Note 21) property, plant and equipment with a total value of PLN 1,042.5 m,
- sold and scrapped property, plant and equipment with a total net book value of PLN 22.7 m.

**11. Impairment tests for property, plant and equipment**

In view of evidence found in relation to the property, plant and equipment of Power Plant B at ENERGA Elektrownie Ostrołęka (“CGU B”) indicating a possible decrease in the recoverable value of property, plant and equipment of the CGU B, as at 31 March 2013 an impairment test was carried out using projections for the period IV 2013-2017.

The test for impairment was performed taking into account among others the following assumptions:

- paths for electricity prices for the period 2013-2020, taking into account, among others, fuel costs, costs of CO2 allowances and the impact of the balance of demand and supply of electricity in the market, paths for prices of certificates of origin, on the basis of latest available report prepared by an independent agency for the Polish market as at 31 December 2012,
- CO2 emission limits for the period 2013-2020 as reported in the Polish government’s derogation statement sent to the European Commission,
- volumes of production from renewable energy sources and combined heat and power sources resulting from production capacities,
- maintaining the production capacities of the existing fixed assets following replacement investments.

The test was performed using the income method, determining the recoverable value based on the discounted value of estimated cash flows from operating activities. The calculations were carried out based on the summarised financial projections for the period IV 2013-2017 and a residual value.

For the purpose of the calculations, the discount rate equal to the weighted average cost of capital (WACC) at 8.45% before tax taking into account the risk-free rate (based on the yield on 10-year Treasury bonds—at 3.9%) and the risk premium for the relevant activities of the energy sector (5.5%) were applied. The growth rate used to extrapolate cash flow projections beyond the period covered by detailed planning was adopted at the level of 2.0% which does not exceed the average long-term inflation growth rates in Poland.

Macroeconomic and sectoral assumptions adopted for the projections are updated as often as indications requiring their change are observed on the market.

The performed sensitivity analyses show that the most important factors affecting the estimate of the value in use of cash generating units are projected wholesale electricity prices and fuel prices.

As a result of the test carried out on 31 March 2013, it was determined that an impairment allowance for property, plant and equipment of the CGU B. Therefore, an impairment write-off of property, plant and equipment in the amount of PLN 123.4 m was recognised as cost of sales.

The test for impairment on property, plant and equipment of the CGU Power Plant B in Ostrołęka was reperformed as at 30 September 2013 in which its recoverable value was determined based on the discounted value of estimated cash flows from operating activities. The test was carried out taking into consideration the operational assumptions prepared by the company according to its knowledge as at 30 September 2013 and the price paths updated according to the Polish market report prepared by an

**ENERGA SA Group**  
**Condensed Interim Consolidated Financial Statements (Continued)**  
**as at and for the period of 9 months ended 30 September 2013 (in PLN)**

**11. Impairment tests for property, plant and equipment (Continued)**

independent agency as at 31 July 2013. The calculations were made on the basis of the financial projections prepared for the period X 2013-2018 and the residual value, using the discount rate equal to the weighed average cost of capital (WACC) of 8.21% before tax.

The results of the impairment test do not indicate a need to adjust the impairment allowance recognised at the end of March 2013.

If significant changes in market conditions occur there is a risk that the test results will be different in the future.

**12. Cash and cash equivalents**

The balance of cash and cash equivalents presented in the statement of cash flows comprises the following items:

<u>Title</u>	<u>As at 30 September 2013 (unaudited)</u>	<u>As at 30 September 2012 (unaudited)</u>
Cash at bank and in hand . . . . .	360,123,748.56	314,409,407.23
Short term deposits up to 3 months . . . . .	1,276,615,193.96	342,313,492.50
Participation units in liquidity funds . . . . .	669,580,894.50	918,362,603.03
Other . . . . .	501,739.40	336,391.77
<b>Total cash and cash equivalents presented in the statement of financial position . . . . .</b>	<b><u>2,306,821,576.42</u></b>	<b><u>1,575,421,894.53</u></b>
Unrealised exchange rate differences and interest . . . . .	(11,466,923.08)	(7,514,422.04)
Cash and cash equivalents classified as assets held for sale . . . . .	46,411,209.86	—
Current account overdrafts . . . . .	—	<u>(272,681,787.95)</u>
<b>Total cash and cash equivalents presented in the statement of cash flow . . . . .</b>	<b><u>2,341,765,863.20</u></b>	<b><u>1,295,225,684.54</u></b>

---

Accounting principles (policy) and additional explanatory notes to the condensed interim consolidated financial statements constitute an integral part thereof

**ENERGA SA Group**  
**Condensed Interim Consolidated Financial Statements (Continued)**  
**as at and for the period of 9 months ended 30 September 2013 (in PLN)**

**13. Earnings per share**

The following data regarding profit and shares were used to calculate the basic and diluted earnings per share ratio:

<u>Title</u>	<u>Nine-month period ended 30 September 2013</u> (unaudited)	<u>Nine-month period ended 30 September 2012</u> (unaudited) (restated)
Net profit on continuing operations attributable to the ordinary shareholders of the Parent Company . . . . .	616,629,885.74	514,374,534.17
Net profit/ (loss) on discontinued operations attributable to the ordinary shareholders of the Parent Company . . . . .	<u>(5,806,840.39)</u>	<u>15,198,274.34</u>
<b>Net profit attributable to the ordinary shareholders of the parent company . . . . .</b>	<b><u>610,823,045.35</u></b>	<b><u>529,572,808.51</u></b>
Number of ordinary shares at the end of the period . . . . .	414,067,114	4,968,805,368
Number of issued common shares used to calculate basic earnings per share . . . . .	<u>4,633,763,076</u>	<u>4,968,805,368</u>
<b>Earnings per share from continuing operations (basic and diluted) .</b>	<b><u>0.13</u></b>	<b><u>0.10</u></b>
<b>Earnings per share from discontinued operations (basic and diluted) . . . . .</b>	<b><u>(0.00)</u></b>	<b><u>0.00</u></b>

**14. Dividend**

<u>Title</u>	<u>Nine-month period ended 30 September 2013</u> (unaudited)	<u>Nine-month period ended 30 September 2012</u> (unaudited)
<b>Dividends declared in the period</b>		
dividend declared by subsidiaries to non-controlling interests . . . .	1,755,096.60	8,183,902.21
dividend declared by the Parent Company . . . . .	<u>496,880,536.80</u>	<u>645,944,697.84</u>
<b>Total . . . . .</b>	<b><u>498,635,633.40</u></b>	<b><u>654,128,600.05</u></b>
<b>Dividends paid in the period</b>		
dividend paid in the period . . . . .	497,166,222.70	653,803,931.39
dividend per share paid by the Group . . . . .	0.11	0.13

---

Accounting principles (policy) and additional explanatory notes to the condensed interim consolidated financial statements constitute an integral part thereof

**ENERGA SA Group**  
**Condensed Interim Consolidated Financial Statements (Continued)**  
**as at and for the period of 9 months ended 30 September 2013 (in PLN)**

**15. Provisions**

	Post-employment benefits	Jubilee bonuses	Employee matters	Restructuring provision	Total provisions for employee benefit	Legal claims	For reclamation and decommissioning costs of property, plant and equipment*	Provision for liabilities for gas emissions	Provision for redemption of energy certificates of origin	Other provisions	Total other provisions	Total
As at 1 January 2013	458,931,932.56	275,407,090.84	3,505,705.42	56,912,953.27	794,757,682.09	199,091,861.84	9,299,050.00	306,500.00	211,035,656.60	51,640,367.34	471,373,435.78	1,266,131,117.87
Purchase/disposal of subsidiary	—	—	—	—	—	(393,750.00)	14,700,000.00	—	—	(2,500.00)	14,303,750.00	14,303,750.00
Current service cost	2,148,820.11	8,530,796.71	—	—	10,679,616.82	—	—	—	—	—	—	10,679,616.82
Actuarial gains and losses	(38,605,697.69)	(13,614,484.59)	—	—	(52,220,182.28)	—	—	—	—	—	—	(52,220,182.28)
Benefits paid	(7,680,142.18)	(14,077,676.94)	—	—	(21,757,819.12)	—	—	—	—	—	—	(21,757,819.12)
Interest cost	13,867,657.00	8,394,771.00	—	—	22,262,428.00	—	88,341.00	—	—	—	88,341.00	22,350,769.00
Raised during the period	—	—	2,253,567.20	68,330,076.81	70,583,644.01	42,222,756.27	381,276.36	168,437.00	170,383,376.82	41,799,020.02	254,954,866.47	325,538,510.48
Released	—	—	(327,417.14)	(742,363.08)	(1,069,780.22)	(47,562,754.59)	(2,101,059.00)	—	(70,641,828.10)	(1,486,126.61)	(121,791,768.30)	(122,861,548.52)
Used	—	—	(2,849,506.12)	(36,986,859.58)	(39,836,365.70)	(97,082,629.74)	—	(306,500.00)	(208,290,882.74)	(39,351,657.54)	(345,031,670.02)	(384,868,035.72)
Transfer to liabilities related to assets classified as held for sale	(18,666,254.33)	(9,667,521.20)	—	—	(28,333,775.53)	—	—	—	—	—	—	(28,333,775.53)
As at 30 September 2013 (unaudited)	409,996,315.47	254,972,975.82	2,582,349.36	87,513,807.42	755,065,448.07	96,275,483.78	22,367,608.36	168,437.00	102,486,322.58	52,599,103.21	273,896,954.93	1,028,962,403.00
Short-term as at 30 September 2013 (unaudited)	15,465,918.80	19,869,401.59	2,582,349.36	86,683,517.73	124,601,187.48	96,275,483.78	—	168,437.00	102,486,322.58	52,599,103.21	251,529,346.57	376,130,534.05
Long-term as at 30 September 2013 (unaudited)	394,530,396.67	235,103,574.23	—	830,289.69	630,464,260.59	—	22,367,608.36	—	—	—	22,367,608.36	652,831,868.95

\* In this provisions category, the Group presents the provision for ash landfills reclamation costs and dismantling costs of the wind turbines acquired as part of the transactions described in note 21.

The Group establishes provisions for post-employment benefits and jubilee bonuses in amounts calculated using actuarial methods. The amount of provisions recognised in these financial statements derives from the projection of provisions as at 30 September 2013, carried out by an independent actuary. The projection was based on the previously calculated amounts of provisions as at 31 December 2012 and based on the main assumptions used as at that date, except the discount rate. The discount rate applied for the projections of the provisions as at 30 September 2013 was applied at the level of 4.64% (31 December 2012: 3.80%).

In the current reporting period, the Group raised a provision for compensation to employees of operating and investment companies in connection with the restructuring activities undertaken in this area (see description in note 23.5). The relevant provision of PLN 66.7 m was recognized in restructuring provisions.

Accounting principles (policy) and additional explanatory notes to the condensed interim consolidated financial statements constitute an integral part thereof



**ENERGA SA Group**  
**Condensed Interim Consolidated Financial Statements (Continued)**  
**as at and for the period of 9 months ended 30 September 2013 (in PLN)**

**15. Provisions (Continued)**

	Post-employment benefits	Jubilee bonuses	Employee matters	Restructuring provision	Total provisions for employee benefit	Legal claims	For reclamation and decommissioning costs of property, plant and equipment	Provision for liabilities for gas emissions	Provision for redemption of energy certificates of origin	Other provisions	Total other provisions	Total
<b>As at 1 January 2012</b>	<b>475,087,202.42</b>	<b>217,784,884.20</b>	<b>3,115,187.49</b>	<b>64,142,658.71</b>	<b>760,129,932.82</b>	<b>76,770,794.37</b>	<b>4,754,360.00</b>	<b>31,014,512.89</b>	<b>268,647,396.17</b>	<b>37,264,442.79</b>	<b>418,451,506.22</b>	<b>1,178,581,439.04</b>
Current service cost	24,646,880.31	14,312,153.32	—	—	38,959,033.63	—	—	—	—	—	—	38,959,033.63
Actuarial gains and losses	54,627,953.64	10,743,115.89	—	—	65,371,069.53	—	—	—	—	—	—	65,371,069.53
Benefits paid	(10,112,152.39)	(11,899,997.48)	—	—	(22,012,149.87)	—	—	—	—	—	—	(22,012,149.87)
Interest cost	18,885,283.07	7,988,875.37	—	—	26,874,158.44	—	—	—	—	—	—	26,874,158.44
Raised during the period	—	—	121,952.00	13,906,303.91	14,028,255.91	29,851,646.88	—	—	511,594,300.70	68,534,094.52	609,980,042.10	624,008,298.01
Released	—	—	(1,034,847.72)	(7,355,090.26)	(8,389,937.98)	(17,669,407.84)	—	(44,858.41)	(2,907,578.74)	(1,013,422.76)	(21,635,267.75)	(30,025,205.73)
Used	—	—	(628,079.31)	(47,598,490.36)	(48,226,569.67)	(1,002,108.28)	—	(30,665,654.48)	(651,677,729.41)	(29,629,865.56)	(712,975,357.73)	(761,201,927.40)
Other	—	—	—	—	—	—	—	—	—	4,145,758.84	4,145,758.84	4,145,758.84
<b>As at 30 September 2012 (unaudited) (restated)</b>	<b>563,135,167.05</b>	<b>238,929,031.30</b>	<b>1,574,212.46</b>	<b>23,095,382.00</b>	<b>826,733,792.81</b>	<b>87,950,925.13</b>	<b>4,754,360.00</b>	<b>304,000.00</b>	<b>125,656,388.72</b>	<b>79,301,007.83</b>	<b>297,966,681.68</b>	<b>1,124,700,474.49</b>
<b>Short-term as at 30 September 2012 (unaudited) (restated)</b>	<b>71,319,927.82</b>	<b>34,767,618.24</b>	<b>1,574,212.46</b>	<b>21,878,121.00</b>	<b>129,539,879.52</b>	<b>87,950,925.13</b>	<b>—</b>	<b>304,000.00</b>	<b>125,656,388.72</b>	<b>79,301,007.83</b>	<b>293,212,321.68</b>	<b>422,752,201.20</b>
<b>Long-term as at 30 September 2012 (unaudited) (restated)</b>	<b>491,815,239.23</b>	<b>204,161,413.06</b>	<b>—</b>	<b>1,217,261.00</b>	<b>697,193,913.29</b>	<b>—</b>	<b>4,754,360.00</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>4,754,360.00</b>	<b>701,948,273.29</b>

Accounting principles (policy) and additional explanatory notes to the condensed interim consolidated financial statements constitute an integral part thereof

**ENERGA SA Group**  
**Condensed Interim Consolidated Financial Statements (Continued)**  
**as at and for the period of 9 months ended 30 September 2013 (in PLN)**

**16. Assets classified as held for sale**

The Group has taken steps to sell shares in the following subsidiaries operating as supporting services providers for the Distribution System Operator business (ENERGA—OPERATOR SA), i.e. design and specialized power construction and the production of power devices: Przedsiębiorstwo Budownictwa Elektroenergetycznego “ENBUD” Słupsk Sp. z o.o., Zakład Budownictwa Energetycznego Sp. z o.o., ZEP—Centrum Wykonawstwa Specjalistycznego Sp. z o.o., Energetyka Kaliska—Usługi Techniczne Sp. z o.o., ENERGA—OPERATOR Produkcja Sp. z o.o., Przedsiębiorstwo Wielobranżowe Energetyki “ELEKTROINSTAL” Sp. z o.o., ENERGA—OPERATOR Projektowanie Sp. z o.o., ENERGETYK Sp. z o.o. in liquidation.

Currently the Group is in search of prospective buyers for shares in those entities. The Group expects that the sales process will be completed in the next 12 months. Consequently, all the assets and liabilities of these entities were presented in the condensed interim consolidated statement of financial position as held for sale.

Oświetlenie Uliczne i Drogowe Sp. z o.o. (OUiD) submitted a proposal to repurchase its shares held by ENERGA SA for purposes of their redemption. Price negotiations are closed and drafts of resolutions of the Ordinary General Meeting and of the share purchase agreement have been agreed. On 26 June 2013 during the Ordinary General Meeting of Oświetlenie Uliczne i Drogowe Sp. z o.o. resolutions authorizing purchases against payment of its own shares from ENERGA SA for purposes of their further redemption were adopted. Such resolutions pave the way for an effective sale of OUiD shares by ENERGA SA. The a/m shares are expected to be sold in the fourth quarter of 2013.

The Group also presents a part of the assets of Międzynarodowe Centrum Szkolenia Energetyki Sp. z o.o. (hotel and recreation and leisure facilities) as assets held for sale.

**ENERGA SA Group**  
**Condensed Interim Consolidated Financial Statements (Continued)**  
**as at and for the period of 9 months ended 30 September 2013 (in PLN)**

**16. Assets classified as held for sale (Continued)**

Main categories of assets and liabilities making up the activities classified as held for sale as at the reporting date are presented in the following table:

<u>Title</u>	<u>As at 30 September 2013 (unaudited)</u>	<u>As at 31 December 2012</u>
<b>ASSETS</b>		
Property, plant and equipment . . . . .	35,813,706.51	7,194,926.10
Investment property . . . . .	729,399.25	2,306,329.20
Intangible assets . . . . .	501,893.49	666,529.07
Deferred tax assets . . . . .	5,347,957.70	—
Other non-current assets . . . . .	1,922,704.11	—
Inventories . . . . .	19,478,215.58	—
Current tax assets . . . . .	1,867,779.82	—
Trade receivables and other financial receivables . . . . .	8,275,970.52	—
Other investments . . . . .	20,500,111.40	—
Deposits . . . . .	63,000.00	—
Cash and cash equivalents . . . . .	46,411,209.86	—
Other current assets . . . . .	1,904,085.49	—
<b>Assets classified as held for sale . . . . .</b>	<b><u>142,816,033.73</u></b>	<b><u>10,167,784.37</u></b>
<b>LIABILITIES</b>		
Non-current provisions . . . . .	26,960,858.00	—
Deferred tax liabilities . . . . .	458,967.52	—
Trade and other non-current financial liabilities . . . . .	76,831.51	—
Finance lease liabilities . . . . .	586,427.72	—
Trade and other financial liabilities . . . . .	25,889,297.88	—
Accruals . . . . .	3,165,152.49	—
Provisions . . . . .	1,624,848.88	—
Other current liabilities . . . . .	8,597,619.77	—
<b>Liabilities related to assets classified as held for sale . . . . .</b>	<b><u>67,360,003.77</u></b>	<b><u>—</u></b>

**17. Investment commitments**

**Distribution System Operator Commitments**

The development plan for the subsidiary ENERGA OPERATOR SA, as agreed with the President of the Energy Regulatory Office provides for capital expenditures for the years 2013 - 2015 in the amounts of respectively: 2013—PLN 1,209.8 m, 2014—PLN 1,135.6 m, 2015—PLN 1,109.1 m (fixed prices of 2010). By 30 September 2013, realised capital expenditures reached PLN 863.4 m.

**The development of the heat & power system in Ostrołęka**

Following the 2009 acquisition of shares in ENERGA OPEC Sp.z o.o. (formerly Ostrołęckie Przedsiębiorstwo Energetyki Ciepłej Sp. z o.o.) ENERGA SA and ENERGA Elektrownie Ostrołęka SA agreed to proceed with an investment program for the development of the heat and power system in the area of the city of Ostrołęka (at least PLN 320 m within 10 years).

By 30 September 2013, total expenditures for the development of the distribution network and the production of heat energy in Ostrołęka amounted to PLN 98.5 m.

---

Accounting principles (policy) and additional explanatory notes to the condensed interim consolidated financial statements constitute an integral part thereof

**ENERGA SA Group**  
**Condensed Interim Consolidated Financial Statements (Continued)**  
**as at and for the period of 9 months ended 30 September 2013 (in PLN)**

**17. Investment commitments (Continued)**

**Redevelopment of the heating network of ENERGA OPEC Sp. z o.o.**

In 2011 the subsidiary ENERGA OPEC Sp. z o.o. entered into an agreement with the National Environment Protection and Water Management Fund in Warsaw for subsidising a project aimed at reducing transmission losses. The project is scheduled for the years 2011 - 2013 and its budgeted total cost is PLN 33.8 m. By 30 September 2013, the company incurred expenditures of PLN 19.0 m for the project.

**“Intervention work” service contract**

The “intervention work” service contract entered into by the subsidiary ENERGA Hydro Sp. z o.o. for PSE S.A. requires modernisation expenditures for Energa Hydro Sp. z o.o. generating units (power plant in Żydowo) in order to assure appropriate parameters of the services. The total expenditures for modernisation within the scope covered by the agreement and planned as at the contract date were PLN 134.3 m. The currently estimated amount of such expenditures is PLN 149.4 m. By 30 September 2013 the total expenditures incurred in relation to the agreement with PSE S.A. reached PLN 139.5 m.

**Investment program of ENERGA Kogeneracja Sp. z o.o.**

The bond issue program for funding the investments of the subsidiary ENERGA Kogeneracja Sp. z o.o. covering the construction of a new power unit and the modernisation of the boiler through implementing a biomass joint combustion option is also classified as an investment commitment. The aggregate planned capital expenditures amount to PLN 224.5 m of which investments of PLN 186.7 m were already made at 30 September 2013.

**Construction of gas—steam power plants in Grudziadz and Gdansk**

The process of construction of the gas—steam power plants in Grudziądz and Gdańsk is handled by special purpose vehicles established in December 2012, Elektrownia CCGT Grudziądz Sp. z o.o. and Elektrownia CCGT Gdańsk Sp. z o.o. The total estimated value of commitments under the contracts concluded by the companies in connection with this investment project is approx. PLN 25.1 m, of which PLN 2.6 m was already expended by 30 September 2013.

**Development of the heat system in Kalisz**

Following the acquisition on 9 April 2013 of 90% of the shares in Ciepło Kaliskie Sp. z o.o. (see Note 21.1), the subsidiary ENERGA Kogeneracja Sp. z o.o. committed to implement an investment programme in the acquired company for an amount of not less than PLN 15 m within 6 years. By 30 September 2013, capital expenditures of PLN 3.8 m were incurred.

**Sales support system**

On 24 June 2013 ENERGA SA signed an agreement for the development and implementation of the sales support system, including billing and customer relationship management systems (CRM, Customer Relationship Management) in the Group. Under such agreement ENERGA SA undertook to incur expenditures for property, plant and equipment and intangible assets for the total amounts of PLN 5.5 m and PLN 63.2 m respectively.

**18. Transactions with related entities**

Transactions with related entities are made based on market prices of goods, products or services delivered resulting from their manufacturing costs.

**ENERGA SA Group**  
**Condensed Interim Consolidated Financial Statements (Continued)**  
**as at and for the period of 9 months ended 30 September 2013 (in PLN)**

**18. Transactions with related entities (Continued)**

**18.1. Transactions with members of Managements Board and Supervisory Boards**

During the reporting period, there were no loans or other transactions with members of the Management Board and of the Supervisory Board of ENERGA SA.

The amount of remuneration paid to members of the Management Boards and Supervisory Boards of ENERGA SA Group companies in the period of nine months ended 30 September 2013 was approximately PLN 26.1 m (of which PLN 2.9 m was paid by the Parent Company).

**18.2. Transactions involving State Treasury companies**

The Group's parent entity is the State Treasury. Accordingly, other State Treasury companies are treated by the Group as related parties. The Group has identified transactions with approximately 30 companies related to the State Treasury with which the Group has the highest turnover. The transactions were concluded in regular business dealings and pertained mainly to the purchase and sale of electricity and property rights, sale of electricity distribution services (including transit), settlements with the transmission system operator in the balancing market, for transmission services, system services and intervention work services and the purchase and transportation of fuel (mainly coal).

<u>As at</u>	<u>Receivables</u>	<u>Liabilities</u>
30 September 2013 (unaudited) . . . . .	65,857,371.60	33,978,682.67
31 December 2012 . . . . .	146,539,832.34	39,188,891.50
<u>Period</u>	<u>Sales</u>	<u>Purchases</u>
Nine-month period ended 30 September 2013 (unaudited) . . . . .	802,063,529.42	1,931,631,209.55
Nine-month period ended 30 September 2012 (unaudited) . . . . .	840,800,925.62	916,917,573.81

Moreover, in the current reporting period, the subsidiary ENERGA—OPERATOR SA paid to PSE S.A. the amount of PLN 95.5 m in settlements of the dispute described in note 23.6.

**18.3. Transactions with associates**

<u>Nine-month period ended 30 September 2013 or as at 30 June 2013 (unaudited)</u>	<u>Sales</u>	<u>Purchases</u>	<u>Receivables</u>	<u>Liabilities</u>
Soen Sp. z o.o. . . . .	283,760.27	2,786,619.27	18,311.99	247,508.73
Slupskie Towarzystwo Koszykówki Sportowa Spółka Akcyjna . . . . .	—	2,240,000.00	—	—
Oświetlenie Uliczne i Drogowe Sp. z o.o. . . . .	11,888,932.21	—	6,355,706.97	581,887.03
<b>Total . . . . .</b>	<b><u>12,172,692.48</u></b>	<b><u>5,026,619.27</u></b>	<b><u>6,374,018.96</u></b>	<b><u>829,395.76</u></b>

As at the end of the reporting period there were no material overdue receivables or liabilities under transactions with associates.

**ENERGA SA Group**  
**Condensed Interim Consolidated Financial Statements (Continued)**  
**as at and for the period of 9 months ended 30 September 2013 (in PLN)**

**19. Financial instruments**

**19.1. Carrying value of financial instruments by category and class**

<u>Title</u>	<u>As at 30 September 2013</u> (unaudited)	<u>As at 31 December 2012</u>
<b>Classes of financial instruments</b>		
Deposits . . . . .	20,418,869.09	26,783,927.04
Bonds, treasury bills and other debt instruments . . . . .	14,728,307.72	27,107,314.83
(Non-consolidated) shareholdings . . . . .	1,340,679.81	2,830,952.87
Trade and other receivables . . . . .	1,274,650,665.39	1,520,667,537.25
Cash and cash equivalents, including: . . . . .	2,306,821,576.42	2,069,058,235.48
Units of participation in the ENERGA Trading SFIO fund . . . . .	669,580,894.50	705,911,173.67
Other financial assets . . . . .	17,216,833.84	954,119.81
Receivables from sale of property, plant & equipment and intangible assets . . . . .	2,214,879.90	2,515,934.75
Other financial assets . . . . .	—	3,969,018.10
Hedging derivatives (assets) . . . . .	50,368,796.18	—
<b>Total assets . . . . .</b>	<b><u>3,687,760,608.35</u></b>	<b><u>3,653,887,040.13</u></b>
Preferential loans and borrowings . . . . .	959,415,279.77	996,129,192.30
Loans and borrowings . . . . .	1,136,317,153.48	1,393,617,506.73
Current account overdraft . . . . .	—	26,030,109.32
Bonds issued . . . . .	3,205,963,581.82	1,079,219,213.53
Trade and other payables . . . . .	717,956,889.10	709,782,931.25
Other financial liabilities . . . . .	17,002,240.46	26,615,105.83
Liabilities from purchase of property, plant & equipment and intangible assets . . . . .	48,039,394.21	139,033,963.05
<b>Total liabilities . . . . .</b>	<b><u>6,084,694,538.84</u></b>	<b><u>4,370,428,022.01</u></b>
<b>Categories of financial instruments</b>		
Financial assets measured at fair value through profit or loss . . . . .	2,308,162,256.23	2,075,858,206.45
Investments held to maturity . . . . .	35,147,176.81	53,891,241.87
Loans and receivables . . . . .	1,294,082,379.13	1,524,137,591.81
Hedging derivatives . . . . .	50,368,796.18	—
<b>Total assets . . . . .</b>	<b><u>3,687,760,608.35</u></b>	<b><u>3,653,887,040.13</u></b>
Financial liabilities measured at fair value through profit or loss . . . . .	—	—
Financial liabilities measured at amortised cost . . . . .	6,084,694,538.84	4,370,428,022.01
<b>Total liabilities . . . . .</b>	<b><u>6,084,694,538.84</u></b>	<b><u>4,370,428,022.01</u></b>

**19.2. Fair value of financial instruments**

The book value of the following financial assets and liabilities:

- financial assets and liabilities measured at fair value through profit or loss,
- investments held-to-maturity, based on variable interest rates,
- hedge derivatives,
- loans granted, receivables and other financial liabilities,

---

Accounting principles (policy) and additional explanatory notes to the condensed interim consolidated financial statements constitute an integral part thereof



**ENERGA SA Group**  
**Condensed Interim Consolidated Financial Statements (Continued)**  
**as at and for the period of 9 months ended 30 September 2013 (in PLN)**

**19. Financial instruments (Continued)**

is a reasonable approximation of their fair value.

For non-listed shares and debt securities there is no active market, nor is it possible to apply to them any other valuation techniques providing reasonable output values, therefore the Group is not able to determine the range of their possible fair values. These assets are measured at cost less impairment write-offs.

The table below analyses fair value measurements for financial assets and financial liabilities categorised into three level hierarchy:

- level 1—fair value based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- level 2—fair value based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly;
- level 3—fair value based on unobservable inputs for the asset or liability.

<u>Title</u>	As at 30 September 2013		
	Level 1	Level 2	Level 3
		(unaudited)	
<b>Assets</b>			
Units of participation in the ENERGA Trading SFIO fund . . . . .	—	669,580,894.50	—
Hedging derivatives (CCIRS) . . . . .	—	50,368,796.18	—

The value of participation units in the ENERGA Trading SFIO fund is measured as the product of their quantity and the value of a single participation unit. Measurement is made by the fund management company in accordance with the Act on investment funds of 27 May 2004.

Cross Currency Interest Rate Swaps (CCIRSs) are measured at fair value by discounting future cash flows separately for each currency. Interest rates for each currency and basis spread used in discounting are obtained from Bloomberg.

During the reporting period no significant changes in the financial risk management policy were introduced except for hedge accounting, as described in note 19.6.

**19.3. Loans and borrowings**

	As at 30 September 2013	
	(unaudited)	
<b>Currency</b> . . . . .	PLN	
<b>Reference Rate</b> . . . . .	WIBOR, Rediscount rate	
<b>Value of the loan/ borrowing</b> . . . . .	<b>2,095,732,433.25</b>	
<b>Of which, repayable:</b>		
up to 1 year (short-term) . . . . .	283,425,789.58	
1 to 2 years . . . . .	265,256,812.99	
2 to 3 years . . . . .	333,126,451.03	
3 to 5 years . . . . .	441,764,530.58	
over 5 years . . . . .	772,158,849.07	

Detailed information on contracted external financing is set out in Note 23.2.

**ENERGA SA Group**  
**Condensed Interim Consolidated Financial Statements (Continued)**  
as at and for the period of 9 months ended 30 September 2013 (in PLN)

**19. Financial instruments (Continued)**

**19.4. Liabilities under notes issued**

	As at 30 September 2013	
	(unaudited)	
Currency . . . . .	PLN	EUR
Reference Rate . . . . .	WIBOR	fixed
<b>Value of the issue</b>		
in currency . . . . .	1,074,761,452.81	505,467,383.49
in PLN . . . . .	1,074,761,452.81	2,131,202,129.01
<b>of which, repayable:</b>		
up to 1 year (short-term) . . . . .	13,834,966.05	37,063,774.06
1 to 2 years . . . . .	7,355,552.02	—
2 to 3 years . . . . .	7,432,616.02	—
3 to 5 years . . . . .	14,735,223.94	—
over 5 years . . . . .	1,031,403,094.78	2,094,138,354.95

Detailed information on issued notes is set out in Note 23.2.

**19.5. Liability repayment collateral**

As at the reporting date assets with the following carrying amounts constituted collateral for the repayment of actual or contingent liabilities:

<u>Group of assets on which collateral was established</u>	<u>30 September 2013</u>	<u>31 December 2012</u>
	(unaudited)	
Property, plant and equipment . . . . .	50,853,301.50	78,417,217.14
Receivables . . . . .	—	300,000.00
Inventories . . . . .	2,438,738.65	25,302,771.93
Cash . . . . .	154,948,615.43	130,438,152.99
<b>Total assets securing repayment of financial liabilities . . . . .</b>	<b><u>208,240,655.58</u></b>	<b><u>234,458,142.06</u></b>

**19.6. Cash flow hedge accounting**

The special purpose vehicle ENERGA Finance AB (publ) (the issuer of Eurobonds—see description in Note 23.2) and ENERGA SA signed two loan agreements denominated in EUR for the total amount of EUR 499 m. In order to hedge the currency risk under such loans, the Group concluded CCIRS transactions.

As a hedged position under the above hedging relationship the Group designates, the foreign currency risk arising from intra-group loans denominated in EUR. The foreign currency risk is hedged at the level of 80% of the total nominal amount of loans.

As the hedge the Group designated CCIRS transactions under which the Group receives fixed-rate cash flows in EUR and pays fixed-rate cash flows in PLN. Cash flows received by the Group correspond with the cash flows under the intra-group loans. The Group expects that the hedged cash flows will continue until March 2020.

The fair value of the hedge at 30 September 2013 was PLN 50.4 m.

Under the cash flow hedge accounting the Group recognised PLN 28.3 m during the reporting period in the revaluation reserve (the effective portion of changes in the value of the hedge less deferred tax).

---

Accounting principles (policy) and additional explanatory notes to the condensed interim consolidated financial statements constitute an integral part thereof

**ENERGA SA Group**  
**Condensed Interim Consolidated Financial Statements (Continued)**  
**as at and for the period of 9 months ended 30 September 2013 (in PLN)**

**19. Financial instruments (Continued)**

The table below presents changes in the balance of the revaluation reserve resulting from the hedge accounting in the reporting period:

<u>Changes in the cash flow hedge reserve within the reporting period</u>	<u>Nine-month period ended 30 September 2013 (unaudited)</u>
<b>Opening balance</b> . . . . .	—
Amount recognised in the cash flow hedge reserve during the period, equal to the change in the fair value of hedge instruments . . . . .	50,368,796.18
Accrued interest transferred from the reserve to the interest expense . . . . .	(4,144,170.26)
Revaluation of hedging instruments transferred from the equity to foreign exchange (gains)/losses . . . . .	(11,320,000.00)
Income tax on other comprehensive income . . . . .	(6,631,878.92)
The ineffective portion of changes in the valuation of hedge instruments transferred from equity to profit or loss on financial instruments held for trading . . . . .	—
<b>Closing balance (unaudited)</b> . . . . .	<b><u>28,272,747.00</u></b>

As at 30 September 2013, there was no ineffectiveness identified resulting from the applied cash flow hedge accounting.

**20. Contingent assets and liabilities**

**20.1. Contingent liabilities and other security granted**

Contingent liabilities and other securities granted as at the reporting date are presented in the table below:

<u>Title</u>	<u>As at 30 September 2013 (unaudited)</u>	<u>As at 31 December 2012 (restated)</u>
<b>Contingent liabilities</b>		
legal claims . . . . .	147,378,172.54	144,065,627.81
other . . . . .	13,454,360.21	13,440,666.74
<b>Other security</b>		
guarantees . . . . .	5,746,701,686.14	476,787,827.79
sureties . . . . .	512,586,875.59	8,585,220.00
bills of exchange . . . . .	80,813,351.52	78,815,097.09
joint and several liability of ENERGA SA for the financial liabilities of Energa Group companies . . . . .	<u>196,468,433.22</u>	<u>185,867,338.49</u>
<b>Total</b> . . . . .	<b><u>6,697,402,879.22</u></b>	<b><u>907,561,777.92</u></b>

As at 30 September 2013, the Group reported mainly the following items as guarantees:

- guarantees issued by the banks acting on behalf of ENERGA—OBRÓT SA to business partners to cover liabilities under contracted trade agreements up to PLN 450 m;
- guarantee granted by ENERGA SA for the liabilities of Energa Finance AB (publ) under the Eurobonds issued for up to EUR 1,250 m.

In the current reporting period ENERGA SA granted to ENERGA—OBRÓT SA a surety for up to PLN 500 m for the obligations arising from the trade agreement.

---

Accounting principles (policy) and additional explanatory notes to the condensed interim consolidated financial statements constitute an integral part thereof

**ENERGA SA Group**  
**Condensed Interim Consolidated Financial Statements (Continued)**  
**as at and for the period of 9 months ended 30 September 2013 (in PLN)**

**20. Contingent assets and liabilities (Continued)**

In addition, other security granted by the Group disclosed as at 30 September 2013 include:

- sureties granted by ENERGA—OBRÓT SA for the obligations of ENERGA Slovakia s.r.o. arising from signed trade agreements;
- joint and several liability obligations of ENERGA SA for the financial liabilities incurred by the Group companies under loan agreements and agreements for the guarantees described in Note 23.2;

which were not disclosed in the financial statements for the comparative period. The comparative information presented in the table above has been restated accordingly.

**20.2. Contingent assets**

In 2011, the Group recognised a contingent asset in association with the dispute described in note 23.6. As at 30 September 2013, this asset has a carrying value of PLN 27.9 m.

**21. Business combinations and acquisitions**

**21.1. Acquisition of shares in Ciepło Kaliskie Sp. z o.o.**

On 9 April 2013 the subsidiary ENERGA Kogeneracja Sp. z o.o. signed an agreement with the City of Kalisz to acquire a 90% stake in Ciepło Kaliskie Sp. z o.o. which manages an integrated heat distribution system in Kalisz and has a natural monopoly position on the market.

**Fair value of acquired assets and liabilities as at the date of acquisition**

<u>Title</u>	<u>Fair value at the acquisition date</u> (unaudited)
<b>ASSETS</b>	
Property, plant and equipment . . . . .	38,390,753.40
Intangible assets . . . . .	1,340.13
Trade receivables and other financial receivables . . . . .	209,201.43
Cash and cash equivalents . . . . .	2,355,670.66
Other current assets . . . . .	54,858.96
<b>TOTAL ASSETS . . . . .</b>	<b><u>41,011,824.58</u></b>
<b>LIABILITIES</b>	
Deferred income and non-current government grants . . . . .	1,709,594.30
Trade and other financial liabilities . . . . .	81,147.32
Other current liabilities . . . . .	202,427.34
<b>TOTAL LIABILITIES . . . . .</b>	<b><u>1,993,168.96</u></b>
<b>Identifiable net assets at fair value . . . . .</b>	<b><u>39,018,655.62</u></b>

---

Accounting principles (policy) and additional explanatory notes to the condensed interim consolidated financial statements constitute an integral part thereof

**ENERGA SA Group**  
**Condensed Interim Consolidated Financial Statements (Continued)**  
**as at and for the period of 9 months ended 30 September 2013 (in PLN)**

**21. Business combinations and acquisitions (Continued)**

**Goodwill recognised as a result of acquisition**

<u>Title</u>	<u>Value at the acquisition date</u> (unaudited)
Identifiable net assets at fair value . . . . .	(39,018,655.62)
Non-controlling interests based on their proportionate interest in the recognised amounts of the net assets of the acquired entity . . . . .	4,721,257.33
Purchase price . . . . .	45,743,925.00
<b>Goodwill . . . . .</b>	<b><u>11,446,526.71</u></b>

The recognised goodwill results from the synergies and benefits expected from the combination of assets and operations of Ciepło Kaliskie Sp. z o.o. with the operations of the Group.

**Cash outflows in relation to the acquisition**

<u>Title</u>	<u>Nine-month period ended</u> <u>30 September 2013</u> (unaudited)
Expenses related to the acquisition of shares . . . . .	(46,210,836.00)
Cash and cash equivalents acquired . . . . .	2,355,670.66
<b>Acquisition, net of cash acquired . . . . .</b>	<b><u>(43,855,165.34)</u></b>

**Impact of acquisitions on the Group results**

In the period from the acquisition date, the contribution of Ciepło Kaliskie Sp. z o.o. to the Group's revenues and pre-tax profit was PLN 1,052 thousand and PLN (442) thousand, respectively. If the combination had occurred as at the beginning of the year, the revenues from the continued operations would have amounted to PLN 8,538 m and the profit on continued operations would have amounted to PLN 603.0 m.

**Acquisition-related costs**

Acquisition-related transaction costs incurred by the Group amounted to PLN 467 thousand and were recognised to the income statement as financial costs.

**21.2. Acquisition of Dong Energy Wind Power A/S wind assets**

On 19 February 2013 ENERGA Hydro Sp. z o.o. signed a preliminary purchase agreement for up to 100% of the shares in the companies making up the on-shore wind assets of Dong Energy Wind Power A/S in Poland as part of a consortium with the partner, Polska Grupa Energetyczna SA ("PGE"). The condition precedent to the transaction was obtaining, by way of a decision of the President of the Competition and Consumer Protection Office ("CCPO"), of consent for the concentration. CCPO's favourable decision was issued on 4 June 2013.

On 28 June 2013 the final sale agreement was entered into as a result of which the subsidiary ENERGA Hydro Sp. z o.o. acquired:

- 100% of the shares in Dong Energy Karcino Sp. z o.o. (currently EPW Karcino Sp. z o.o.),
- 100% of the shares in Dong Energy Tuszyny Sp. z o.o. (currently EPW 1 Sp. z o.o.),
- 100% of the shares in Dong Energy Pancierzyn Sp. z o.o. (currently EPW 3 Sp. z o.o.),

---

Accounting principles (policy) and additional explanatory notes to the condensed interim consolidated financial statements constitute an integral part thereof

**ENERGA SA Group**  
**Condensed Interim Consolidated Financial Statements (Continued)**  
**as at and for the period of 9 months ended 30 September 2013 (in PLN)**

**21. Business combinations and acquisitions (Continued)**

- 100% of the shares in Dong Energy Gąsiorowo Sp. z o.o. (currently EPW 2 Sp. z o.o.),
- 100% of the shares in Dong Energy 3 Sp. z o.o. (currently EPW Parsówek Sp. z o.o.),
- 19% of the shares in Dong Energy Olecko Sp. z o.o. (currently EPW Energia Olecko Sp. z o.o.).

After the acquisition of the foregoing entities ENERGA Group holds one active 51 MW wind farm and a portfolio of wind projects at different stages of development with an aggregate capacity of approximately 220 MW.

In the case of EPW Energia Olecko Sp. z o.o., a process has begun aimed at dividing assets of this company between ENERGA Hydro Sp. z o.o. and PGE, as a result of which ENERGA Hydro Sp. z o.o. would acquire a wind farm project in Kętrzyn. The assets will be divided by splitting EPW Energia Olecko Sp. z o.o. and spinning off the part of its assets to be transferred to ENERGA Hydro Sp. z o.o., which is planned for the turn of 2013 and 2014. In these financial statements part of the entity where the investment was made (called a “silo”) is consolidated. Based on the approach described above, the company branch established for the wind farm project taken over by ENERGA Hydro Sp. z o.o., i.e. EPW Energia Olecko Sp. z o.o. “Kętrzyn” Branch Pruszcz Gdański was identified as the part of EPW Energia Olecko Sp. z o.o. controlled by the Group. On 25 September 2013, the spin-off plan was concluded according to which EPW 1 Sp. z o.o. will take over the above mentioned branch of EPW Energia Olecko Sp. z o.o.

**Fair value of acquired assets and liabilities as at the date of acquisition**

As a result of the analyses and valuations of acquired assets and liabilities carried out in Q3 2013, the fair value of identifiable assets, liabilities and contingent liabilities of the acquired entities was determined.

Title	DONG Energy Karcino Sp. z o.o. (unaudited)	Other acquired companies (unaudited)	Total
<b>ASSETS</b>			
Property, plant and equipment . . . . .	277,467,140.00	65,640,000.00	343,107,140.00
Intangible assets . . . . .	2,700,800.00	1,100.00	2,701,900.00
Deferred tax assets . . . . .	3,245,240.46	—	3,245,240.46
Other non-current assets . . . . .	400,637.41	472,327.85	872,965.26
Inventories . . . . .	3,863,647.75	—	3,863,647.75
Trade receivables and other financial receivables . .	1,988,180.90	—	1,988,180.90
Cash and cash equivalents . . . . .	3,513,591.28	7,915,788.01	11,429,379.29
Other current assets . . . . .	2,695,530.55	1,970,511.54	4,666,042.09
<b>TOTAL ASSETS</b> . . . . .	<b>295,874,768.35</b>	<b>75,999,727.40</b>	<b>371,874,495.75</b>
<b>LIABILITIES</b>			
Non-current provisions . . . . .	3,300,000.00	—	3,300,000.00
Deferred tax liabilities . . . . .	2,255,172.87	—	2,255,172.87
Trade and other financial liabilities . . . . .	1,253,060.93	721,205.59	1,974,266.52
Current loans and borrowings . . . . .	196,003,220.07	868,259.37	196,871,479.44
Other current liabilities . . . . .	34,015.44	1,684.00	35,699.44
<b>TOTAL LIABILITIES</b> . . . . .	<b>202,845,469.31</b>	<b>1,591,148.96</b>	<b>204,436,618.27</b>
<b>Identifiable net assets</b> . . . . .	<b>93,029,299.04</b>	<b>74,408,578.44</b>	<b>167,437,877.48</b>

Accounting principles (policy) and additional explanatory notes to the condensed interim consolidated financial statements constitute an integral part thereof



**ENERGA SA Group**  
**Condensed Interim Consolidated Financial Statements (Continued)**  
**as at and for the period of 9 months ended 30 September 2013 (in PLN)**

**21. Business combinations and acquisitions (Continued)**

**Bargain purchase gains arising from the acquisition**

In order to settle the wind assets acquisition transaction from Dong Energy Wind Power A/S, an analysis was conducted to determine which of the transactions should be classified as an acquisition of a business. It has been determined that the definition of a business is satisfied by the operational wind farm in Karcino, while the acquisition of the wind farm project portfolio should be classified as an acquisition of assets and liabilities. For the purposes of settling the asset acquisition transaction, the purchase price was allocated to the individual identifiable assets and liabilities at the amount of their fair value on the date of the acquisition. The remaining part of the purchase price was allocated to the operational wind farm in Karcino.

The transaction was settled on 9 September 2013 with the total purchase price of PLN 149,531 thousand.

<u>Title</u>	<u>DONG Energy Karcino Sp. z o.o.</u>	<u>Other acquired companies</u>	<u>Total</u>
	(unaudited)	(unaudited)	
Identifiable net assets . . . . .	(93,029,299.04)	(74,408,578.44)	(167,437,877.48)
Purchase price . . . . .	—	—	149,531,189.69
<b>Gain on bargain purchase . . . . .</b>	<b>—</b>	<b>—</b>	<b>17,906,687.79</b>

The bargain purchase gain recognized resulted from the recognition of the higher value of the purchased wind projects. Some of the acquired wind projects had higher capacity and higher wind parameters of the area than those assumed when the transaction was priced.

The bargain purchase gains were recognised in the profit and loss account as other operating income.

**Cash outflows in relation to the acquisition**

<u>Title</u>	<u>DONG Energy Karcino Sp. z o.o.</u>	<u>Other acquired companies</u>	<u>Total</u>
	(unaudited)	(unaudited)	
Expenses related to the acquisition of shares . . . . .	(158,253,786.41)		(158,253,786.41)
Cash and cash equivalents acquired . . . . .	3,513,591.28	7,915,788.01	11,429,379.29
<b>Acquisition, net of cash acquired . . . . .</b>			<b>(146,824,407.12)</b>

**Impact of acquisitions on the Group results**

In the period from the acquisition date, the contribution of acquired entities to the Group's revenues and pre-tax profit was PLN 6,423 thousand and PLN (3,026) thousand, respectively. If the combination had occurred as at the beginning of the year, the revenues from the continued operations would have amounted to PLN 8,550 m and the profit on the Group's continued operations would have amounted to PLN 596.8 m.

**Acquisition-related costs**

Acquisition-related transaction costs incurred by the Group by 30 September 2013 amounted to approximately PLN 8.72 m and were recognised in the profit and loss account as financial costs.

**Items that are not part of the consideration paid for the acquired entity**

Under the contractual arrangements relating to the acquisition of the shares, ENERGA Hydro Sp. z o.o. committed to pay the obligations of the acquired entities to Dong Energy Wind Power A/S (the seller). The

---

Accounting principles (policy) and additional explanatory notes to the condensed interim consolidated financial statements constitute an integral part thereof

**ENERGA SA Group**  
**Condensed Interim Consolidated Financial Statements (Continued)**  
**as at and for the period of 9 months ended 30 September 2013 (in PLN)**

**21. Business combinations and acquisitions (Continued)**

final aggregated payments of PLN 196.9 m in the above transaction were made on 28 June and 9 September 2013.

**21.3. Acquisition of shares in Iberdrola Renewables Polska Sp. z o.o. (currently EPW Energia Sp. z o.o.)**

On 26 February 2013, the subsidiary ENERGA Hydro Sp. z o.o. signed the preliminary purchase agreement for a 75% stake in Iberdrola Renewables Polska Sp. z o.o. (“Iberdrola”) acting in a consortium with the partner, PGE, while it announced its intention to purchase the remaining 25% stake held by a minority shareholder, EBRD. On 21 June 2013 ENERGA Hydro Sp. z o.o. together with PGE signed a preliminary agreement for the acquisition from EBRD of the 25% stake in Iberdrola.

The condition precedent to the transaction was obtaining, by way of a decision of the Competition and Consumer Protection Office (“CCPO”), of consent for the concentration. CCPO’s favourable decision was issued on 4 June 2013.

On 31 July 2013, the subsidiary ENERGA Hydro Sp. z o.o. together with PGE signed the final agreements for the acquisition of shares in Iberdrola. In this transaction, ENERGA Hydro Sp. z o.o. and PGE S.A. became owners of respectively: 67.3% and 32.7% of shares in the acquired company. On 9 September 2013, the name Iberdrola was changed to EPW Energia Sp. z o.o. (“EPW Energia”).

According to the arrangements between the parties, a process aimed at dividing EPW Energia’s assets between ENERGA Hydro Sp. z o.o. and PGE has begun, as a result of which ENERGA Hydro Sp. z o.o. will become the owner of two operational wind farms with the capacity of 114 MW and a portfolio of wind projects with different progress levels and the aggregated capacity of 1,186 MW. The assets will be divided by splitting Iberdrola by spinning off the parts of its assets to be transferred to PGE, which is planned for 2014.

In these financial statements part of the entity where the investment was made (called a “silo”) is consolidated. Based on the approach described above, the company branches established for the wind farm projects taken over by ENERGA Hydro Sp. z o.o., i.e. EPW Energia Sp. z o.o. Karścino Branch, EPW Energia Sp. z o.o. Bystra Branch and EPW Energia Sp. z o.o. Pruszcz Gdański “Pipeline” Branch were identified as the parts of EPW Energia that are controlled by the Group.

**ENERGA SA Group**  
**Condensed Interim Consolidated Financial Statements (Continued)**  
**as at and for the period of 9 months ended 30 September 2013 (in PLN)**

**21. Business combinations and acquisitions (Continued)**

**Fair value of acquired assets and liabilities as at the date of acquisition**

As a result of the analyses and valuations of acquired assets and liabilities carried out, the fair value of identifiable assets, liabilities and contingent liabilities of the acquired entities was determined.

<u>Title</u>	<u>Fair value at the acquisition date</u> (unaudited)
<b>ASSETS</b>	
Property, plant and equipment . . . . .	661,056,858.06
Intangible assets . . . . .	6,429,700.00
Deferred tax assets . . . . .	36,749,813.94
Other non-current assets . . . . .	2,372,381.60
Inventories . . . . .	13,391,058.48
Trade receivables . . . . .	581,090.08
Cash and cash equivalents . . . . .	20,373,600.69
Other current assets . . . . .	5,655,854.63
<b>TOTAL ASSETS</b> . . . . .	<b><u>746,610,357.48</u></b>
<b>LIABILITIES</b>	
Non-current provisions . . . . .	11,400,000.00
Deferred tax liabilities . . . . .	3,701,603.64
Trade liabilities . . . . .	4,111,147.56
Accruals . . . . .	25,309,627.68
Other current liabilities . . . . .	1,369,316.51
<b>TOTAL LIABILITIES</b> . . . . .	<b><u>45,891,695.39</u></b>
<b>Identifiable net assets</b> . . . . .	<b><u>700,718,662.09</u></b>

**Goodwill recognised as a result of acquisition**

In order to settle the wind assets acquisition transaction from EPW Energia, an analysis was conducted to determine which of the transactions should be classified as acquisition of a business. It has been determined that the definition of a business is satisfied by the operational wind farms in Karścino and Bystra, while the acquisition of the wind farm project portfolio should be classified as an acquisition of assets and liabilities. In order to settle the transaction as an acquisition of assets, the purchase price was allocated to the individual identifiable assets and liabilities at the amount of their fair value on the date of the acquisition. The remaining part of the purchase price was allocated to the operational wind farms in Karścino and Bystra.

On 17 October 2013, the final purchase price was determined based on the actual level of net debt and net working capital of the acquired branches as at the date of the acquisition, i.e. 31 July 2013. The final purchase price was PLN 805,980 thousand.

The calculation of goodwill recognised as a result of the acquisition is presented in the table below.

<u>Title</u>	<u>Value at the acquisition date</u> (unaudited)
Identifiable net assets at fair value . . . . .	(700,718,662.09)
Purchase price . . . . .	805,980,429.36
<b>Goodwill</b> . . . . .	<b><u>105,261,767.27</u></b>

---

Accounting principles (policy) and additional explanatory notes to the condensed interim consolidated financial statements constitute an integral part thereof

**ENERGA SA Group**  
**Condensed Interim Consolidated Financial Statements (Continued)**  
**as at and for the period of 9 months ended 30 September 2013 (in PLN)**

**21. Business combinations and acquisitions (Continued)**

The resulting goodwill is derived from the fact that the Group expects the acquired parts of the entity (branches) to generate cash flows greater than those that could be achieved by selling their component net assets.

**Cash outflows in relation to the acquisition**

<u>Title</u>	<u>Nine-month period ended 30 September 2013</u>
	<u>(unaudited)</u>
Expenses related to the acquisition of shares . . . . .	(819,415,209.56)
Cash and cash equivalents acquired . . . . .	20,373,600.69
<b>Acquisition, net of cash acquired . . . . .</b>	<b><u>(799,041,608.87)</u></b>

**Impact of acquisitions on the Group results**

In the period from the acquisition date, the contribution of acquired entities to the Group's revenues and pre-tax profit was PLN 6,165 thousand and PLN (3,407) thousand, respectively. If the combination had occurred as at the beginning of the year, the revenues from the continued operations would have amounted to PLN 8,578 m and the profit on the Group's continued operations would have amounted to PLN 610.4 m.

**Acquisition-related costs**

Acquisition-related transaction costs incurred by the Group by 30 September 2013 amounted to approximately PLN 15.53 m and were recognised in the profit and loss account as financial costs.

**21.4. Consolidation of the production segment operations**

In connection with the consolidation of the Group's activities in the production sector, the legal merger of the subsidiaries ENERGA Hydro Sp. z o.o. (acquiring company) and ENERGA Bio Sp. z o.o. (acquired company) was completed. The District Court Gdańsk—Północ in Gdańsk issued a decision on registration of the merger on 3 April 2013.

As the above mentioned mergers related to the subsidiaries of ENERGA SA, they did not affect the Group's assets, liabilities, revenues, expenses and cash flows presented in these consolidated financial statements.

**22. Information on subsequent events**

**22.1. Merger plan for ENERGA Hydro Sp. z o.o. and EPW Karcino Sp. z o.o.**

On 3 October 2013, an application to merge the subsidiaries ENERGA Hydro Sp. z o.o. (acquiring company) and Energa Karcino Sp. z o.o. (acquired company) was filed with the District Court Gdańsk—Północ.

**22.2. Employment optimization plan in the sales segment**

The principles for awarding additional retirement awards were introduced in sales segment companies. i.e. ENERGA—OBRÓT SA and ENERGA Obsługa i Sprzedaż Sp. z o.o., in order to optimize employment and also to facilitate voluntary terminations of employment agreements by mutual consent accompanied by payment of additional benefits. As at the date of these financial statements, the Group estimates that the cost of the above employment optimization plan will reach approx. PLN 4 m. The above

---

Accounting principles (policy) and additional explanatory notes to the condensed interim consolidated financial statements constitute an integral part thereof

**ENERGA SA Group**  
**Condensed Interim Consolidated Financial Statements (Continued)**  
**as at and for the period of 9 months ended 30 September 2013 (in PLN)**

**22. Information on subsequent events (Continued)**

principles were announced on 11 October 2013 and therefore the Group did not recognize a provision on this account as at the reporting date.

**22.3. Proceedings initiated by FORTA Sp. z o.o.**

On 3 September 2013 the Extraordinary General Meeting of ENERGA SA adopted, inter alia, the resolution on share capital decrease (the “Resolution on the Share Capital Decrease”) and resolution on determining the series of the company’s shares and amending the Articles of Association (the “Resolution on Preferred Shares”) (see note 23.1). Pursuant to the Resolution on Preferred Shares preference in respect of voting rights of series BB shares was introduced to the Articles of Association. On 16 October 2013, ENERGA SA was served with a statement of claim filed by a shareholder, i.e. FORTA Sp. z o.o. for repealing the Resolution on the Share Capital Decrease and annulment or, alternatively, repealing of the Resolution on Preferred Shares. In response ENERGA SA filed a submission challenging the lawsuit as a whole, pointing out that there are no grounds to repeal the challenged resolutions of the Extraordinary General Meeting of the company or annul them. As at the date of these interim financial statements no date of court hearing has been set.

**23. Other information significantly affecting the assessment of assets, financial position and the financial result of the Group**

**23.1. Reverse split of ENERGA SA shares and reduction of share capital**

On 3 September 2013, the Extraordinary Shareholder Meeting of ENERGA SA adopted a resolution on reverse split of ENERGA SA shares and reduction of the company’s share capital. In the reverse split, the overall number of the company’s shares, of all the series: A, B and C, was reduced pro rata from 4,968,805,368 shares to 414,067,114 shares. The share capital reduction was achieved by reducing the nominal value of all the existing shares in the company from PLN 12 (the new nominal value of shares resulting from the reverse share split) to PLN 10.92 each. The company’s share capital was reduced without any distributions to shareholders, including the State Treasury and resulted in a transfer of equity from share capital to reserve capital.

As a result of the resolutions adopted, as at 30 September 2013, the share capital of ENERGA SA amounts to PLN 4,521,612,884.88 and is divided into shares as specified below:

<u>Title</u>	<u>As at 30 September 2013</u>
Registered shares of AA series with a nominal value of PLN 10,92 each . . . . .	269,139,114
Registered shares of BB series with a nominal value of PLN 10,92 each . . . . .	144,928,000
<b>Total number of shares . . . . .</b>	<b><u>414,067,114</u></b>

The amendments to the company’s articles of association required due to the above resolutions were registered by the Court of Registration on 9 September 2013.

**23.2. Obtaining external funding**

Eurobond issue process

As part of the EMTN medium-term Eurobond issue program for up to EUR1,000 m, on 19 March 2013, the subsidiary Energa Finance AB (publ) proceeded with the first issue of Eurobonds with a nominal value of EUR 500 m. The first issue includes Eurobonds maturing in 7 years and paying an annual coupon of 3.250%.

---

Accounting principles (policy) and additional explanatory notes to the condensed interim consolidated financial statements constitute an integral part thereof

**ENERGA SA Group**  
**Condensed Interim Consolidated Financial Statements (Continued)**  
**as at and for the period of 9 months ended 30 September 2013 (in PLN)**

**23. Other information significantly affecting the assessment of assets, financial position and the financial result of the Group (Continued)**

Loans to finance the investment programme at ENERGA—OPERATOR SA for the years 2009 - 2012

In the years 2009 - 2010 ENERGA SA together with its subsidiary ENERGA—OPERATOR SA entered into loan agreements aimed at financing the investment program of ENERGA—OPERATOR SA for the period 2009 - 2012 associated with the redevelopment and modernisation of the distribution grid:

1. agreement with the European Investment Bank (“EIB”) with the limit of up to PLN 1,050 m;
2. agreement with the European Bank for Reconstruction and Development (“EBRD”) with the limit of up to PLN 800 m;
3. agreement with the Nordic Investment Bank (“NIB”) with the limit of up to PLN 200 m.

The above funding has been fully utilised of which the following amounts are still outstanding and remain to be repaid: to EIB—PLN 998.6 m with the final maturity of 15 December 2025, to EBRD—PLN 712.5 m with the final maturity of 18 December 2021, to NIB—PLN 189.2 m with the final maturity of 15 June 2022.

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

On 26 June ENERGA SA and its subsidiary ENERGA—OPERATOR SA signed the loan agreement with EBRD for the amount of PLN 800 m under which the EBRD will provide PLN 400 m and the remainder will be covered by a consortium of two commercial banks: PKO Bank Polski SA and ING Bank Śląski SA.

Funds received under the agreement will be used to finance the investment programme of ENERGA—OPERATOR SA for the years 2012-2015 which includes development of the distribution network and improvement of its effectiveness, including the implementation of advanced meters, as part of a new “smart grid” solution.

The final repayment date of the loan is 18 December 2024. The loan is unsecured and based on the customary contractual clauses. As at 30 September 2013, the loan was not used.

On 10 July 2013 ENERGA SA and its subsidiary ENERGA—OPERATOR SA signed a financing agreement for PLN 1 bn with the EIB. Funds received under the agreement will be used to finance the investment programme of ENERGA—OPERATOR SA for the years 2012-2015 which assumes, among others, the development of the distribution network and improvement of its effectiveness, including the implementation of advanced meters, as part of a new “smart grid” solution.

The repayment period is 15 years from the date of drawing each tranche. The loan is unsecured and based on the customary contractual clauses. The borrower has the right to choose fixed or variable interest rates and PLN or EUR for individual tranches of the loan on terms and conditions laid down in the agreement.

Domestic bond issue

In 2012 a domestic bond issue program for up to PLN 4,000 m was established. By 30 September 2013, as part of the program ENERGA SA issued 7-year bonds for the total amount of PLN 1,000 m. The issued bonds were introduced into trading on one of Catalyst markets—Alternatywny System Obrotu (ASO) platform operated by BondSpot SA.

On 28 June 2013 the Financial Supervision Authority received a prospectus filed in connection with the intention to apply for admission and introduction of the bonds issued by ENERGA SA to trading on a regulated Catalyst market operated by Giełda Papierów Wartościowych w Warszawie S.A. or BondSpot S.A. Due to the IPO process pending in the company (see description in note 23.3), proceedings in this matter before KNF were suspended.



**ENERGA SA Group**  
**Condensed Interim Consolidated Financial Statements (Continued)**  
**as at and for the period of 9 months ended 30 September 2013 (in PLN)**

**23. Other information significantly affecting the assessment of assets, financial position and the financial result of the Group (Continued)**

Loans from NORDEA Bank Polska SA

In the years 2010-2011 ENERGA SA entered into the following loan agreements with NORDEA Bank Polska SA:

1. investment loan agreement for PLN 100 m for the purchase of bonds issued by ENERGA Hydro Sp. z o.o. in connection with the investments carried out in the modernisation of the pumped-storage power plant in Żydowo. By 30 September 2013, the full amount of PLN 100 m was committed under the loan, of which PLN 85 m remains to be repaid by 7 September 2015.
2. investment loan agreement for PLN 160 m for the purchase of bonds issued by ENERGA Kogeneracja Sp. z o.o. in connection with the investments carried out on the modernisation of the boiler including the implementation of the biomass joint combustion option, on the construction of a straw-based pellet production unit and on the construction of a new power unit. By 30 September 2013 the amount of PLN 134.7 m was committed under the loan, of which PLN 112.2 m remains to be repaid by 16 December 2015.
3. agreement for arranging loans for ENERGA Group's companies with a total limit of PLN 75 m. As at 30 September 2013 financing for PLN 53.8 m was committed of which PLN 14.3 m was actually used. The facilities expire on 29 June 2015.
4. master agreement for bank guarantees for ENERGA Group's companies with a total limit of PLN 10 m. As at 30 September 2013 the limit was used in the amount of PLN 5.8 m. The facilities expire on 15 October 2016.
5. agreement for arranging loans for ENERGA SA with a total limit of PLN 300 m. As at 30 September 2013 the funding limit committed was not used. The facilities expire on 11 October 2016.

Loans from Pekao SA

In the years 2011-2012 ENERGA SA entered into the following loan agreements with Pekao SA:

1. loan agreement with a total limit of PLN 200 m. As at 30 September 2013, the loan was not used. The loan is to be repaid by 12 October 2016;
2. loan agreement in the amount of PLN 85 m to be used to acquire bonds issued by ENERGA Elektrownie Ostrołęka SA in connection with the implementation of the investment program of the company (see Note 17). The aggregate use of the loan as at 30 September 2013 reached PLN 33.0 m. The loan is to be repaid by 29 May 2022.

Loans from PKO Bank Polski SA

In the years 2011-2012 ENERGA SA entered into the following loan agreements with PKO Bank Polski SA:

1. master agreement to extend an overdraft limit to ENERGA SA and its subsidiaries with a total limit of PLN 150 m. As at 30 September 2013 the financing limit for PLN 117.4 m was committed of which PLN 4.4 m was actually used. The facilities expire on 30 August 2016;
2. master agreement to extend an overdraft limit to ENERGA SA and its subsidiaries with a total limit of PLN 200 m. As at 30 September 2013 the financing limit for PLN 8.6 m was committed of which PLN 5.5 m was actually used. The facilities expire on 19 September 2017.

---

Accounting principles (policy) and additional explanatory notes to the condensed interim consolidated financial statements constitute an integral part thereof

**ENERGA SA Group**  
**Condensed Interim Consolidated Financial Statements (Continued)**  
**as at and for the period of 9 months ended 30 September 2013 (in PLN)**

**23. Other information significantly affecting the assessment of assets, financial position and the financial result of the Group (Continued)**

Bonds issue through PKO Bank Polski SA

In 2012 ENERGA SA entered into a bonds issue agreement with PKO Bank Polski SA. Proceeds under the agreement are to be used to acquire bonds issued by ENERGA Elektrownie Ostrołęka SA in connection with the implementation of the company's investment program. The bonds are issued as short-term securities, which, in quarterly cycles will be exchanged (rolled over) to bonds of a new issue, with the commitment of the Bank to cover them under the terms of the issue agreement throughout the entire period of its duration. The value of the issues under such financing is PLN 66 m.

**23.3. Privatisation process**

In January 2013, the Minister of the State Treasury ("MST") decided to restart the process of privatisation of ENERGA SA. According to publicly available information, the intention of the MST is to sell a minority stake in ENERGA SA on the Warsaw Stock Exchange under an IPO-type transaction (Initial Public Offering).

In July 2013, following the proceedings to select financial advisors, MST selected a syndicate of banks to run the IPO process of ENERGA SA. JP Morgan and UBS act as global coordinators and the consortium also comprises: Citi Handlowy, UniCredit CAIB, Bank PKO BP, Banco Espirito Santo, Bank of America Merrill Lynch, IPOPEMA Securities, Dom Inwestycyjny BRE Banku and BNP Paribas.

On 11 September 2013, the first draft of the prospectus was submitted to the Financial Supervision Commission.

The final decision of the MST regarding the date of the transaction will be subject to, inter alia, current market conditions.

**23.4. Ostrołęka C Project**

In 2012 the Group decided to suspend preparations for the construction of a coal unit in Ostrołęka. The reasons for suspending the project were, among others, difficulties in obtaining funding under the Project Finance formula and adverse conditions on the market of construction companies. In 2013 the Group was actively seeking a partner interested in a joint implementation of the project or in a purchase thereof. Despite initial interest in participation in the project from a few prospective investors, the Group actually did not receive any satisfactory proposals. Currently the Group is considering alternative scenarios of further actions, including a reduction of the capacity of the unit in Ostrołęka, a switch to a gas fuel or suspension of the project.

**23.5. Restructuring of the Group**

As part of the efforts aimed at optimizing the Group structure in the current reporting period the following activities were undertaken:

- On 3 April 2013 the legal merger of the companies ENERGA Bio Sp. z o.o. and ENERGA Hydro Sp. z o.o. was registered (see description in note 21.4).
- On 3 September 2013, the increase of PLN 783.0 thousand in the share capital of RGK Sp. z o.o. covered by a contribution in kind in the form of minority shares and holdings by ENERGA SA was registered in the National Court Register;
- On 7 June 2013 the increase in share capital of ENERGA Kogeneracja Sp. z o.o. by PLN 48.5 million, in return for a contribution in kind in the form of shares in ENERGA Elektrociepłownia Kalisz S.A and ENERGA OPEC Sp. z o.o. and cash contribution by ENERGA SA and ENERGA Elektrownie Ostrołęka SA was registered in the National Court Register;

---

Accounting principles (policy) and additional explanatory notes to the condensed interim consolidated financial statements constitute an integral part thereof

**ENERGA SA Group**  
**Condensed Interim Consolidated Financial Statements (Continued)**  
**as at and for the period of 9 months ended 30 September 2013 (in PLN)**

**23. Other information significantly affecting the assessment of assets, financial position and the financial result of the Group (Continued)**

- ENERGA—OPERATOR SA initiated activities aimed at selling the shares in the subsidiaries providing supporting services for the Distribution System Operator's business, i.e. designing and specialized power construction and production of power devices (see description in Note 16);
- Following the implementation of the plan for integrated services related to maintenance and use of non-power real estates (the so called Facility Management) of ENERGA—OPERATOR SA on 4 July 2013 the following two companies were established: DGP PROVIDER Sp. z o.o. and EKOTRADE SERWIS FM Sp. z o.o. Separate processes associated with the provision of these services along with their supporting employees (64 people) have been assigned to the newly created entities. On 1 October 2013 these companies were sold to industry investors;
- Following the completion of the compulsory purchase procedures for the shares in ENERGA—OPERATOR SA from minority shareholders, in July 2013 ENERGA SA became the sole shareholder of the company;
- On 24 September 2013 the Management Board of ENERGA—OPERATOR SA adopted a resolution to terminate part of the contracts for the performance of investment work signed with operation and investment companies (i.e. ENERGA—OPERATOR Eksploatacja i Inwestycje Płock Sp. z o.o., ENERGA—OPERATOR Eksploatacja i Inwestycje Słupsk Sp. z o.o., ENERGA—OPERATOR Eksploatacja i Inwestycje Kalisz Sp. z o.o., ENERGA—OPERATOR Eksploatacja i Inwestycje Toruń Sp. z o.o., ENERGA—OPERATOR Eksploatacja i Inwestycje Elbląg Sp. z o.o., ENERGA—OPERATOR Eksploatacja i Inwestycje Gdańsk Sp. z o.o.). These companies will cease their investment activity at the end of March 2014. Accordingly, actions have been taken to prepare and implement additional protection programs for employees affected by the discontinuation of investment activities by the operating and investment companies. As at 30 September 2013, the Group has raised a provision of PLN 66.7 m for the above (see note 15).

**23.6. Dispute with PSE S.A. and PKN ORLEN S.A.**

In July 2003 PSE S.A. (previously PSE—Operator S.A.) filed a court action against ENERGA—OPERATOR SA (previously Zakład Energetyczny Płock S.A. hereinafter referred to as "EOP") for the payment of PLN 62.5 m as charges for transmission services. When responding to the action EOP sued PKN ORLEN S.A. ("PKN"). On 30 June 2004 EOP filed in the Regional Court in Warsaw an action against PKN for the payment of PLN 46.2 m as a system fee pursuant to § 36 of the Tariff Ordinance.

On 25 June 2008 the judgment dismissing the action of EOP was pronounced. On 2 September 2008 EOP appealed against the judgment to the Court of Appeal in Warsaw. On 10 September 2009 the Court of Appeal in its judgment modified the appealed judgment so that the amount of PLN 46.2 m was awarded from PKN ORLEN SA to EOP together with statutory interest and awarded the reimbursement of the costs of proceedings. On 30 September 2009 PKN paid the entire awarded amount including interest, i.e. PLN 75.6 m and reimbursed the costs of proceedings. However, PKN filed a cassation appeal to the Supreme Court against that judgement. On 28 January 2011 the Supreme Court repealed the judgment of the Court of Appeal and returned the case to that court for re-examination. After re-examining the case, the Court of Appeal, in the judgment of 4 August 2011, repealed the judgment of the Regional Court dismissing the action of EOP and returned the case to that court for re-examination. As a result, the basis for the consideration paid by PKN to EOP ceased to exist. In view of the above, EOP returned the awarded amount together with the costs of the proceedings to PKN. At present, taking into account the procedural status of the case it can be assumed that EOP action against PKN is justified, and only the amount thereof is in dispute. In connection with the current status of the case, the Group recognized a contingent asset of PLN 27.9 m. As at the date of these financial statements, no final decisions were issued in that case.

---

Accounting principles (policy) and additional explanatory notes to the condensed interim consolidated financial statements constitute an integral part thereof

**ENERGA SA Group**  
**Condensed Interim Consolidated Financial Statements (Continued)**  
**as at and for the period of 9 months ended 30 September 2013 (in PLN)**

**23. Other information significantly affecting the assessment of assets, financial position and the financial result of the Group (Continued)**

In the action filed by PSE S.A. the Regional Court in Warsaw by the judgment of 25 March 2008 awarded from EOP to PSE the amount of PLN 62.5 m together with due interest. EOP appealed against the judgment but the appeal was dismissed by the Court of Appeal in the judgment of 19 March 2009. On 30 July 2009 EOP filed a cassation appeal to the Supreme Court against that judgment, which in the judgment of 26 March 2010 repealed the appealed judgment of the Court of Appeal and returned the case for re-examination. On 21 September 2011 the Court of Appeal, after re-examining the case and considering guidelines of the Supreme Court, changed the judgment of the Regional Court of 25 March 2008 and dismissed the action of PSE S.A. in its entirety awarding to EOP the amount of PLN 123 m as a reimbursement of the payment made by EOP pursuant to the judgment of 25 March 2008.

The judgment was appealed against by cassation appeals filed by both parties. On 11 January 2013 there was a hearing before the Supreme Court when the Court examined the appeals. As a result of the hearing the Supreme Court:

- dismissed the appeal by EOP and admitted the appeal by PSE
- and repealed the judgment of the Court of Appeal of 21 September 2011 and returned the case to that court for re-examination.

Considering the hitherto existing developments of the case, their duration and distant perspective of reaching final verdict, the Parties decided to start negotiations in order to amicably settle the dispute. On 16 May 2013 the “Agreement on starting negotiations to reach a settlement of the court dispute” was signed. Following their accession to the negotiations PSE S.A. together with EOP applied to the Court for a suspension of the proceedings until the conclusion of the negotiations with a possible settlement. On 14 and 20 May 2013 two negotiating meetings were held which were aimed at agreeing the terms of such settlement. On 1 August 2013 the “Agreement on the terms of the settlement with PSE S.A.” was signed, in terms of which EOP paid to PSE an amount of PLN 95.5 m (with the principal amount of PLN 62.5 m and statutory interest of PLN 33.0 m) on 9 August 2013. In connection with the agreement, EOP and PSE applied to the Court to recommence the suspended proceedings. In its decision of 17 September 2013, the Court decided to recommence the suspended proceedings in this case. At the date of these financial statements, no hearing date has been set.

**23.7. Rating**

On 10 October 2013, Fitch Ratings (“Agency”) affirmed the Company’s long-term ratings at the previous level of BBB (foreign rating) and A(pol) (local rating). The outlook for the ratings is stable. The Agency stated that the affirmation of the Company’s ratings reflected the high share of the regulated distribution business in Energa’s EBITDA, which contributed to cash flow predictability. The Agency also recognized the Company’s progress in arranging external funding for its capital expenditures and ample liquidity,

**ENERGA SA Group**  
**Condensed Interim Consolidated Financial Statements (Continued)**  
**as at and for the period of 9 months ended 30 September 2013 (in PLN)**

**23. Other information significantly affecting the assessment of assets, financial position and the financial result of the Group (Continued)**

noting also the additional factors in the form of a relatively stable regulatory framework and the Company's accelerated development of its renewables capacity.

Director of the Consolidated  
Reporting Department

*Marek Pertkiewicz*

(date and signature)

Director of the Finance  
Management Center

*Aleksandra Gajda—Gryber*

(date and signature)

President of the Management Board

*Mirosław Bieliński*

(date and signature)

Executive Vice-President of the  
Management Board  
Chief Financial Officer

*Roman Szyszko*

(date and signature)

Executive Vice-President of the  
Management Board  
Strategy and Investments

*Wojciech Topolnicki*

(date and signature)

---

Accounting principles (policy) and additional explanatory notes to the condensed interim consolidated financial statements constitute an integral part thereof

**ENERGA SA Group**  
Opinion  
of the Independent Auditor  
of the consolidated financial statements  
for the financial year ended  
31 December 2012,  
31 December 2011 and 31 December 2010

The opinion contains 2 pages  
Opinion of the independent auditor  
of the consolidated financial statements  
for the financial year ended  
31 December 2012, 31 December 2011 and 31 December 2010

© 2013 KPMG Audyt spółka z ograniczoną odpowiedzialnością sp.k., a Polish limited partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved.



## OPINION OF THE INDEPENDENT AUDITOR

*To the Management Board of ENERGA SA*

We have audited the accompanying consolidated financial statements of the Group, whose parent entity is ENERGA SA with its registered office in Gdańsk, Al. Grunwaldzka 473 (“the Group”), which comprise the consolidated statement of financial position as at 31 December 2012, 31 December 2011 and 31 December 2010, the consolidated income statement and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the years then ended and notes to the consolidated financial statements, comprising a summary of significant accounting policies and other explanatory information.

### *Management Board’s Responsibility for the Consolidated Financial Statements*

Management of the Parent Entity is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations and preparation of the report on the Group’s activities. Management of the Parent Entity is also responsible for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor’s Responsibility*

Our responsibility, based on our audit, is to express an opinion on these consolidated financial statements. We conducted our audit in accordance with National Standards on Auditing issued by the National Council of Certified Auditors and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Opinion*

In our opinion, the accompanying consolidated financial statements of ENERGA SA Group have been prepared and present fairly, in all material respects, the financial position of the Group as at 31 December 2012, 31 December 2011 and 31 December 2010 and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards as adopted by the

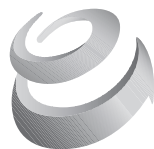
European Union, and are in compliance with the respective regulations that apply to the consolidated financial statements, applicable to the Group.

On behalf of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.  
Registration No. 3546  
ul. Chłodna 51, 00-867 Warsaw

---

Zbigniew Libera  
Key Certified Auditor  
Registration No. 90047  
Limited Liability Partner with power of attorney

1 March 2013



***Energa***

**ENERGA SA Group**

**Consolidated financial statements prepared in accordance with  
the International Financial Reporting Standards  
as adopted by the European Union  
for the years 2010 - 2012 ended 31 December**

## ENERGA SA Group

### Consolidated financial statements for the years 2010 - 2012 ended 31 December (in PLN)

#### TABLE OF CONTENTS

CONSOLIDATED INCOME STATEMENT .....	F-60
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME .....	F-61
CONSOLIDATED STATEMENT OF FINANCIAL POSITION .....	F-62
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY .....	F-64
CONSOLIDATED STATEMENT OF CASH FLOWS .....	F-67
1. General Information .....	F-68
2. Entities included in the Group .....	F-68
3. The Company's Management Board .....	F-74
4. Approval of the financial statements .....	F-74
5. Basis of preparation .....	F-74
6. Use of estimates and judgments .....	F-76
7. Estimates .....	F-77
8. New standards and interpretations .....	F-77
9. Significant accounting policies .....	F-79
10. Operating segments .....	F-100
11. Revenues and costs .....	F-105
12. Income tax .....	F-109
13. Social assets and liabilities of the Company Social Benefit Fund .....	F-112
14. Property, plant and equipment .....	F-113
15. Leases .....	F-116
16. Investment properties .....	F-119
17. Goodwill .....	F-119
18. Intangible assets .....	F-120
19. Investments in associated entities valued using the equity method .....	F-123
20. Emission rights .....	F-126
21. Inventory .....	F-126
22. Cash and cash equivalents .....	F-127
23. Other assets .....	F-128
24. Discontinued operations and assets classified as held for sale .....	F-128
25. Other liabilities .....	F-129
26. Deferred income and accruals .....	F-130
27. Employee benefits .....	F-131
28. Earnings per share .....	F-133
29. Dividends paid and proposed for payment .....	F-134
30. Business combinations .....	F-135
31. Share capital and other components of equity .....	F-136
32. Provisions .....	F-138
33. Investment obligations .....	F-140
34. Tax settlements .....	F-141
35. Information on related entities .....	F-143
36. Financial instruments .....	F-146
37. Contingent assets and liabilities .....	F-152
38. Objectives and principles of financial risk management .....	F-154
39. Capital management .....	F-159
40. Employment structure .....	F-159
41. Information on significant events having taken place after the balance sheet date of the consolidated financial statements .....	F-160
42. Other information significantly affecting the assessment of assets, financial position and the financial result of the Group .....	F-161

ENERGA SA Group

Consolidated financial statements for the years 2010 - 2012 ended 31 December

(in PLN)

CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December 2012	Year ended 31 December 2011 (restated)	Year ended 31 December 2010 (restated)
<b>Continuing operations</b>				
Sales of products and goods for resale including excise tax . . . . .		7,764,430,725.40	7,274,903,397.85	6,698,662,698.73
Excise tax . . . . .		(329,637,887.98)	(317,737,936.50)	(314,475,631.94)
Sales of products and goods for resale . . .		7,434,792,837.42	6,957,165,461.35	6,384,187,066.79
Sales of services . . . . .		3,688,457,887.12	3,358,829,507.95	3,021,018,628.75
Rental income . . . . .		53,548,238.54	52,009,932.78	62,554,558.09
<b>Revenue . . . . .</b>		<b>11,176,798,963.08</b>	<b>10,368,004,902.08</b>	<b>9,467,760,253.63</b>
Cost of sales . . . . .	11.5	9,532,055,080.98	8,759,054,894.68	8,055,258,102.37
<b>Gross profit . . . . .</b>		<b>1,644,743,882.10</b>	<b>1,608,950,007.40</b>	<b>1,412,502,151.26</b>
Other operating income . . . . .	11.1	134,921,499.10	154,466,214.02	69,160,920.03
Selling and distribution expenses . . . . .		247,540,477.90	187,903,647.62	109,249,130.02
General and administrative expenses . . . .		375,341,228.01	414,277,517.92	329,753,904.04
Other operating expenses . . . . .	11.2	250,776,913.79	298,319,809.26	226,490,231.13
Financial income . . . . .	11.3	79,196,911.53	207,947,424.45	82,486,576.52
Financial costs . . . . .	11.4	359,085,262.85	172,737,177.51	103,714,823.89
Share of profit (loss) of the associates . . .		214,637.16	1,077,365.06	668,319.37
<b>Profit before tax . . . . .</b>		<b>626,333,047.34</b>	<b>899,202,858.62</b>	<b>795,609,878.10</b>
Income tax . . . . .	12	166,547,750.65	196,613,309.88	170,992,877.48
<b>Net profit on continuing operations . . . . .</b>		<b>459,785,296.69</b>	<b>702,589,548.74</b>	<b>624,617,000.62</b>
<b>Discontinued operations &amp; non-current assets classified as held for sale</b>				
Net loss on discontinued operations . . . .	24.1	(18,306,873.97)	—	(378,008.92)
Net profit on disposal of assets classified as held for sale . . . . .	24.2	14,942,053.87	—	—
<b>Net profit for the financial year . . . . .</b>		<b>456,420,476.59</b>	<b>702,589,548.74</b>	<b>624,238,991.70</b>
Attributable to:				
Equity holders of the parent company . . .		457,034,675.98	663,933,217.90	604,298,963.82
Non-controlling interests . . . . .		(614,199.39)	38,656,330.84	19,940,027.88
<b>Earnings per share (in PLN) . . . . .</b>	28			
—basic . . . . .		<b>0.09</b>	<b>0.13</b>	<b>0.12</b>
—diluted . . . . .		<b>0.09</b>	<b>0.13</b>	<b>0.12</b>

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

ENERGA SA Group

Consolidated financial statements for the years 2010 - 2012 ended 31 December

(in PLN)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December 2012	Year ended 31 December 2011 (restated)	Year ended 31 December 2010 (restated)
<b>Net profit for the financial year . . . . .</b>	<b>456,420,476.59</b>	<b>702,589,548.74</b>	<b>624,238,991.70</b>
Corporate income tax refund from Distribution Plan . . . . .	—	92,257,122.00	—
Actuarial gains and losses on defined benefit plans .	37,484,373.75	(48,127,729.77)	4,124,844.69
Foreign exchange gains/(losses) on translation of foreign operations . . . . .	(236,298.65)	271,023.88	(98.96)
Income tax from defined benefit plans . . . . .	(7,122,031.01)	9,144,268.66	(783,720.49)
<b>Net other comprehensive income . . . . .</b>	<b>30,126,044.09</b>	<b>53,544,684.77</b>	<b>3,341,025.24</b>
<b>Total comprehensive income . . . . .</b>	<b>486,546,520.68</b>	<b>756,134,233.51</b>	<b>627,580,016.94</b>
Attributable to:			
Equity holders of the parent company . . . . .	487,160,720.07	717,477,902.67	607,639,989.06
Non-controlling interests . . . . .	(614,199.39)	38,656,330.84	19,940,027.88

Director of the Consolidated Reporting Department	Director of the Finance Management Center	President of the Management Board	Executive Vice-President of the Management Board Chief Financial Officer	Executive Vice-President of the Management Board Strategy and Investments
<i>Marek Pertkiewicz</i>	<i>Aleksandra Gajda—Gryber</i>	<i>Miroslaw Bieleński</i>	<i>Roman Szyszko</i>	<i>Wojciech Topolnicki</i>
(date and signature)	(date and signature)	(date and signature)	(date and signature)	(date and signature)

The accounting policies and notes to the consolidated financial statements form an integral part thereof.



**ENERGA SA Group**  
**Consolidated financial statements for the years 2010 - 2012 ended 31 December**  
**(in PLN)**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

	Nota	As at 31 December 2012	As at 31 December 2011 (restated)	As at 31 December 2010 (restated)
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment . . . . .	<b>14</b>	10,000,916,278.54	9,150,663,450.42	8,451,134,128.39
Investment property . . . . .	<b>16</b>	17,059,989.82	24,552,344.90	19,026,164.08
Intangible assets . . . . .	<b>18</b>	378,562,656.81	312,491,996.36	269,388,658.63
Goodwill . . . . .	<b>17</b>	28,627,373.91	17,609,509.58	17,246,353.14
Investments in associates and joint ventures accounted for under the equity method . . . . .	<b>19</b>	2,580,465.79	2,760,087.08	41,580,170.75
Other investments . . . . .		979,752.87	1,584,532.21	32,475,886.41
Deferred tax assets . . . . .	<b>12.3</b>	209,870,367.02	171,387,692.61	116,006,703.59
Other non-current assets . . . . .	<b>23.1</b>	58,799,100.22	32,398,997.55	18,271,910.04
		<b><u>10,697,395,984.98</u></b>	<b><u>9,713,448,610.71</u></b>	<b><u>8,965,129,975.03</u></b>
<b>Current assets</b>				
Inventory . . . . .	<b>21</b>	376,927,918.39	395,872,391.88	312,992,178.03
Current tax assets . . . . .		37,493,479.39	15,466,911.73	62,929,705.20
Trade receivables and other financial receivables . . . . .	<b>36.4.1</b>	1,524,079,632.97	1,521,375,709.26	1,454,897,912.04
Other shares . . . . .		11,381,200.00	44,816,077.72	629,436.27
Deposits . . . . .		26,783,927.04	—	130,612.56
Other financial assets . . . . .		3,969,018.10	1,839,590.74	2,076,116.20
Cash and cash equivalents . . . . .	<b>22</b>	2,069,058,235.48	1,777,274,176.69	1,683,554,915.77
Other current assets . . . . .	<b>23.2</b>	155,515,557.95	210,679,058.28	157,610,985.10
		<b><u>4,205,208,969.32</u></b>	<b><u>3,967,323,916.30</u></b>	<b><u>3,674,821,861.17</u></b>
Assets classified as held for sale . . . . .	<b>24.2</b>	10,167,784.37	4,510,472.13	191,586.09
<b>TOTAL ASSETS . . . . .</b>		<b><u>14,912,772,738.67</u></b>	<b><u>13,685,282,999.14</u></b>	<b><u>12,640,143,422.29</u></b>

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

ENERGA SA Group

Consolidated financial statements for the years 2010 - 2012 ended 31 December

(in PLN)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

	Note	As at 31 December 2012	As at 31 December 2011 (restated)	As at 31 December 2010 (restated)
<b>EQUITY AND LIABILITIES</b>				
<b>Equity attributable to equity holders of the parent</b>				
Share capital . . . . .	31.1	4,968,805,368.00	4,968,805,368.00	4,968,805,368.00
Foreign exchange gains/(losses) arising on translation . . . . .		47,168.55	283,467.20	12,443.32
Reserve capital . . . . .	31.2	471,235,040.86	362,500,154.89	163,625,681.64
Retained earnings . . . . .	31.3	2,231,139,472.11	2,494,195,354.73	1,893,679,397.56
<b>Non-controlling interests . . . . .</b>		<b>47,295,416.25</b>	<b>59,726,065.92</b>	<b>887,477,694.68</b>
<b>Total equity . . . . .</b>		<b>7,718,522,465.77</b>	<b>7,885,510,410.74</b>	<b>7,913,600,585.20</b>
<b>Non-current liabilities</b>				
Loans and borrowings . . . . .	36.4.3, 38.5	2,026,137,871.20	1,904,236,242.55	1,033,635,983.01
Bonds issued . . . . .	36.4.3, 38.5	1,079,219,213.53	—	—
Non-current provisions . . . . .	32	710,785,797.70	667,261,990.77	599,573,470.38
Deferred tax liabilities . . . . .	12.3	519,686,227.18	525,581,334.21	553,507,069.04
Deferred income and non-current government grants . . . . .	26.1	456,009,751.82	465,938,618.59	442,910,451.58
Trade and other non-current financial liabilities . . . . .	38.5	1,716,671.65	1,642,823.87	337,675.38
Finance lease liabilities . . . . .	38.5	7,293,035.79	3,570,618.79	1,631,812.30
Other non-current liabilities . . . . .	25.1	612,677.83	3,469,329.31	126,724.93
		<b>4,801,461,246.70</b>	<b>3,571,700,958.09</b>	<b>2,631,723,186.62</b>
<b>Current liabilities</b>				
Trade and other financial liabilities . .	38.5	880,270,916.59	893,550,813.96	970,432,595.37
Current loans and borrowings . . . . .	36.4.3, 38.5	389,638,937.15	44,964,972.70	42,769,700.85
Income tax liability . . . . .		34,661,674.59	116,706,955.58	74,272,835.00
Deferred income and government grants . . . . .	26.1	28,932,720.91	28,118,750.96	21,010,189.32
Accruals . . . . .	26.2	117,765,024.23	122,751,349.09	85,804,674.74
Provisions . . . . .	32	555,345,320.17	511,319,448.27	353,998,343.50
Other current liabilities . . . . .	25.2	386,174,432.56	510,659,339.75	546,529,806.25
		<b>2,392,789,026.20</b>	<b>2,228,071,630.31</b>	<b>2,094,818,145.03</b>
Liabilities directly associated with assets classified as held for sale . . . . .		—	—	1,505.44
<b>Total liabilities . . . . .</b>		<b>7,194,250,272.90</b>	<b>5,799,772,588.40</b>	<b>4,726,542,837.09</b>
<b>TOTAL EQUITY AND LIABILITIES . .</b>		<b>14,912,772,738.67</b>	<b>13,685,282,999.14</b>	<b>12,640,143,422.29</b>

Director of the Consolidated Reporting Department

*Marek Pertkiewicz*

(date and signature)

Director of the Finance Management Center

*Aleksandra Gajda—Gryber*

(date and signature)

President of the Management Board

*Miroslaw Bieliński*

(date and signature)

Executive Vice-President of the Management Board  
Chief Financial Officer

*Roman Szyszko*

(date and signature)

Executive Vice-President of the Management Board  
Strategy and Investments

*Wojciech Topolnicki*

(date and signature)

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

**ENERGA SA Group**  
**Consolidated financial statements for the years 2010 - 2012 ended 31 December**  
**(in PLN)**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**for the year ended 31 December 2012**

	Equity attributable to equity holders of the parent company						
	Share capital	Foreign exchange gains/(losses) arising on translation	Reserve capital	Retained earnings	Total	Non-controlling interests	Total equity
<b>As at 1 January 2012 (restated)</b> . . . . .	<b>4,968,805,368.00</b>	<b>283,467.20</b>	<b>362,500,154.89</b>	<b>2,494,195,354.73</b>	<b>7,825,784,344.82</b>	<b>59,726,065.92</b>	<b>7,885,510,410.74</b>
Actuarial gains and losses on defined benefit plans . . . . .	—	—	—	30,362,342.74	30,362,342.74	—	30,362,342.74
Foreign exchange gains/(losses) arising on translation . . . . .	—	(236,298.65)	—	—	(236,298.65)	—	(236,298.65)
Profit for the financial year . . . . .	—	—	—	457,034,675.98	457,034,675.98	(614,199.39)	456,420,476.59
<b>Total comprehensive income for the financial year</b> . . . . .	<b>—</b>	<b>(236,298.65)</b>	<b>—</b>	<b>487,397,018.72</b>	<b>487,160,720.07</b>	<b>(614,199.39)</b>	<b>486,546,520.68</b>
Retained earnings distribution . . . . .	—	—	108,734,885.97	(108,734,885.97)	—	—	—
Dividends . . . . .	—	—	—	(645,944,697.84)	(645,944,697.84)	(8,183,902.21)	(654,128,600.05)
Purchase of shares in subsidiaries . . . . .	—	—	—	4,226,682.47	4,226,682.47	(3,632,548.07)	594,134.40
<b>As at 31 December 2012</b> . . . . .	<b>4,968,805,368.00</b>	<b>47,168.55</b>	<b>471,235,040.86</b>	<b>2,231,139,472.11</b>	<b>7,671,227,049.52</b>	<b>47,295,416.25</b>	<b>7,718,522,465.77</b>

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

**ENERGA SA Group**  
**Consolidated financial statements for the years 2010 - 2012 ended 31 December**  
**(in PLN)**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)**  
**for the year ended 31 December 2012**

Equity attributable to equity holders of the parent company							
	Share capital	Foreign exchange gains/(losses) arising on translation	Reserve capital	Retained earnings	Total	Non-controlling interests	Total equity
<b>As at 1 January 2011 (restated)</b> . . . . .	<b>4,968,805,368.00</b>	<b>12,443.32</b>	<b>163,625,681.64</b>	<b>1,893,679,397.56</b>	<b>7,026,122,890.52</b>	<b>887,477,694.68</b>	<b>7,913,600,585.20</b>
Actuarial gains and losses on defined benefit plans . . . . .	—	—	—	(38,983,461.11)	(38,983,461.11)	—	(38,983,461.11)
Foreign exchange gains/(losses) arising on translation . . . . .	—	271,023.88	—	—	271,023.88	—	271,023.88
Profit for the financial year . . . . .	—	—	—	663,933,217.90	663,933,217.90	38,656,330.84	702,589,548.74
<b>Total comprehensive income for the financial year</b> . . . . .	<b>—</b>	<b>271,023.88</b>	<b>—</b>	<b>624,949,756.79</b>	<b>625,220,780.67</b>	<b>38,656,330.84</b>	<b>663,877,111.51</b>
Retained earnings distribution . . . . .	—	—	198,874,473.25	(198,874,473.25)	—	—	—
Corporate income tax refund on Distribution Plan . . . . .	—	—	—	91,906,544.94	91,906,544.94	350,577.06	92,257,122.00
Dividends . . . . .	—	—	—	(149,064,161.04)	(149,064,161.04)	(40,393,603.02)	(189,457,764.06)
Purchase of shares in subsidiaries . . . . .	—	—	—	231,598,289.73	231,598,289.73	(826,414,036.34)	(594,815,746.61)
Liquidation of subsidiaries . . . . .	—	—	—	—	—	49,102.70	49,102.70
<b>As at 31 December 2011 (restated)</b> . . . . .	<b>4,968,805,368.00</b>	<b>283,467.20</b>	<b>362,500,154.89</b>	<b>2,494,195,354.73</b>	<b>7,825,784,344.82</b>	<b>59,726,065.92</b>	<b>7,885,510,410.74</b>

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

**ENERGA SA Group**  
**Consolidated financial statements for the years 2010 - 2012 ended 31 December**  
**(in PLN)**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)**  
**for the year ended 31 December 2012**

	Equity attributable to equity holders of the parent company						
	Share capital	Foreign exchange gains/(losses) arising on translation	Reserve capital	Retained earnings	Total	Non-controlling interests	Total equity
<b>As at 1 January 2010 (restated)</b> . . . . .	<b>4,968,805,368.00</b>	<b>12,542.28</b>	<b>141,957,561.67</b>	<b>1,371,694,743.34</b>	<b>6,482,470,215.29</b>	<b>907,377,389.58</b>	<b>7,389,847,604.87</b>
Actuarial gains and losses on defined benefit plans . . . . .	—	—	—	3,341,124.20	3,341,124.20	—	3,341,124.20
Foreign exchange gains/(losses) arising on translation . . . . .	—	(98.96)	—	—	(98.96)	—	(98.96)
Profit for the financial year . . . . .	—	—	—	604,298,963.82	604,298,963.82	19,940,027.88	624,238,991.70
<b>Total comprehensive income for the financial year</b> . . . . .	<b>—</b>	<b>(98.96)</b>	<b>—</b>	<b>607,640,088.02</b>	<b>607,639,989.06</b>	<b>19,940,027.88</b>	<b>627,580,016.94</b>
Retained earnings distribution . . . . .	—	—	21,668,119.97	(21,668,119.97)	—	—	—
VAT Refund . . . . .	—	—	—	10,358,322.00	10,358,322.00	—	10,358,322.00
Dividends . . . . .	—	—	—	(99,376,107.36)	(99,376,107.36)	(9,196,118.70)	(108,572,226.06)
Purchase of shares in subsidiaries . . . . .	—	—	—	25,030,471.53	25,030,471.53	(30,643,604.08)	(5,613,132.55)
<b>As at 31 December 2010 (restated)</b> . . . . .	<b>4,968,805,368.00</b>	<b>12,443.32</b>	<b>163,625,681.64</b>	<b>1,893,679,397.56</b>	<b>7,026,122,890.52</b>	<b>887,477,694.68</b>	<b>7,913,600,585.20</b>

F-66

Director of the Consolidated Reporting Department	Director of the Finance Management Center	President of the Management Board	Executive Vice-President of the Management Board Chief Financial Officer	Executive Vice-President of the Management Board Strategy and Investments
<i>Marek Pertkiewicz</i>	<i>Aleksandra Gajda—Gryber</i>	<i>Mirosław Bieliński</i>	<i>Roman Szyszko</i>	<i>Wojciech Topolnicki</i>
(date and signature)	(date and signature)	(date and signature)	(date and signature)	(date and signature)

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

ENERGA SA Group

Consolidated financial statements for the years 2010 - 2012 ended 31 December

(in PLN)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 December 2012	Year ended 31 December 2011 (restated)	Year ended 31 December 2010 (restated)
<b>Cash flows from operating activities</b>			
Profit before tax . . . . .	626,333,047.34	899,202,858.62	795,609,878.10
Adjustments for: . . . . .	1,023,331,463.84	786,954,932.30	668,175,437.31
Profits from investments in associates and joint ventures accounted for under the equity method . . . . .	179,621.29	(1,077,365.06)	(668,319.37)
Foreign currency gains/(losses) . . . . .	(236,298.65)	271,023.88	(98.96)
Amortisation and depreciation . . . . .	723,238,878.49	656,785,362.99	591,418,003.46
Net interest and dividends . . . . .	130,727,604.59	73,651,480.03	39,202,325.02
(Profit)/Loss on investing activities . . . . .	172,359,252.13	(2,060,127.92)	64,753,601.17
Change in receivables . . . . .	25,064,499.99	(72,655,506.86)	(360,003,333.23)
Change in inventories . . . . .	19,111,473.24	(83,792,228.28)	(26,314,451.99)
Change in payables excluding loans and borrowings . . . . .	(168,848,018.99)	(57,438,399.26)	351,354,580.40
Change in prepayments and accruals . . . . .	5,949,094.85	4,131,675.39	(25,520,958.67)
Change in provisions . . . . .	87,549,678.83	225,009,625.16	29,813,486.72
Other . . . . .	28,235,678.07	44,129,392.23	4,140,602.76
Income tax paid . . . . .	<u>(314,997,380.75)</u>	<u>(204,237,306.02)</u>	<u>(284,551,390.30)</u>
<b>Net cash from operating activities . . . . .</b>	<b><u>1,334,667,130.43</u></b>	<b><u>1,481,920,484.90</u></b>	<b><u>1,179,233,925.11</u></b>
<b>Cash flows from investing activities</b>			
Disposal of property, plant and equipment and intangible assets . . . . .	18,353,396.93	13,004,313.12	31,764,845.54
Purchase of property, plant and equipment and intangible assets . . . . .	(1,817,247,881.96)	(1,469,364,198.17)	(1,072,152,756.49)
Disposal of shares in associates . . . . .	8,067,360.00	—	—
Disposal of other financial assets . . . . .	16,344,259.68	58,319,295.69	36,365,832.45
Acquisition of other investments . . . . .	(26,781,588.81)	(256,300.00)	(499,368.50)
Purchase of real estate . . . . .	—	(4,053,385.32)	—
Purchase of shares in associates accounted for under the equity method . . . . .	—	(2,750,363.35)	—
Acquisition of subsidiary, net of cash acquired . . . . .	(2,779,315.80)	(601,122,184.60)	(5,503,784.03)
Dividends received . . . . .	78,162.00	1,631,187.44	1,277,764.41
Interest received . . . . .	823,906.42	909,835.37	4,233,617.55
Other . . . . .	—	—	1,200,000.00
<b>Net cash used in investing activities . . . . .</b>	<b><u>(1,803,141,701.54)</u></b>	<b><u>(2,003,681,799.82)</u></b>	<b><u>(1,003,313,849.07)</u></b>
<b>Cash flows from financing activities</b>			
Proceeds from bonds issued . . . . .	1,066,000,000.00	—	—
Payment of finance lease liabilities . . . . .	(1,384,556.94)	(8,658,608.31)	(9,033,293.16)
Proceeds from loans and borrowings . . . . .	738,892,103.23	948,363,723.60	1,048,843,659.35
Repayment of loans and borrowings . . . . .	(258,288,031.44)	(30,432,838.25)	(259,875,056.27)
Dividends paid . . . . .	(653,924,155.35)	(189,440,845.08)	(114,620,053.58)
Interest paid . . . . .	(148,919,574.33)	(99,481,251.17)	(39,454,662.58)
Other . . . . .	(68,841.10)	(3,875,900.44)	(5,307,563.91)
<b>Net cash from financing activities . . . . .</b>	<b><u>742,306,944.07</u></b>	<b><u>616,474,280.35</u></b>	<b><u>620,553,029.85</u></b>
<b>Net increase/(decrease) in cash and cash equivalents . . . . .</b>	<b><u>273,832,372.96</u></b>	<b><u>94,712,965.43</u></b>	<b><u>796,473,105.89</u></b>
<b>Cash and cash equivalents at the beginning of the period . . . . .</b>	<b><u>1,755,541,116.52</u></b>	<b><u>1,660,828,151.09</u></b>	<b><u>864,355,045.20</u></b>
<b>Cash and cash equivalents at the end of the period . . . . .</b>	<b><u>2,029,373,489.48</u></b>	<b><u>1,755,541,116.52</u></b>	<b><u>1,660,828,151.09</u></b>

Director of the Consolidated Reporting Department

Marek Pertkiewicz

(date and signature)

Director of the Finance Management Center

Aleksandra Gajda—Gryber

(date and signature)

President of the Management Board

Mirosław Bieliński

(date and signature)

Executive Vice-President of the Management Board  
Chief Financial Officer

Roman Szyszko

(date and signature)

Executive Vice-President of the Management Board  
Strategy and Investments

Wojciech Topolnicki

(date and signature)

The accounting policies and notes to the consolidated financial statements form an integral part thereof.



## ENERGA SA Group

Consolidated financial statements for the years 2010 - 2012 ended 31 December

(in PLN)

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 1. General Information

ENERGA SA Group (the “Group”) consists of **ENERGA Spółka Akcyjna** (the “Parent Company”, the “Company”) and its subsidiaries (see Note 2). These consolidated financial statements of the Group are for the years 2010 - 2012 ended 31 December.

The Parent Company was entered in the Enterprise Register of the National Court Register maintained by the District Court of Gdańsk—Północ, VII Commercial Division, under number KRS 0000271591.

The Parent Company’s statistical number is REGON 220353024.

The Company as well as other entities included the Group were established for indefinite period.

Core operations of the Group companies are as follows:

1. distribution and sales of electricity and heat,
2. production of electricity and heat,
3. trade in electricity,
4. street and road lighting.

As at 31 December 2012 the Polish State Treasury is the Company’s parent.

#### 2. Entities included in the Group

As at 31 December 2012 the Group consists of ENERGA Spółka Akcyjna and the following companies:

a) Consolidated subsidiaries:

No.	Company name	Registered office	Scope of operations	The company’s share capital [PLN]	Share of ENERGA SA in the share capital [%]	Share of ENERGA SA Group in the share capital [%]	Share of ENERGA SA Group in the total number of votes [%]
1	ENERGA—OPERATOR SA . . . . .	Gdańsk	energy distribution	603,301,400.00	99.75	99.75	99.75
2	ENERGA Elektrownie Ostrołęka SA . . . . .	Ostrołęka	energy production	223,000,000.00	89.38	89.38	89.38
3	ENERGA Kogeneracja Sp. z o.o. <sup>(1)</sup> . . . . .	Elbląg	energy production	141,977,500.00	78.07	97.67	100.00 <sup>(18)</sup>
4	ENERGA—OBRÓT SA . . . . .	Gdańsk	electric energy trade	368,160,239.00	100.00	100.00	100.00
5	ENERGA Invest SA . . . . .	Gdańsk	investment projects management	3,250,000.00	100.00	100.00	100.00
6	ENERGA Obsługa i Sprzedaż Sp. z o.o. . . . .	Gdańsk	customer service	811,000.00	—	100.00	100.00
7	ENERGA Centrum Usług Wspólnych Sp. z o.o. . . . .	Gdańsk	accounting and payroll services	4,052,000.00	100.00	100.00	100.00
8	ENERGA Hydro Sp. z o.o. <sup>(2)</sup> . . . . .	Straszyn	energy production	265,039,500.00	100.00	100.00	100.00
9	ENERGA Oświetlenie Sp. z o.o. . . . .	Sopot	lighting services	191,621,500.00	—	100.00	100.00
10	Międzynarodowe Centrum Szkolenia Energetyki Sp. z o.o. . . . .	Straszyn	hotel and training services	31,966,000.00	100.00	100.00	100.00
11	ENERGA Elektrociepłownia Kalisz S.A. . . . .	Kalisz	energy production	16,456,000.00	—	100.00	100.00
12	Energetyka Kaliska—Usługi Techniczne Sp. z o.o. . . . .	Kalisz	contracting and designing	1,712,000.00	—	99.75	100.00 <sup>(18)</sup>
13	ENERGA—OPERATOR Produkcja Sp. z o.o. . . . .	Kalisz	manufacture of power equipment	813,000.00	—	99.75	100.00 <sup>(18)</sup>

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

**ENERGA SA Group**  
**Consolidated financial statements for the years 2010 - 2012 ended 31 December**  
**(in PLN)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. Entities included in the Group (Continued)**

No.	Company name	Registered office	Scope of operations	The company's share capital [PLN]	Share of ENERGA SA in the share capital [%]	Share of ENERGA SA Group in the share capital [%]	Share of ENERGA SA Group in the total number of votes [%]
14	Multiserwis Sp. z o.o. in liquidation . . . . .	Kalisz	transport and real estate management	914,000.00	—	96.04	96.28 <sup>(18)</sup>
15	Zakład Budownictwa Energetycznego Sp. z o.o. . . . .	Koszalin	contracting and designing	27,980,000.00	—	99.75	100.00 <sup>(18)</sup>
16	Zaopatrzenie Energetyki Koszalin Sp. z o.o. <sup>(2)</sup> . . . . .	Koszalin	procurement	—	—	—	—
17	Zakład Transportu Energetyki Sp. z o.o. in liquidation . . . . .	Koszalin	renting and servicing of vehicles	2,178,000.00	—	99.75	100.00 <sup>(18)</sup>
18	ENERGA—OPERATOR Techniczna Obsługa Odbiorców Sp. z o.o. . . . .	Koszalin	technical customer service	220,000.00	—	99.75	100.00 <sup>(18)</sup>
19	Zakład Energetyczny Płock—Dystrybucja Zachód Sp. z o.o. in liquidation . . . . .	Sierpc	network operation and investment projects	757,500.00	—	99.75	100.00 <sup>(18)</sup>
20	ENERGA—OPERATOR Eksploatacja i Inwestycje Płock Sp. z o.o. . . . .	Płock	network operation and investment projects	909,500.00	—	99.75	100.00 <sup>(18)</sup>
21	Zakład Energetyczny Płock—Operator Sieci Rozdzielczej Sp. z o.o. in liquidation <sup>(14)</sup> . . . . .	Płock	power distribution	—	—	—	—
22	ENERGA Bio Sp. z o.o. . . . .	Gdańsk	managing investment projects	14,125,000.00	100.00	100.00	100.00
23	Zakład Energetyczny Płock—Centrum Wykonawstwa Specjalistycznego Sp. z o.o. . . . .	Płock	contracting and designing	456,500.00	—	99.75	100.00 <sup>(18)</sup>
24	ZEP—MOT Sp. z o.o. . . . .	Płock	sale and repair of motor vehicles	5,292,000.00	100.00	100.00	100.00
25	Zakład Energetyczny Płock—Centrum Handlowe Sp. z o.o. <sup>(2)</sup> . . . . .	Płock	procurement	1,075,500.00	—	99.75	100.00 <sup>(18)</sup>
26	ENERGA—OPERATOR Projektowanie Sp. z o.o. . . . .	Płock	construction and design work	381,500.00	—	99.75	100.00 <sup>(18)</sup>
27	Przedsiębiorstwo Wielobranżowe Energetyki "ELEKTROINSTAL" Sp. z o.o. . . . .	Raciąż	contracting and designing	244,000.00	—	99.75	100.00 <sup>(18)</sup>
28	KONGRES Sp. z o.o. in liquidation . . . . .	Łąck	hotel and training services	550,000.00	100.00	100.00	100.00
29	ZEP—AUTO Sp. z o.o. . . . .	Płock	sale and repair of motor vehicles	50,000.00	—	100.00	100.00
30	ENERGETYK Sp. z o.o. in liquidation . . . . .	Żychlin	contracting and designing	220,000.00	—	99.75	100.00 <sup>(18)</sup>
31	Przedsiębiorstwo Budownictwa Elektroenergetycznego ENBUD Słupsk Sp. z o.o. . . . .	Słupsk	contracting and designing	300,000.00	—	99.75	100.00 <sup>(18)</sup>
32	Przedsiębiorstwo Zaopatrzenia Materiałowego Energetyki Słupsk Sp. z o.o. <sup>(2)</sup> . . . . .	Słupsk	procurement	—	—	—	—
33	ENERGA Wind Sp. z o.o. (formerly ENERGA Elektrownie Wiatrowe Sp. z o.o.) <sup>(3)</sup> . . . . .	Słupsk	energy production	—	—	—	—

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

**ENERGA SA Group**  
**Consolidated financial statements for the years 2010 - 2012 ended 31 December**  
**(in PLN)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. Entities included in the Group (Continued)**

No.	Company name	Registered office	Scope of operations	The company's share capital [PLN]	Share of ENERGA SA in the share capital [%]	Share of ENERGA SA Group in the share capital [%]	Share of ENERGA SA Group in the total number of votes [%]
34	Zakład Transportu Energetyki ENTRANS Słupsk Sp. z o.o. in liquidation . . . . .	Słupsk	sale of motor vehicles	2,500,000.00	—	99.75	100.00 <sup>(18)</sup>
35	Zakład Energetyczny Toruń—ENERGOHANDEL Sp. z o.o. . . . .	Toruń	procurement	8,010,000.00	—	99.75	100.00 <sup>(18)</sup>
36	Elektrownia Wodna we Włocławku Sp. z o.o. in liquidation . . . . .	Włocławek	energy production	425,000.00	70.00	96.47	96.47
37	ENERGA SLOVAKIA s.r.o. . . . .	Bratislava	electricity sales	EUR 339,833.00	—	100.00	100.00
38	ENERGA OPEC Sp. z o.o. . . . .	Ostrołęka	heat and energy distribution	13,919,000.00	—	99.91	99.91
39	Ekologiczne Materiały Grzewcze Sp. z o.o. . . . .	Szepietowo	biomass production	6,330,000.00	100.00	100.00	100.00
40	Elektrownia Ostrołęka SA <sup>(11)</sup> . . . . .	Ostrołęka	contracting and designing	395,100,000.00	100.00	100.00	100.00
41	ENERGA Innowacje Sp. z o.o. <sup>(10)</sup> . . . . .	Gdańsk	organisation and management of innovative power projects developments	5,002,000.00	0.04	99.88	100.00 <sup>(18)</sup>
42	ENERGA Serwis Sp. z o.o. <sup>(9)</sup> . . . . .	Ostrołęka	repairs and maintenance services	14,200,000.00	14.08	94.64	100.00 <sup>(18)</sup>
43	Biogazownia Starogard Sp. z o.o. <sup>(13)</sup> . . . . .	Wrocław	energy production	3,170,000.00	—	90.00	90.00
44	ENERGA Informatyka i Technologie Sp. z o.o. <sup>(12)</sup> . . . . .	Gdańsk	ICT	35,343,500.00	100.00	100.00	100.00
45	ENERGA Agregator Sp. z o.o. . . . .	Gdańsk	electricity sales	5,000,000.00	—	100.00	100.00
46	ENERGA—OPERATOR Eksploatacja i Inwestycje Słupsk Sp. z o.o. <sup>(8)</sup> . . . . .	Słupsk	network operation and investment projects	6,900,000.00	—	99.75	100.00 <sup>(18)</sup>
47	ENERGA—OPERATOR Eksploatacja i Inwestycje Kalisz Sp. z o.o. <sup>(4)</sup> . . . . .	Kalisz	network operation and investment projects	5,600,000.00	—	99.75	100.00 <sup>(18)</sup>
48	ENERGA—OPERATOR Eksploatacja i Inwestycje Toruń Sp. z o.o. <sup>(5)</sup> . . . . .	Toruń	network operation and investment projects	6,100,000.00	—	99.75	100.00 <sup>(18)</sup>
49	ENERGA—OPERATOR Eksploatacja i Inwestycje Elbląg Sp. z o.o. <sup>(6)</sup> . . . . .	Gdańsk	network operation and investment projects	50,000.00	—	99.75	100.00 <sup>(18)</sup>
50	ENERGA—OPERATOR Eksploatacja i Inwestycje Gdańsk Sp. z o.o. <sup>(7)</sup> . . . . .	Gdańsk	network operation and investment projects	7,100,000.00	—	99.75	100.00 <sup>(18)</sup>
51	AEGIR 1 Sp. z o.o. . . . .	Gdańsk	energy production	50,000.00	—	100.00	100.00
52	AEGIR 2 Sp. z o.o. . . . .	Gdańsk	energy production	50,000.00	—	100.00	100.00
53	AEGIR 3 Sp. z o.o. . . . .	Gdańsk	energy production	50,000.00	—	100.00	100.00
54	AEGIR 4 Sp. z o.o. . . . .	Gdańsk	energy production	50,000.00	—	100.00	100.00
55	AEGIR 5 Sp. z o.o. <sup>(15)</sup> . . . . .	Gdańsk	energy production	7,550,000.00	99.34	100.00	100.00
56	ENERGA Finance AB . . . . .	Stockholm	financing activities	EUR 65,000.00	100.00	100.00	100.00

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

**ENERGA SA Group**

**Consolidated financial statements for the years 2010 - 2012 ended 31 December**

(in PLN)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. Entities included in the Group (Continued)**

No.	Company name	Registered office	Scope of operations	The company's share capital [PLN]	Share of ENERGA SA in the share capital [%]	Share of ENERGA SA Group in the share capital [%]	Share of ENERGA SA Group in the total number of votes [%]
57	RGK Sp. z o.o. . . . . .	Gdańsk	financing activities	5,000.00	100.00	100.00	100.00
58	Breva Sp. z o.o. . . . . .	Szczecin	energy production	50,000.00	100.00	100.00	100.00
59	Zakład Energetyki Ciepłej w Żychlinie Sp. z o.o. . . . .	Żychlin	heat and energy distribution	2,458,300.00	—	100.00	100.00
60	Elektrownia CCGT Gdańsk Sp. z o.o. <sup>(16)</sup> . . . . .	Gdańsk	energy production	19,500,000.00	100.00	100.00	100.00
61	Elektrownia CCGT Grudziądz Sp. z o.o. <sup>(17)</sup> . . . . .	Grudziądz	energy production	18,000,000.00	100.00	100.00	100.00

- (1) The share capital increase by PLN 48.5 million, in return for the in-kind contribution in the form of shares in ENERGA Elektrociepłownia Kalisz S.A and ENERGA OPEC Sp. z o.o. and cash contribution by ENERGA SA and ENERGA Elektrownie Ostrołęka SA was not registered in the National Court Register as at the balance sheet date.
- (2) As at 23 January 2012, a merger of the following supply companies was registered: Zaopatrzenie Energetyki Koszalin Sp. z o.o., Przedsiębiorstwo Zaopatrzenia Materiałowego Energetyki Słupsk Sp. z o.o. and Zakład Energetyczny Płock—Centrum Handlowe Sp. z o.o., with Zakład Energetyczny Płock—Centrum Handlowe Sp. z o.o. as the acquirer, and the remaining entities as the acquirees.
- (3) On 20 December 2012, a merger of ENERGA Hydro and ENERGA Wind, with ENERGA Hydro as the acquirer, was registered in the National Court Register.
- (4) On 15 March 2012, a change in the company's registered office to Kalisz was registered in the National Court Register. Further, on 7 August 2012, an increase in its share capital to the amount of PLN 5.6 million was registered in the National Court Register. The newly-created shares were assumed by ENERGA-OPERATOR SA.
- (5) On 21 March 2012, a change in the company's registered office to Toruń was registered in the National Court Register. Further, on 9 November 2012, an increase in its share capital to the amount of PLN 6.1 million was registered in the National Court Register. The newly-created shares were assumed by ENERGA-OPERATOR SA.
- (6) On 20 March 2012, a change in the company's registered office to Elbląg was registered in the National Court Register. Further, on 12 April 2012, the Extraordinary General Meeting of Shareholders approved an increase in the company's share capital to the amount of PLN 7.9 million. The newly-created shares were assumed by ENERGA-OPERATOR SA. As at the date of these financial statements, the increase has not yet been registered in the National Court Register.
- (7) On 18 May 2012, an increase in the company's share capital to the amount of PLN 7.1 million was registered in the National Court Register. The newly-created shares were assumed by ENERGA-OPERATOR SA.
- (8) On 14 March 2012, a change in the company's registered office to Słupsk was registered in the National Court Register. Further, on 28 June 2012, an increase in its share capital to the amount of PLN 6.9 million was registered in the National Court Register. The newly-created shares were assumed by ENERGA-OPERATOR SA.
- (9) On 13 June 2012, an increase in the company's share capital to the amount of PLN 14.2 million was registered in the National Court Register. The newly-created shares, with an amount of PLN 7.1 million, were assumed by ENERGA Elektrociepłownia Ostrołęka SA.
- (10) On 27 April 2012, an increase in the company's share capital to the amount of PLN 5.002 million was registered in the National Court Register. The newly-created shares, with an amount of PLN 2,000, were assumed by ENERGA SA.
- (11) On 25 May 2012, an increase in the company's share capital to the amount of PLN 395.1 million was registered in the National Court Register. The newly-created shares, with an amount of PLN 185.0 million, were assumed by ENERGA SA.
- (12) On 9 February 2012, ENERGA SA made an in-kind contribution to ENERGA Informatyka i Technologie Sp. z o.o. Following the transaction, the share capital of ENERGA Informatyka i Technologie Sp. z o.o. was increased to PLN 35.3 million. The capital increase was registered in the National Court Register on 27 February 2012.
- (13) On 21 February and on 26 March 2012, the share capital increase to the amount of PLN 3.17 million was registered in the National Court Register. The newly-created shares, with a value of PLN 2.77 million, were in 90% assumed by ENERGA BIO Sp. z o.o.
- (14) On 14 September 2012, the company was deleted from the National Court Register, which completed its liquidation process.
- (15) As at the balance sheet date the share capital increase by PLN 7.5 m in return for the cash contribution by ENERGA SA was not registered in the National Court Register.
- (16) The company was registered in the National Court Register on 31 January 2013.
- (17) The company was registered in the National Court Register on 15 January 2013.
- (18) The Group's share in total number of votes is greater than its share in equity due to indirect shareholdings.

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

**ENERGA SA Group**  
**Consolidated financial statements for the years 2010 - 2012 ended 31 December**  
**(in PLN)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. Entities included in the Group (Continued)**

b) associated entities accounted for under the equity method

No.	Company name	Registered office	Scope of operations	The company's share capital [PLN]	Share of ENERGA SA in the share capital [%]	Share of ENERGA SA Group in the share capital [%]	Share of ENERGA SA Group in the total number of votes [%]
1	Oświetlenie Uliczne i Drogowe Sp. z o.o. . . . . .	Kalisz	lighting services	73,010,000.00	42.20	42.20	42.20
2	P.P.S.Ż.W. WIRBET S.A. <sup>(1)</sup> . . . . .	Ostrów Wlkp.	production of energy sub-assemblies	5,490,000.00	—	—	—
3	SOEN Sp. z o.o. . . . . .	Grudziądz	hotel and administration services	1,000,000.00	48.50	48.50	48.50
4	Słupskie Towarzystwo Koszykówki Sportowa S.A. . . . . .	Słupsk	sports activities	513,500.00	—	40.90	40.90
5	Bio—Power Sp. z o.o. . . . . .	Międzyrzec Podlaski	energy production	2,139,900.00	—	25.00	25.00

(1) See description in point c) below.

c) changes in the composition of the Group in 2010-2012

Mergers

Mergers of Group companies are described in Note 30.

Establishment of companies

On 15 November 2010, ENERGA—OBRÓT SA established ENERGA Innowacje Sp. z o.o., and assumed 100% of its shares. The new entity was established in order to implement innovative solutions in the Energa Group.

On 14 February 2011, the Parent Company established ENERGA Serwis Sp. z o.o. with an objective to provide repairs and maintenance services for the segment of baseload power plants and CHP in the ENERGA Group.

On 29 June 2011, the Parent Company established ENERGA Informatyka i Technologie Sp. z o.o. as its sole stockholder. On 20 October 2011, ENERGA Informatyka i Technologie Sp. z o.o. (the acquirer) merged with ZEP-INFO Sp. z o.o. The merger was executed with a view to creating an entity charged with the implementation of the Group's 2010-2015 IT Strategy. Please refer to Note 42 for additional information on ENERGA Informatyka i Technologie Sp. z o.o.

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

## ENERGA SA Group

Consolidated financial statements for the years 2010 - 2012 ended 31 December

(in PLN)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 2. Entities included in the Group (Continued)

On 16 November 2011, ENERGA—OBRÓT SA established ENERGA Agregator Sp. z o.o. The new company is engaged in the development of a new area of energy markets, such as the management of energy demand and supply by optimizing energy consumption by end users.

On 14 and 15 December 2011, ENERGA—OPERATOR SA established five operating and investment companies: ENERGA—OPERATOR Eksploatacja i Inwestycje Słupsk Sp. z o.o., ENERGA—OPERATOR Eksploatacja i Inwestycje Kalisz Sp. z o.o., ENERGA—OPERATOR Eksploatacja i Inwestycje Toruń Sp. z o.o., ENERGA—OPERATOR Eksploatacja i Inwestycje Elbląg Sp. z o.o., ENERGA—OPERATOR Eksploatacja i Inwestycje Gdańsk Sp. z o.o.

On 27 and 28 December 2011, ENERGA Invest SA established five companies (AEGIR 1 Sp. z o.o., AEGIR 2 Sp. z o.o., AEGIR 3 Sp. z o.o., AEGIR 4 Sp. z o.o. and AEGIR 5 Sp. z o.o.), whose objective is the construction or purchase of wind farms.

On 3 October 2012, the Parent Company established RGK Sp. z o.o. with an objective to restructure the Group's financial assets.

On 3 December 2012, the Parent Company established two new entities: Elektrownia CCGT Gdańsk Sp. z o.o. and Elektrownia CCGT Grudziądz Sp. z o.o., with an objective to build gas power plants.

#### Acquisitions

On 28 January 2011, the Company's subsidiary, ENERGA BIO Sp. z o.o., acquired 90% of shares in the capital of Esperotia Energy Investments Bobowo Sp. z o.o., with its registered office in Wrocław, which effective from 1 April 2011 changed its name to BIOGAZOWNIA STAROGARD Sp. z o.o.. Please refer to Note 41 for more information on this acquisition.

On 12 August 2011, the Company's subsidiary, ENERGA BIO Sp. z o.o., acquired 24.996% of shares in the capital of Bio-Power Sp. z o.o. with its registered office in Międzyrzec Podlaski. Bio-Power Sp. z o.o. is a special purpose vehicle established for investment in the construction of a 1.2 MW bio-energy plant.

On 24 September 2012, ENERGA SA acquired 100% of shares in Goldcup 7889 AB, and then changed the acquiree's name to ENERGA Finance AB. The company was acquired in connection with the planned issue of eurobonds.

On 27 November 2012, ENERGA Kogeneracja Sp. z o.o. signed an agreement to acquire 100% of shares in Zakład Energetyki Ciepłej w Żychlinie Sp. z o.o., a company distributing heat in the Municipality of Żychlin.

On 21 December 2012, ENERGA SA entered into an agreement to acquire 100% of shares in Breva Sp. z o.o., whose objective will be to build a wind farm.

#### Liquidations

On 6 June 2011, upon the completion of its liquidation, ENERGA Nieruchomości SA was deleted from the National Court Register.

On 14 September 2012, upon the completion of its liquidation, Zakład Energetyczny Płock—Operator Sieci Rozdzielczej Sp. z o.o. was deleted from the National Court Register.

#### Disposals of shares

On 27 January 2010, the Parent Company entered into an agreement to sell 9,187,176 shares in Toruńska Energetyka Cergia S.A., representing a 23.53% stake in the entity's capital. The condition precedent contained in the agreement was fulfilled on 16 April 2010, whereby the ownership of all the shares held by

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.



## ENERGA SA Group

### Consolidated financial statements for the years 2010 - 2012 ended 31 December (in PLN)

#### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 2. Entities included in the Group (Continued)

the Group was transferred to the buyer. These consolidated financial statements include the Group's share in the company's net result for the period from 1 January to 16 April 2010.

On 12 March 2010, the Company's subsidiary, Zakład Energetyczny Płock—Centrum Techniki Energetycznej Sp. z o.o., sold 452 shares in ERA—GOST Sp. z o.o., representing a 75.33% stake in the entity's capital and all the shares in the company held by the Group. These consolidated financial statements include ERA—GOST Sp. z o.o.'s net financial result for the period from 1 January to 12 March 2010.

On 16 February 2012, the Company entered into an agreement to sell all the shares held in its associate, WIRBET SA, to THC Fund Management Ltd.

#### 3. The Company's Management Board

In the years 2010—2011, the Company's Management Board comprised:

- Mirosław Bieliński—President of the Management Board,
- Roman Szyszko—Executive Vice-President of the Management Board, Chief Financial Officer.

In the period from 1 January to 28 May 2012, the Company's Management Board comprised:

- Mirosław Bieliński—President of the Management Board,
- Roman Szyszko—Executive Vice-President of the Management Board, Chief Financial Officer.

On 28 May 2012, the Company's Supervisory Board adopted a resolution to appoint for the next term of office the Management Board in the following composition:

- Mirosław Bieliński—President of the Management Board,
- Roman Szyszko—Executive Vice-President of the Management Board, Chief Financial Officer,
- Wojciech Topolnicki—Executive Vice-President of the Management Board, Strategy and Investments.

As at the date of preparation of these consolidated financial statements, the composition of the Management Board remained unchanged.

#### 4. Approval of the financial statements

These consolidated financial statements were authorised for issue by the Company's Management Board on 1 March 2013.

#### 5. Basis of preparation

These consolidated financial statements have been prepared on the historical cost basis except for financial instruments measured at fair value through profit or loss.

The consolidated financial statements are presented in zloty ("PLN"), and all amounts are stated in PLN, unless otherwise indicated.

The consolidated financial statements have been prepared on a going concern basis, except for the following companies: Zakład Energetyczny Płock—Dystrybucja Zachód Sp. z o.o. in liquidation, Elektrownia Wodna we Włocławku Sp. z o.o. in liquidation, Zakład Transportu Energetyki Entrans Słupsk Sp. z o.o. in liquidation, Multiserwis Sp. z o.o. in liquidation, Zakład Energetyczny Płock—Operator Sieci Rozdzielczej Sp. z o.o. in liquidation (deleted from the National Court Register on 14 September 2012), Zakład Transportu Energetyki Sp. z o.o. in liquidation, Energetyk Sp. z o.o. in liquidation, Kongres Sp. z o.o. in liquidation and

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

**ENERGA SA Group**  
**Consolidated financial statements for the years 2010 - 2012 ended 31 December**  
**(in PLN)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**5. Basis of preparation (Continued)**

Międzynarodowe Centrum Szkolenia Energetyki Sp. z o.o. (put into liquidation in February 2013)—see description in Note 41).

On 29 March 2012, the Extraordinary General Meeting of Shareholders of Multiserwis Sp. z o.o. adopted a resolution to liquidate the company.

On 5 June 2012, the Extraordinary General Meetings of Shareholders of Zakład Energetyczny Płock—Dystrybucja Zachód Sp. z o.o., Zakład Transportu Energetyki Entrans Słupsk Sp. z o.o. and Zakład Transportu Energetyki Sp. z o.o. adopted resolutions to liquidate these respective companies.

On 16 October 2012, the Extraordinary General Meeting of Shareholders of Energetyk Sp. z o.o. adopted a resolution to liquidate the company.

On 19 December 2012, the Extraordinary General Meeting of Shareholders of Kongres Sp. z o.o. adopted a resolution to liquidate the company.

As at the date of approval of these consolidated financial statements, from Group perspective, there is no evidence indicating that the continuation of business activities as a going concern may be at risk.

The information on revenues, expenses and results of operations discontinued during the financial year or expected to be discontinued in the following year has been presented in Note 24.1.

**5.1. Statement of compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union (“EU”).

IFRSs include standards and interpretations approved by the International Accounting Standards Board (the “IASB”) and the International Financial Reporting Interpretations Committee (the “IFRIC”).

The consolidated financial statements have been prepared by the Management Board of ENERGA SA for inclusion in the offering document of ENERGA SA.

The Company’s Management Board applied the standards and interpretations of IFRS EU, as well as related measurement principles, using to the best of its knowledge, as at 31 December 2012. Due diligence was applied in the preparation of the accompanying supplementary information and notes.

On 18 October 2012, the Extraordinary General Meeting of ENERGA SA resolved that the Company would prepare its separate and consolidated statutory financial statements in accordance with IFRS EU starting from the fiscal year ending 31 December 2012.

On 28 November 2012, the Extraordinary General Meeting of ENERGA—OPERATOR SA resolved that the company would prepare its separate and consolidated statutory financial statements in accordance with IFRS EU starting from the fiscal year ending 31 December 2012.

Other Group companies maintain their accounting books in accordance with the accounting principles set forth by the Accounting Act of 29 September 1994, as amended, and the regulations issued on the basis thereof (the “Polish Accounting Standards”). These consolidated financial statements contain adjustments that are not included in the accounting books of the Group, recognised in order to make the financial statements of the Group compliant with IFRS EU.

**5.2. Functional and presentation currency**

The presentation currency of the consolidated financial statements is the Polish zloty (PLN) as is the functional currency of all Group entities, with the exception of ENERGA SLOVAKIA s.r.o. and ENERGA Finance AB, for which euro is the presentation currency of their individual financial statements.

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

## ENERGA SA Group

Consolidated financial statements for the years 2010 - 2012 ended 31 December

(in PLN)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 5. Basis of preparation (Continued)

For the purpose of these consolidated financial statements, the underlying accounts of the above-mentioned companies have been translated into PLN at the following rates: assets and liabilities, except equity—exchange rates at the reporting date; income and expenses—average exchange rates for the given financial period.

### 6. Use of estimates and judgments

The process of applying accounting policies to the areas enumerated below required management to make judgements and estimates which affected the amounts in the consolidated financial statements and the notes thereto. The assumptions used in making these estimates are based on management's best knowledge of current and future activities and events in specific areas. Detailed information about these assumptions has been presented in respective notes.

The following paragraphs present information about critical assumptions used as well as other key sources of uncertainty as at the balance sheet date that involve a risk of material revisions to the carrying amounts of assets and liabilities in the future periods.

#### *Impairment of property, plant and equipment*

The Group assessed whether there are any indications that property, plant and equipment may be impaired. If acknowledged that there are actually such indications, the Group performed impairment tests of property, plant and equipment which required making estimates of value in use of the related cash generating units. The assessment of value in use involves estimating future cash flows of the cash generating unit and selecting the appropriate discount rate to be used in the calculation of the present value of those cash flows. Refer to Note 14 for description of the impairment test for property, plant and equipment.

#### *Measurement of provisions*

Actuarial methods have been used to calculate the amounts of provisions for employee benefits (provisions for retirement and disability benefits, jubilee awards, employees' energy rate, supplementary social fund charges for the former employees of Group companies). The relevant assumptions used are disclosed in Note 27.2.

The remaining provisions have been measured based on the best estimate of the outflow of resources required to settle the obligation.

#### *Trend of energy prices*

An essential element of the estimates made by the Group for the value in use of cash-generating units in the production and CHP segment and for the provisions against post-employment benefits from employee rates for the energy industry are energy price paths compiled by industry experts. The Group uses such experts' energy price paths, including price projections for the Polish market, considering any expected legal changes.

#### *Deferred tax assets*

Deferred tax assets are measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted at the reporting date. Deferred tax assets are recognised to the extent that future taxable profits will be available against which they can be utilised. Deterioration of tax profits in the future may lead to the above assumption being ungrounded. Refer to Note 12 for detailed information on deferred tax assets.

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

**ENERGA SA Group**  
**Consolidated financial statements for the years 2010 - 2012 ended 31 December**  
**(in PLN)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**6. Use of estimates and judgments (Continued)**

*Classification of financial instruments*

Based on the provisions of IAS 39 for non-derivative financial instruments, financial assets with fixed or determinable maturities are classified to held-to-maturity category. In making such determination the Group's positive intent and ability to hold these investments to maturity are considered.

*Fair value of financial instruments*

The fair values of financial instruments for which no active market exists are estimated using appropriate valuation techniques. The Group relies on management judgement in selecting appropriate methods and assumptions. Further information on the methods used in determining fair values of specific financial instruments has been provided in Note 36.3.

*Assessment of revenues from electricity sales*

In general, the Group determines volumes of electricity sold (based on meter readings) and invoices customers for periods not corresponding to those used for accounting purposes. For that reason, at each reporting date, estimates are made of sales in the periods not yet included in the meter reading.

*Impairment of receivables*

Receivables and groups of receivables are assessed at each reporting date to determine whether there is any objective evidence that they are impaired. Whenever the asset's carrying amount exceeds its recoverable amount an impairment loss is recognised up to the amount of the present value of the estimated future cash flows from the asset. Further information on the amounts of impairment losses in respect of receivables has been provided in Note 36.4.1.

**7. Estimates**

During the periods covered by the consolidated financial statements, no changes in the methods used in determining substantial estimates occurred. Changes of estimates resulted from events that occurred during the reporting periods.

**8. New standards and interpretations**

**8.1. Standards and interpretations applied for the first time in 2012**

The following amendments to the existing standards issued by the International Accounting Standards Board and adopted by the EU become effective in 2012:

- Amendments to IFRS 7 "Financial Instruments: Disclosures"—Transfers of Financial Assets, endorsed by the EU on 22 November 2011 (effective for annual periods beginning on or after 1 July 2011).

The introduction of the above-mentioned amendments did not have a material effect on the Group's accounting policies.

**8.2. New standards and interpretations already published and endorsed by the EU, but not yet effective**

In preparing these financial statements the Group has not applied the following standards, amendments to standards and interpretations that have been published and adopted by the EU but have not yet become effective:

- IFRS 10 "Consolidated Financial Statements", endorsed by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

## ENERGA SA Group

Consolidated financial statements for the years 2010 - 2012 ended 31 December

(in PLN)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 8. New standards and interpretations (Continued)

- IFRS 11 “Joint Arrangements”, endorsed by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IFRS 12 “Disclosure of Interests in Other Entities”, endorsed by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IFRS 13 “Fair Value Measurement”, endorsed by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- IAS 27 (as amended in 2011) “Separate Financial Statements”, endorsed by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IAS 28 (revised in 2011) “Investments in Associates and Joint Ventures”, endorsed by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IFRS 1 “First-time Adoption of International Financial Reporting Standards”—Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters, endorsed by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IFRS 7 “Financial Instruments: Disclosures”—Offsetting Financial Assets and Financial Liabilities, endorsed by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IAS 1 “Presentation of Financial Statements”—Presentation of Items of Other Comprehensive Income, endorsed by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 July 2012),
- Amendments to IAS 12 “Income Taxes”—Deferred Tax: Recovery of Underlying Assets, endorsed by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IAS 32 “Financial Instruments: Presentation”—Offsetting Financial Assets and Financial Liabilities, endorsed by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine”, endorsed by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).

Management does not expect the amendments to standards and interpretations to have a material impact on the financial statements, had they been applied by the Group as at the reporting date.

### 8.3. Early adopted standards and interpretations

The Group has elected to early adopt IAS 19 “Employee Benefits”—Improvements to the Accounting for Post-employment Benefits (see Note 9.29).

### 8.4. Standards and Interpretations adopted by the IASB, not yet endorsed by the EU.

IFRSs as adopted by the EU do not differ significantly from the standards issued by the International Accounting Standards Board (IASB) save for the following standards, amendments to standards and interpretations that have not yet been endorsed for use as at the date of approval of these financial statements:

- IFRS 9 “Financial Instruments” (effective for annual periods beginning on or after 1 January 2015),
- Amendments to IFRS 1 “First-time Adoption of International Financial Reporting Standards”—Government Loans (effective for annual periods beginning on or after 1 January 2013),

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

## ENERGA SA Group

Consolidated financial statements for the years 2010 - 2012 ended 31 December

(in PLN)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 8. New standards and interpretations (Continued)

- Amendments to IFRS 9 “Financial Instruments” and IFRS 7 “Financial Instruments: Disclosures”—Mandatory Effective Date and Transition Disclosures,
- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 11 “Joint Arrangements” and IFRS 12 “Disclosure of Interests in Other Entities”—Transition Guidance (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosure of Interests in Other Entities” and IAS 27 “Separate Financial Statements”—Investment Entities (effective for annual periods beginning on or after 1 January 2014),
- Amendments to various standards “Improvements to IFRS (2012)” —amendments made as part of the annual IFRS improvement process, published on 17 May 2012 (IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34), aimed primarily at correcting minor conflicts and clarifying wording (effective for annual periods beginning on or after 1 January 2013).

The Management Board believes that the introduction of the above-mentioned standards and interpretations will not have any substantial impact on the accounting policies applied by the Group, save for the following:

- application of the first phase of IFRS 9 will affect the classification and measurement of the Group’s financial assets. The Group will assess this impact in combination with other phases, when published, to present a coherent vision.

### 9. Significant accounting policies

The most significant accounting policies applied by the Company are presented below.

#### 9.1. Basis of consolidation

These consolidated financial statements comprise the financial statements of ENERGA SA and the financial information of its subsidiaries prepared in each case for the year ended 31 December 2012.

Any unrealized gains arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way, but only to the extent that there is no evidence of impairment.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that the Group’s control commences until the date the control ceases. Control is presumed to exist if the parent company owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity, unless it can be demonstrated clearly that such ownership does not constitute control. Control also exists if the Company has the power to govern the investee’s financial and operating policies.

Changes in the Group’s interest in an investee which do not result in the Group obtaining or losing control thereof are accounted for through equity as transactions between owners.

#### 9.2. Investments in associates

Investments in associates are accounted for under the equity method. Associates are those entities in which the parent company has, directly or indirectly through subsidiaries, significant influence and that are not its subsidiaries, jointly controlled entities or joint ventures. Under the equity method, the investment is initially recognised at cost and adjusted thereafter for the investor’s share in post-acquisition results of the investee based on uniform accounting principles. The investor’s share in the results of the associate is recognised in profit or loss. Any dividends received from the associate reduce the carrying amount of the

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.



ENERGA SA Group

Consolidated financial statements for the years 2010 - 2012 ended 31 December

(in PLN)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**9. Significant accounting policies (Continued)**

investment. The investor's share in the changes in the net assets of an associate that are recognised directly in the associate's equity (e.g. those resulting from revaluation of property, plant and equipment) is recognised by the investor also in other comprehensive income. Determination of the investor's share in the associate is based on current ownership interests with potential voting rights not taken into consideration.

The above principle does not apply when the investment is classified as held for sale pursuant to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

**9.3. Foreign currency**

Transactions in currencies other than the Polish zloty are translated to the Polish zloty at exchange rates at the dates of the transactions. At the reporting date:

- monetary assets and liabilities are retranslated at the closing exchange rate at that date (the closing rate shall be the average exchange rate for the given currency as established by the National Bank of Poland for that date)
- non-monetary assets and liabilities that are measured based on historical cost in a foreign currency are translated using the exchange rate at the date of the transaction (the rate of the entity's bank), and
- non-monetary assets and liabilities that are measured at fair value in a foreign currency are retranslated at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognised in finance income (costs) or, where allowed by the accounting principles (policy), capitalised as part of the cost of assets.

Foreign currency differences arising on non-monetary assets and liabilities, such as equity instruments at fair value through profit or loss, are recognised as part of the changes in fair value.

Foreign currency differences arising on retranslation of assets and liabilities of foreign operations are recognised in other comprehensive income.

The following exchange rates were used for retranslation purposes:

**Exchange rate on the last day of the period**

Currency	31 December 2012	31 December 2011	31 December 2010
EURO	4.0882	4.4168	3.9603

At the reporting date, the assets and liabilities of these two entities are retranslated to the Group's presentation currency at the exchange rate at that date while their income and expenses are translated at the weighted average exchange rate for the period. Foreign currency differences arising on retranslation are recognized directly in other comprehensive income. When a foreign operation is disposed of, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit and loss.

The weighted average exchange rates for the respective financial years were as follows:

**Average exchange rate in the period**

Currency	1 January - 31 December 2012	1 January - 31 December 2011	1 January - 31 December 2010
EURO	4.1736	4.1401	4.0044

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

## ENERGA SA Group

Consolidated financial statements for the years 2010 - 2012 ended 31 December

(in PLN)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 9. Significant accounting policies (Continued)

#### 9.4. Property, plant and equipment

Property, plant and equipment include the assets:

- held by an entity for use in the production or supply of goods or services, or for administrative purposes, and
- expected to be used for more than one year,
- for which it is probable that future economic benefits associated with them will flow to the entity,
- whose purchase cost or production cost when self-constructed can be reliably determined.

Property, plant and equipment and assets under construction are measured at purchase or production cost.

Items of property, plant and equipment are measured at their net book value, i.e. at their initial cost (or deemed cost for property, plant and equipment used prior to the date of transition into IFRS EU) less accumulated depreciation and any impairment losses. The initial cost of an item of property, plant and equipment comprises its purchase price plus any directly attributable costs of bringing the asset to the location and condition necessary for its intended use. The cost also includes the estimated costs of dismantlement, removal and restoration, where an obligation to incur such cost arises at the time of installation of an asset or its use for any purpose other than to produce inventories. Capitalizing the cost of acquisition or production ends when the asset is brought to the location and condition necessary for its functioning.

All material elements of an item of property, plant and equipment, with a varying useful life (components), are identified and recognised as on the date of acquisition of that asset. Costs of major overhauls, periodic reviews, where their value is significant, and the cost of replacing major e, also constitute an element of property, plant and equipment.

The purchase price/production cost of an asset less its residual value is the basis for calculating depreciation write-downs. Depreciation begins when the asset is available for use. Depreciation expense is based on the depreciation schedule specifying the expected useful life of an asset. Depreciation method used shall reflect the pattern of consumption by the entity of economic benefits from the asset.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset, being, for individual groups of assets:

<u>Asset type</u>	<u>Period of depreciation in years</u>
Buildings, premises and civil engineering structures . . . . .	2 - 100 years
Machines and technical equipment . . . . .	2 - 50 years
Vehicles . . . . .	3 - 14 years
Office equipment . . . . .	4 - 20 years
Other property, plant & equipment . . . . .	4 - 20 years

The method of depreciation, rate of depreciation and residual value of property, plant & equipment are reviewed at least at the end of each financial year. Any changes resulting from such review are recognized as a change in estimates, and any depreciation adjust entry is made in the year in which the review was made, and in subsequent periods.

An item of property, plant and equipment may be removed from the balance sheet upon its disposal or when no economic benefits are expected from the continued use of such asset. Any gain or loss arising on derecognition of the asset from the balance sheet (calculated as the difference between the potential net

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

**ENERGA SA Group**  
**Consolidated financial statements for the years 2010 - 2012 ended 31 December**  
**(in PLN)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**9. Significant accounting policies (Continued)**

proceeds from the disposal and the carrying amount of the asset) is recognized in the profit and loss statement in the period when the derecognition was made.

**9.5. Investment property**

The Group recognises property as investment property where it is treated as a source of rental income or where it keeps it due to an increase in its value, or where it achieves both these benefits, whereby such property is not:

- used for manufacturing, supply of goods, provision of services or administrative activity, or
- designated for sale in the ordinary course of its business.

Where property is used both for the Group's own needs and in order to obtain benefits, the Group classifies the part used for its own needs and the investment part separately, if the parts can be sold separately or be separate subjects of lease. If this is not possible, the entire property is treated as an investment property only if the portion designated for own use is an insignificant portion of that property.

Investment property is initially recognised at purchase price or production cost, including the transaction cost. If an investment property has been purchased, the cost of purchase comprises the purchase price plus any expenses directly related to the purchase, such as legal fees and property transfer tax. Investment properties produced in-house by the end of the construction are recognised as property, plant & equipment under construction.

After initial recognition, the Group uses valuation at purchase price or production cost, i.e. adopts the same rules as for property, plant & equipment.

Investment property is derecognised when it is disposed of or when given investment property is permanently withdrawn from use, when no future economic benefits are expected from its sale. Any gain or loss resulting from derecognition of investment property is recognized in profit or loss in the period in which it was derecognised.

Transfers of assets to investment property will be made when, and only when, there is a change in use, evidenced by discontinued use of the assets by the owner, concluding an operating lease agreement or completing the construction/manufacturing of such investment property.

**9.6. Intangible assets**

The Group classifies identifiable non-monetary assets without physical substance as intangible assets.

As on the date of initial recognition, intangible assets are measured at cost of purchase or manufacturing. The purchase price of an intangible asset comprises:

- purchase price including import duties, non-deductible taxes included in the price, minus any rebates and discounts granted and
- expenses directly related to preparing the asset for use in accordance with its intended use, in particular the costs of employee benefits, professional fees and the costs of testing whether the asset functions properly.

After initial recognition, intangible assets are recognised at purchase price or production cost less accumulated amortization and impairment write-downs.

Expenditure on intangible assets produced in-house, with the exception of capitalized development costs, are not capitalized and are recognized in the costs of the period in which they were incurred.

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

**ENERGA SA Group**

**Consolidated financial statements for the years 2010 - 2012 ended 31 December**

**(in PLN)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**9. Significant accounting policies (Continued)**

The Group assesses whether the useful life of an intangible asset is finite or indefinite and, if finite, it estimates its duration. The useful life of an intangible asset is assessed as indefinite if, based on an analysis of the relevant factors, there is no foreseeable duration of the period in which the asset will generate cash flow for the entity.

Depreciable value of an intangible asset with finite useful life is decreased by the asset's residual value. The Group has adopted the principle that the residual value of intangible assets is zero, except when:

- an entity has a valid agreement with an unrelated party to sell the rights after a determined period of useful life—then the residual value is equal to the value specified in the agreement for the sale of such rights;
- there is an active market for this type of rights and the value can be reasonably determined and it is highly probable that such market will exist at the end of the asset's useful life.

Intangible assets are amortized over their expected economic useful lives. Depreciation begins when the asset is ready for use.

Intangible assets with a finite useful life are amortised over the useful life and tested for impairment each time there are indications of their impairment. Period and method of amortization of intangible assets with finite useful lives are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of the future economic benefits embodied in the asset are accounted for by changing the amortization period or method, and are treated as changes in accounting estimates.

Summary of the policies applied to the Group's intangible assets:

	Patents and licenses	Development costs	Software	Perpetual usufruct of land	Other
Useful life . . . . .	Period as per the agreement, including additional period for which the use may be extended	5 years	2 years	40 - 99 years	5 years
The depreciation method used . . . . .	Depreciated over the term of the agreement (8 years)—using the straight-line method	5 years using the straight-line method	2 years using the straight-line method	40 - 99 years using the straight-line method	5 years using the straight-line method
Produced internally or acquired . . . . .	Acquired	Produced internally	Acquired	Acquired	Acquired
Verification for impairment . . . . .	Annual evaluation for indications of impairment	Annual (for components not brought to use) and where there is indication of impairment	Annual evaluation for indications of impairment	Annual evaluation for indications of impairment	Annual evaluation for indications of impairment

Gains or losses resulting from derecognition of an intangible asset are valued as the difference between the net proceeds from disposal and the carrying amount of the asset and are recognized in the profit and loss statement when the asset is derecognised.

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

## ENERGA SA Group

Consolidated financial statements for the years 2010 - 2012 ended 31 December

(in PLN)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 9. Significant accounting policies (Continued)

#### 9.6.1 Cost of research and development work

Cost of research and development work is charged to the profit and loss statement when incurred. Expenditure incurred on development work carried out for a given project is carried forward to the next period, if it is expected that it will be recovered in the future. Following the initial recognition of the development expenditure, the historical cost model is applied requiring the assets to be recognised at purchase price/production cost less any accumulated depreciation and accumulated impairment write-downs. Any expenditure carried forward is depreciated over the expected period of obtaining revenues from the sale of a given undertaking.

Development costs are evaluated for impairment annually—if the asset has not yet been put into operation, or more often—when during the accounting period there is indication of impairment showing that its carrying value may not be recoverable.

With the exception of development costs, all intangible assets produced by the Group are not capitalized and are recognized in the profit and loss statement in the period in which the related costs are incurred.

#### 9.6.2 Goodwill

Goodwill arising on acquisition of a business combination is initially recognised at purchase price being the excess of the price paid for the shares or stocks of the acquired entity, plus the value of non-controlling interests and, where the control was acquired at stages, the current fair value of the existing interest in the acquired entity, over the fair value of net identifiable assets, liabilities and contingent liabilities. After initial recognition, goodwill is valued at purchase price less any accumulated impairment write-downs. The impairment test is performed annually or more frequently where there are relevant indications. Goodwill is not depreciated.

As at the acquisition date, any goodwill acquired is allocated to each cash generating unit that can benefit from the synergy. Each unit or group of units to which goodwill has been allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes and
- is not larger than an operating segment as defined in the basic or supplemental reporting format of the Group determined on the basis of IFRS 8 Operating Segments.

Write-downs for impairment are determined by assessing the recoverable value of the cash generating unit to which goodwill has been allocated. If the recoverable value of the cash generating unit is less than its carrying value, write-down for impairment is posted. Where goodwill forms part of a cash generating unit and a part of the operations within that unit is sold, the goodwill associated with the sold operations is included in their carrying amount when determining the gain or loss from the sale of such operations. In such circumstances, the sold goodwill is determined based on the relative values of the operations disposed of and the value of the retained part of the cash generating unit.

#### 9.7. Impairment of non-financial non-current assets

At each balance sheet date, the Group assesses whether there is any indication of impairment of one of the components of non-financial non-current assets. If any such indication exists, or when annual impairment testing was necessary to check whether the impairment took place, the Group estimates the recoverable amount of an asset or a cash generating unit to which the asset belongs.

The recoverable amount of an asset or a cash generating unit corresponds to the higher of: the fair value less selling cost of the asset or, where appropriate, the cash-generating unit, and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

## ENERGA SA Group

Consolidated financial statements for the years 2010 - 2012 ended 31 December

(in PLN)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 9. Significant accounting policies (Continued)

that are largely independent of those generated by other assets or groups of assets. If the carrying value of an asset is higher than its recoverable amount, impairment occurs and a write-down is made to the recoverable amount determined. In estimating value in use, cash flow projections are discounted to their current value using a discount rate before tax effects, which reflects the current market estimate of the time value of money and risk typical for each asset. Impairment losses on assets used in continuing operations are recognised in cost categories that correspond to the function of the impaired asset.

At each balance sheet date, the Group assesses whether there is any indication that a write-down for impairment, which was recognized in prior periods for an asset, is no longer necessary or should be decreased. If any such indication exists, the Group estimates the recoverable amount of the asset. A previously recognised impairment loss is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. In this case, the carrying value of the asset is increased to its recoverable amount. That increased amount must not exceed the carrying value of the asset that would have been determined (net of depreciation), if no write-down for impairment had been recognized in previous years in respect of that asset. Reversal of a write-down for impairment for an asset is recognized immediately as income in the profit and loss statement. Once the write-down for impairment has been reversed, in future periods the depreciation write-down for the asset is adjusted in such a way that its revised carrying value less its exit value will be regularly written down over the remaining useful life of the asset.

#### 9.8. Borrowing costs

Borrowing costs are capitalized as part of the manufacturing cost of property, plant & equipment. Borrowing costs include interest and gains or losses on foreign exchange differences to the extent corresponding to an adjust entry for interest costs.

Capitalisation of financing costs begins once activities necessary to prepare the asset for its intended use have been undertaken, investments are being made for the asset and borrowing costs have been incurred. If investment in an asset is discontinued for an extended period of time, the capitalisation of the borrowing cost is suspended. Capitalisation is suspended if substantially all steps required to prepare an asset for use have been completed.

Current costs of special purpose loans and borrowings, less income from temporary placement of surplus funds, and current costs of general loans and borrowings are capitalised, where expenditure on property, plant & equipment exceeds the value of special purpose loans and borrowings. Borrowing costs are capitalized in the amount being the product of capitalisation rate and the excess of expenditure on property, plant & equipment over the value of special purpose borrowings. The capitalization rate is determined as a weighted average of the borrowing costs relating to borrowings and loans constituting the Group's liabilities other than special purpose loans and borrowings. The amount of the borrowing costs capitalised in the period does not exceed the amount of the borrowing costs incurred during the period.

#### 9.9. Financial assets

Financial assets are categorised as follows:

- Financial assets held to maturity,
- Financial assets fair-valued through profit and loss
- Loans made and receivables,
- Assets available for sale.

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.



ENERGA SA Group

Consolidated financial statements for the years 2010 - 2012 ended 31 December

(in PLN)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**9. Significant accounting policies (Continued)**

*Financial assets held to maturity*

Assets held to maturity are financial assets with fixed or determinable payments and fixed maturities that the Group has the intent and ability to hold until that date. Financial assets held to maturity are measured at amortised cost using the effective interest method. Financial assets held to maturity are classified as long-term assets if their maturity exceeds 12 months from the balance sheet date.

*Financial assets fair-valued through profit and loss*

A financial asset measured at fair value through profit or loss is an asset that meets one of the following conditions:

- a) is classified as held for trading. Financial assets are classified as held for trading if they are:
  - acquired principally for the purpose of selling in the near term,
  - part of a portfolio of specified financial instruments that are managed jointly and for which there is probability of achieving immediate profit or
  - derivatives, save for derivatives that are part of hedge accounting.
- b) was classified in that category at the time of purchase. The financial asset can be classified at the time of purchase as the portfolio valued at fair value with changes recognised in the profit and loss statement (except for equity instruments that do not have quoted prices in an active market and their fair value cannot be reliably determined) if the following criteria are met:
  - such classifications eliminates or significantly reduces the inconsistent treatment, where the valuation and the principles of recognizing profits and losses are subject to different regulations; or
  - the assets are part of a group of financial assets that are managed and evaluated on a fair value basis, in accordance with a documented risk management strategy; or
  - financial assets contain embedded derivatives which should be recognised separately.

The Group must not reclassify financial instruments to and from the portfolio fair-valued through profit or loss.

These instruments are fair-valued at the balance sheet date. Profit or loss on financial assets classified as portfolio fair-valued through profit or loss is recognized in the profit and loss statement.

*Loans and receivables*

Loans granted and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, where their maturities are not more than 12 months after the balance sheet date. Loans granted and receivables with maturities more than 12 months after the balance sheet date are classified as property, plant & equipment. Loans and receivables are recognised at amortised cost.

*Assets available for sale*

All other financial assets are available-for-sale assets. Assets available for sale are fair-valued at each balance sheet date. The fair value of investments for which there is no quoted market price is determined by reference to the current market value of another instrument of the same characteristics, or based on the expected cash flows from the asset which is the subject of investments (valuation with the use of discounted cash flow method).

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

## ENERGA SA Group

Consolidated financial statements for the years 2010 - 2012 ended 31 December

(in PLN)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 9. Significant accounting policies (Continued)

Positive and negative difference between the fair value of assets available for sale (if there is a market price determined on the regulated market or if their fairvalue can be determined in another reliable manner) and their purchase price, net of deferred tax, is recognised in other comprehensive income, except for:

- impairment losses,
- gains and losses from changes in foreign currency exchange, which arise for monetary assets,
- interest calculated using the effective interest method.

Dividends from equity instruments in the portfolio of assets available for sale are recognized in the profit or loss statement when the entity's right to receive payment is established.

#### 9.10. Impairment of financial assets

At each balance sheet date, the Group assesses whether there is objective indication of impairment of a financial asset or a group of financial assets.

##### *Assets measured at amortised cost*

If there is objective indication of an impairment loss on loans granted or receivables valued at amortised cost, the amount of the impairment write-down equals the difference between the carrying value of the financial asset and the present value of estimated future cash flows (excluding future losses on irrecoverable receivables that have not been incurred) discounted at the original (i.e. determined at initial recognition) effective interest rate. The carrying value of the asset is reduced by the impairment write-down. The amount of the loss shall be recognised in profit or loss.

The Group first assesses whether there is objective indication of impairment of individual financial assets that are individually material, or indication of impairment of financial assets that are not individually material. If the analysis shows that there is no objective indication of impairment of an individually assessed financial asset, regardless of whether it is material or not, the Group includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The assets that are individually assessed for impairment and for which an impairment write-down was posted or it was decided that a previously recognized write-down does not change, are not taken into account in the collective assessment of assets for impairment.

If, in a subsequent period, an impairment write-down decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment write-down is reversed. Subsequent reversals of impairment losses are recognised in profit or loss to the extent that the carrying amount of the asset does not exceed its amortised cost as on the date of reversal.

##### *Available-for-sale financial assets*

If there is objective indication of an impairment of financial assets available for sale, the amount of the difference between the purchase price of the asset (net of any principal repayment and—in the case of financial assets measured at amortized cost using the effective interest rate method—depreciation) and its current fair value, less any impairment write-downs on that asset previously recognized in profit or loss, is derecognised in equity and transferred to profit or loss. Reversals of impairment write-downs for equity instruments classified as available for sale cannot be recognized in the profit and loss. If, in a subsequent period, the fair value of a debt instrument available for sale increases and the increase can be objectively related to an event occurring after the impairment write-down was recognised in profit and loss, the amount of the reversed impairment write-down is recognized in profit and loss.

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

**ENERGA SA Group**  
**Consolidated financial statements for the years 2010 - 2012 ended 31 December**  
**(in PLN)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**9. Significant accounting policies (Continued)**

**9.11. Embedded derivatives**

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract. Due to that component, some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

Group analyses new and existing contracts to identify any embedded derivative.

Embedded derivatives are separated from the host contracts and accounted for as derivatives, if the following conditions are met:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative;
- a hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in profit or loss.

Embedded derivatives are accounted for in a similar way as stand-alone derivatives that are not considered hedge instruments.

The scope in which the economic characteristics and risks of a foreign currency embedded derivative are closely related to those of host contract includes also circumstances, where the currency of the host contract is commonly used in contracts to purchase or sell non-financial items in the economic environment in which the transaction takes place.

“Separated” embedded derivative is recognized in the statement of financial position at fair value with changes in fair value recognized in profit or loss.

The assessment whether an embedded derivative should be separated is made by the Group at initial recognition. In the case of embedded derivatives acquired in a business combination, the Group does not re-assess embedded derivatives as at the date of the merger (since the assessment was made at initial recognition in the acquired entity).

**9.12. Inventories**

Inventories include:

- assets held for sale in the ordinary course of business,
- in the process of production for such sale; or
- in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are measured at the lower of: purchase price or production cost and net realisable value.

Purchase prices used for measurement at the reporting date may not be higher than the assets' net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The consumption of identical inventories or inventories considered identical due to the similarity of their nature and use to the entity, is measured in the Group in the following way:

- coal—according to the FIFO cost formula,

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

**ENERGA SA Group**  
**Consolidated financial statements for the years 2010 - 2012 ended 31 December**  
**(in PLN)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**9. Significant accounting policies (Continued)**

- materials purchased for specific orders—according to the detailed price identification method,
- other inventories—according to weighted average cost formula.

**Certificates of origin**

Energy certificates for energy produced in the reporting period are at initial recognition measured at fair value established at the date of recognition of the asset, i.e. the production of energy from renewable sources or in cogeneration. Fair value of the certificate is its price quoted at the Power Exchange on the date of energy production from renewable sources or in cogeneration.

Purchased certificates of origin are measured at purchase price.

At the time of the sale of certificates of origin, the difference between the net sales price and the carrying amount of the previously recognized certificates is recognised in the profit or loss as an adjustment to operating income.

**9.13. Cash and cash equivalents**

Cash and cash equivalents include:

- cash on hand and on current bank accounts,
- cash equivalents, including bank deposits with a maturity of no more than three months and ENERGA Trading SFIO investment fund participation units.

The cash and cash equivalents reported in the consolidated statement of cash flows include the above cash and cash equivalents, net of outstanding bank overdrafts.

The Group presents bank deposits with original maturity longer than three months as term deposits and deposits.

Cash is measured at face value. Other monetary assets are measured in accordance with the policies applicable to financial instruments.

The value of participation units in ENERGA Trading SFIO investment fund is measured as the product of their quantity and the value of a single participation unit. Measurement is made by the fund management company in accordance with the Act on investment funds of 27 May 2004. Since the fund is a liquidity fund (Polish monetary instruments fund), the units are recognised as cash equivalents.

ENERGA Trading SFIO was established to manage financial surpluses of the ENERGA Group companies and is an alternative to bank deposits, even the overnight ones. The fund is characterised by high liquidity and low risk. Mechanisms embedded in the settlement system allow for conversion of the participation units into cash within the same working day (for orders placed in the morning) or on the following day (for orders placed in the afternoon). Furthermore, ENERGA Group companies can settle their mutual receivables and payables using fund units.

**9.14. Other assets**

Prepaid expenses and accrued income are recognised as other assets if the following conditions are met:

- they result from past events—expenditure incurred for the entity's operations,
- their value can be reliably measured,
- they contribute to future economic benefits of the entity,

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

## ENERGA SA Group

Consolidated financial statements for the years 2010 - 2012 ended 31 December

(in PLN)

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 9. Significant accounting policies (Continued)

- they relate to future reporting periods.

Prepaid expenses and accrued income are recognized in the amount of reliably measured incurred expenses that relate to future periods and will result in future economic benefits flowing to the entities.

Prepaid expenses and accrued income are amortised over time or in relation to value of services. The time and manner of settlement depend on the nature of expenses being settled, taking into consideration the prudence principle.

As at the end of the reporting period the Group verifies prepaid expenses and accrued income to determine whether the degree of probability of economic benefits' inflow after the end of the current reporting period is sufficient to recognise a given item as an asset.

Other assets include budgetary receivables (except for the corporate income tax settlements that are presented as a separate line item in the statement of financial position), the excess of the Company Social Benefit Fund assets over liabilities to that fund and the advance payments for future purchases of property, plant and equipment, intangible assets and inventories, as well as biological assets. Advances are presented in line with the nature of the assets they concern—as non-current or current assets, as appropriate. Advance payments as non-monetary assets are not discounted.

#### Biological assets and agricultural products

Biological assets are plants or living animals that once harvested will become agricultural products. The Group presents biological assets as other assets.

Biological assets are measured on initial recognition and at the end of each reporting period at fair value less estimated costs to sell. When the fair value cannot be reliably measured, biological assets are measured at purchase price or production cost less any accumulated depreciation and accumulated impairment losses.

Agricultural products harvested from biological assets are measured at fair value less estimated costs to sell. The value determined in this way becomes a production cost for the recognition of inventories or other assets.

Fair value is determined by taking into account the present condition of assets and location at the time of measurement, and it is the amount for which an asset could be exchanged, or liability settled, between knowledgeable and willing parties in an arm's length transaction.

Any changes in the fair value of biological assets during the reporting period are recognized in operating expenses.

#### 9.15. Equity

The equity is recognized at nominal value, divided by type and according to the principles laid down by law and the parent's Articles of Association.

Share capital in the consolidated financial statements is presented in the amount specified in the parent's Articles of Association. Declared but unpaid capital contributions are recognized as outstanding contributions to the capital—as a negative value.

The Capital Group's reserve capital is the parent's reserve capital.

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

**ENERGA SA Group**  
**Consolidated financial statements for the years 2010 - 2012 ended 31 December**  
**(in PLN)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**9. Significant accounting policies (Continued)**

**9.16. Provisions**

The Group creates provisions when the Group has a present obligation (legal or constructive) as a result of a past event, and when it is probable that the fulfilment of this obligation will cause an outflow of economic benefits and the amount of obligation can be reliably estimated. Where the Group expects that the costs covered with the provision will be reimbursed, for example under an insurance agreement, the reimbursement is recognized as a separate asset but only when it is virtually certain that the reimbursement will be received. Costs relating to a given provision are presented in the profit and loss statement net of any reimbursement.

The provisions created are charged to operating expenses, other operating expenses, financial expenses, depending on their related circumstances.

When the effect of change of money value is material, the amount of the provision corresponds to the present value of the expenditures expected to be required to settle the obligation.

The discount rate is determined before tax, that is, it reflects the current market assessments of the money value in time and the risks related to the specific liability. The discount rate does not reflect risks for which future cash flow estimates have been adjusted. If the discounting method has been applied, increase in the provision due to the flow of time is recognized as a finance cost.

In particular, the following titles are expected for provisioning:

***Provisions for pensions and other post-employment benefits***

The amount of provisions for pensions and other post-employment benefits is estimated with the use of actuarial techniques. Provisions are charged to profit or loss (operating expenses or finance costs, as appropriate), except for actuarial gains and losses. Gains and losses from actuarial calculations are recognised entirely in other comprehensive income.

Group establishes provisions for the following post-employment benefits:

***a) Retirement and disability payments***

In line with the company's remuneration systems and labour law, the Group's employees are entitled to retirement and disability payments. Retirement severance payments are disbursed in a single payment at the time of retirement. The amount of retirement severance payment depends on each employee's years of service and average salary. The Group creates a provision for future liabilities in respect of retirement and disability payments in order to allocate costs to the periods to which they relate. Accrued liabilities are equal to the discounted payments that will be made in the future, including staff turnover, and relate to the period up to the end of the accounting period. Demographic information and employee turnover information are based on past data.

***b) Provision for cash allowance under employee rates for energy industry employees***

Pursuant to the Collective Bargaining Agreement ("CBA"), amended in 2005, the obligation to pay benefits to former employees of the energy industry under the so-called "electricity tariff", was transferred to individual companies, where specific pensioners had been employed. Therefore, since December 2005, the Group has been creating appropriate provisions.

The cost of the provision related to the eligible retirees on the date of entry into force of the Additional Protocol to the CBA was charged in full to the 2005 result. The cost of past employment, relating to companies' employees—future retirees—is recognized on the earlier of the two dates—the date of the

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.



**ENERGA SA Group**  
**Consolidated financial statements for the years 2010 - 2012 ended 31 December**  
**(in PLN)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**9. Significant accounting policies (Continued)**

amendment or limitation of the defined benefit plans and the date when the entity recognizes the related restructuring costs or benefits due to termination of employment.

*c) Provision for the Company Social Benefit Fund and other benefits for retirees and pensioners*

The Group's companies post write-downs for Company Social Benefit Funds for retirees and pensioners. The value of the liability to former employees is estimated on the basis of the terms and conditions of the applicable Collective Agreements for the companies or on the basis of other legal regulations. These obligations arise from the rights acquired by the Group companies' employees in the period of employment.

*Provision for jubilee bonuses*

Pursuant to the in-company reward systems the Group employees are entitled to jubilee bonuses paid after a specified number of years in service. The amount of jubilee bonuses depends on an employee's length of service and average salary. The Group creates a provision for future liabilities in respect of jubilee bonuses in order to allocate costs to the periods to which they relate. The present value of these liabilities is calculated by an actuary at the end of each accounting period. Accrued liabilities are equal to the discounted payments that will be made in the future, including staff turnover, and relate to the period up to the end of the accounting period. Demographic information and employee turnover information are based on past data. Provisions are charged entirely to profit or loss (operating expenses or finance costs, as appropriate).

*Third party claims and litigation*

Provision for third party claims and the effects of pending litigation is created in the amount of the claim in real terms, taking into account possible costs of litigation.

*Provision for property, plant and equipment decommissioning cost*

Provision for future property, plant and equipment decommissioning costs is created where the law provides for the obligation to dismantle and remove property, plant & equipment when they are no longer used, and to reinstitute the condition of the sites where they were used.

*Provision for liabilities arising from gas emission*

Where the CO2 emission exceeds the certificates held as at the balance sheet date, a provision is created on the basis of the actual usage rights, based on the market price of the right as at the date of the valuation of the provision.

*Provision for obligation to redeem certificates*

Where there is shortage of certificates of origin for electricity produced from renewable sources or in co-generation, which has not been covered by the purchase of the certificates in the market or with a replacement fee, a provision is created to cover the shortage.

*Restructuring provision*

In 2010-2012, the Group companies launched voluntary redundancy programs ("VRP"). The Group recognizes provisions for employment termination benefits resulting from the VRP based on the number of employees who will benefit from the program, and the estimated value of severance payments.

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

## ENERGA SA Group

Consolidated financial statements for the years 2010 - 2012 ended 31 December

(in PLN)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 9. Significant accounting policies (Continued)

#### 9.17. Financial liabilities

Financial liabilities are categorised as follows:

- Measured at amortised cost,
- Financial liabilities measured at fair value through profit or loss.

The liabilities measured at amortized cost include mainly payables, bank credits, loans and debt securities. At initial recognition, they are measured at fair value less costs associated with obtaining a credit or a loan. Following initial recognition, they are measured at amortized cost using the effective interest rate method.

Amortised cost includes the cost of obtaining a credit or a loan and discounts and premiums received in connection with the liability.

Revenues and expenses are recognized in profit and loss when the liabilities are derecognised in the balance sheet as well as on their settlement with the use of the effective interest rate method.

Financial liabilities are measured at fair value through profit and loss and include financial liabilities held for trading and financial liabilities initially classified as fair-valued through profit and loss. Financial liabilities are classified as held for sale if they have been acquired principally for the purpose of selling in the near term. Derivatives, including separated embedded instruments, are also classified as held for trading, unless they are classified as effective hedging instruments. Financial liabilities may be classified at initial recognition as fair-valued through profit and loss, if the following criteria are met: (i) such classification eliminates or significantly reduces the inconsistent treatment, where the valuation and the principles of recognizing profits and losses are subject to different regulations; or (ii) the liabilities are part of a group of financial liabilities that are managed and evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that should be recognized separately.

Financial liabilities fair-valued through profit and loss are measured at fair value, taking into account their market value at the balance sheet date, net of transaction costs. Changes in the fair value of these instruments are recognised in profit or loss as financial expenses or revenues.

Other financial liabilities which are not financial instruments fair-valued through profit and loss are valued at amortised cost with the use of the effective interest rate method.

The Group derecognises a financial liability when the liability is extinguished—i.e. when the obligation specified in an agreement has been discharged, cancelled or has expired. Replacement of an existing debt instrument with an instrument with substantially different terms, made between the same entities, is recognized by the Group as an expiry of the original liability and the recognition of a new financial liability. Similarly, significant modifications of terms and conditions of an agreement relating to the existing financial liability are recognized by the Group as an expiry of the original liability and the recognition of a new financial liability. The resulting exchange differences arising from the respective carrying values are recognized in the profit and loss statement.

#### 9.18. Other liabilities

Other non-financial liabilities include, in particular, liabilities towards the tax office for value-added tax, and liabilities relating to received advance payments that will be settled by delivery of goods, services or property, plant & equipment.

Other non-financial liabilities are recognised in the amount due.

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

**ENERGA SA Group**  
**Consolidated financial statements for the years 2010 - 2012 ended 31 December**  
**(in PLN)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**9. Significant accounting policies (Continued)**

**9.19. Accrued expenses and unearned revenue**

The Group creates accrued liabilities:

- which are certain or very likely to arise,
- which result from past events and will result in utilising held or future assets of the entity,
- which can be reliably estimated.

Accrued expenses are liabilities payable for goods or services that have been received/rendered, but have not been paid for, invoiced or formally reconciled with a supplier, including amounts due to employees. Although it is sometimes necessary to estimate the amount or date of payment of accrued expenses, the degree of uncertainty is generally much smaller than for provisions.

Accrued expenses in the amount of reliably estimated, probable liabilities attributable to the current accounting period, resulting from services provided to the Group by external contractors, are presented in the statement of financial position as payables.

Unearned revenue is recognised with the observance of the caution principle and the matching of revenues and expenses. The following items are classified as unearned revenue:

- equivalent of amounts received or due from counterparties for benefits to be delivered in future accounting periods,
- cash received to cover the acquisition or manufacturing of property, plant and equipment and development. The settlement is made by a gradual increase of other operating income by the amount equal to the depreciation of these assets in part financed by these funds. This applies in particular to partially redeemed loans and credits and donations for the purchase of a fixed asset,
- property, plant and equipment and intangible assets received gratuitously. These revenues are written down as other operating income, in parallel to the depreciation write-downs for these assets.

**9.20. CO2 emission rights**

Acquired CO2 emission rights are measured at purchase price and recognised as intangible assets. These values are not depreciated. Acquired emission rights are redeemed when they are used to cover the shortage occurring as at the date of settlement of the annual CO2 emission limit. Redemption of the emission rights is charged to the costs of the period.

Granted emission rights are recognised off-balance. Their use is also recorded off-balance, according to actual emissions.

Fees for the grant of rights are recognised as the costs of the period.

**9.21. Leases**

*The Group as lessee*

Finance leases, which transfer to the Group substantially all the risks and benefits of ownership of the leased item, are recognised in the balance sheet at the inception of the lease at the lower of: the fair value of the leased property or the present value of the minimum lease payments. Lease payments are apportioned between finance costs and reduction of the lease liability balance, so as to achieve a fixed rate of interest on the remaining balance of the liability. Finance costs are recognised directly in profit or loss.

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

**ENERGA SA Group**

**Consolidated financial statements for the years 2010 - 2012 ended 31 December**

**(in PLN)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**9. Significant accounting policies (Continued)**

Property, plant & equipment used under finance leases are depreciated over the shorter of: the estimated useful life of the asset or the lease term, if there is no reasonable certainty that a lessee will obtain ownership by the end of the lease term.

Leases where a lessor retains substantially all the risks and benefits of ownership of the leased asset are classified as operating leases. Lease payments under an operating lease and subsequent lease payments are recognized as an expense in the profit and loss statement on a straight-line basis over the lease term.

*The Group as lessor*

For finance leases the Group recognizes the leased assets in its balance sheet and ledgers as long-term or short-term financial assets from receivables. They are measured at amortized cost using the interest rate of the lease.

The Group divides the basic fee for into the principal portion and the interest portion. The interest portion of the basic amount constitutes finance lease income recognised as finance income.

The principal portion of the lease fee attributable to a given accounting period represents repayment of the receivables from the user. The fee is apportioned using the interest rate applicable to the lease.

The leases under which the Group retains substantially all the risks and benefits of ownership of the leased asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying value of the leased asset and recognized over the lease term on the same basis as rental income. Contingent lease payments are recognized as revenue in the period in which they are earned.

**9.22. Taxes**

The income tax recognized in the profit and loss statement includes the actual tax burden for the given accounting period and the change in deferred tax assets and the deferred tax provision not settled in equity or other comprehensive income.

*Current tax*

The actual tax charge for the given accounting period, determined by the Group companies in accordance with the applicable provisions of the Act on Corporate Income Tax.

On 28 December 2011, Tax Capital Group under the name of PGK ENERGA—OPERATOR (“PGK”) was established. PKG’s taxable income is the income achieved in fiscal year, representing the excess of all Group companies’ total revenue over their total loss. For more information on PGK see Note 34

*Deferred tax*

As a result of temporary differences between the book value of assets and liabilities and their tax bases and tax loss to be deducted in the future, the entity creates a provision and determines deferred tax asset.

Deferred tax liabilities are established for all taxable temporary differences, except to the extent that the deferred tax liabilities arise from:

- initial recognition of goodwill or of an asset or liability in a transaction which is not a business combination and, at the time of the transaction does not affect the gross financial result or the taxable income (tax loss); and

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

## ENERGA SA Group

Consolidated financial statements for the years 2010 - 2012 ended 31 December

(in PLN)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 9. Significant accounting policies (Continued)

- positive temporary differences associated with investments in subsidiaries, associated companies and interests in joint ventures, for which it is possible to control the time of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax asset is recognized for all negative temporary differences to the extent that it is probable that the taxable income will be achieved from which temporary negative differences will be deducted, except:

- where the deferred tax asset arises from the initial recognition of an asset or liability in a transaction which is not a business combination and, at the time of the transaction does not affect the gross financial result or the taxable income (tax loss); and
- negative temporary differences associated with investments in subsidiaries, associated companies and interests in joint ventures, for which deferred tax is recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and the taxable income will be available allowing for realising negative temporary differences.

The carrying value of deferred tax asset is reviewed at each balance sheet date. The Company decreases the carrying amount of a deferred tax asset to the extent that a taxable income sufficient to ensure partial or full realisation of the deferred tax asset is not likely to be earned. Unrecognised deferred tax asset is reviewed at each balance sheet date and is recognized to the extent that it becomes probable that future taxable income will allow for their realisation.

Deferred tax assets and liabilities will be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or whose legislative process had been substantially completed by the balance sheet date.

#### *Value-added tax*

Income, expenses, assets and liabilities are recognised less the amount of value-added tax, save for:

- the value-added tax paid for purchase of assets or services is not recoverable from the state budget, then it is recognized as part of the purchase price of the asset or as part of a cost item, and
- receivables and payables, which are recognised with the amount of value-added tax.

The net amount of value-added tax recoverable from or payable to the state budget in the next period is recognized in the balance sheet as part of receivables or payables.

#### **9.23. Revenue**

Revenue is recognized to the extent that it is probable that the Group will obtain economic benefits from the transaction and when the revenue can be reliably measured. Revenue is recognized net of value-added tax (VAT), excise tax and other sales taxes or fees, and rebates and discounts. The following specific revenue recognition criteria must also be met.

#### *Revenue from sales of goods and products*

Revenue is recognized when the significant risks and benefits of ownership of goods and products have passed to the buyer and the amount of revenue can be measured reliably and the costs incurred can be reliably estimated.

Revenue includes:

- amounts receivable from the sale of: electricity to wholesale and retail, heat, certificates of origin for electricity generated from renewable sources, certificates of electricity in co-generation, emission rights,

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

## ENERGA SA Group

Consolidated financial statements for the years 2010 - 2012 ended 31 December

(in PLN)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 9. Significant accounting policies (Continued)

transmission and distribution services and other core business services determined on the basis of the net price after adjustments for granted discounts and rebates and excise tax,

- amounts due from sales of materials and products based on the net price, after adjustments for granted discounts and rebates.

#### *Interest*

Revenue from interest is recognized as the interest accrues (using the effective interest rate method, i.e. the discounting rate for future cash receipts through the expected life of the financial instrument) to the net carrying value of the financial asset.

#### *Dividends*

Dividends are recognised as at the time the shareholders' right to receive them is established.

#### *Rental revenue and operating lease revenue*

Rental and operating lease revenue is recognized with the use of straight-line method over the lease term in relation to existing agreements.

### 9.24. Costs

#### *Prime cost of sales*

Prime cost of sales includes:

- production costs incurred during the accounting period, adjusted for changes in products and adjusted for the cost of production for the company's own needs,
- value of electricity and materials sold at purchase prices,
- write-downs on the value of property, plant and equipment, intangible assets, receivables and provisions,
- all selling costs and administrative expenses (recognised separately in the profit and loss account) incurred in the accounting period.

Production costs that can be directly attributable to revenue recognized by the company, affect the profit or loss for the accounting period in which they were incurred.

Production costs, which can only be indirectly attributable to revenue or other benefits achieved by the company, affect the company's financial result in the part in which they relate to the given accounting period.

### 9.25. Other operating income and expenses

Other operating income and expenses include in particular items related to:

- sales of property, plant and equipment, intangibles and investment properties;
- creation and termination of provisions, excluding provisions related to financial operations or charged to operating expenses,
- handing over assets or receiving them free of charge, including by way of donation, including cash donation,
- damages, penalties and fines, and other expenses not related to ordinary business.

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.



**ENERGA SA Group**  
**Consolidated financial statements for the years 2010 - 2012 ended 31 December**  
**(in PLN)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**9. Significant accounting policies (Continued)**

**9.26. Finance income and costs**

Finance income and costs cover, in particular, income and costs pertaining to:

- disposing of financial assets,
- revaluation of financial instruments, with the exception of financial assets available for sale, for which the effects of the revaluation are recognized in the revaluation reserve,
- proceeds from participating in the earnings of other entities,
- interest,
- changes in the amount of provisions due to approaching the date of incurring the cost (unwinding of the discount),
- exchange differences resulting from operations during the accounting period and the valuation of balance sheet assets and liabilities at the end of the accounting period, except for exchange differences recognized in the initial value of the asset, to the extent that they are regarded as an adjustment to interest costs and exchange differences arising from the valuation of equity instruments in foreign currency classified as available for sale,
- other items related to finance activity.

Interest income and expenses are recognised as they accrue using the effective interest method with respect to the net carrying amount of a given financial instrument, on the basis of materiality.

Dividends are recognised as at the time the shareholders' right to receive them is established.

**9.27. Earnings per share**

Net earnings per share for each period is calculated by dividing the net profit attributable to shareholders of the parent for the period by the weighted average number of shares during the accounting period.

On the other hand, diluted earnings per share are calculated by dividing net earnings for the period attributable to ordinary shareholders (minus interest on redeemable preferred shares, convertible to ordinary shares) by the weighted average number of issued ordinary shares in the period (adjusted for the effect of dilutive options and dilutive redeemable preferred shares convertible to ordinary shares).

**9.28. Statement of cash flows**

Cash flow statement was prepared with the use of indirect method.

**9.29. Accounting changes and changes to data presentation**

In 2012, the Group has decided to use the possibility of an early adoption of the amendments to IAS 19 "Employee Benefits", relating to the post-employment benefits (effective for annual periods beginning on or after 1 January 2013).

In view of the above, the manner of presenting actuarial gains and losses from the valuation of defined benefit plans and past employment costs has changed:

in the preceding periods, the Group

1. recognized actuarial gains and losses from the valuation of defined benefit plans in the profit and loss statement. Currently, the Group recognizes actuarial gains and losses from the valuation of defined benefit plans in other comprehensive income;

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

ENERGA SA Group

Consolidated financial statements for the years 2010 - 2012 ended 31 December

(in PLN)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Significant accounting policies (Continued)

2. recognized past employment costs with the use of the straight-line method over the average vesting period for such benefits. Currently the Group recognises the cost of past employment on the earlier of the two dates—the date of the amendment or limitation of the defined benefit plans and the date when the entity recognises the related restructuring costs or benefits due to termination of employment.

The above-described changes apply retrospectively and thus were included in this statement.

Moreover, the Group has reclassified certain revenues and expenses in order to make sure that rules for their presentation are consistent in subsequent reporting periods—which has not affected the net result presented.

The Group transformed comparable data presented in the consolidated statement of financial position, consolidated profit and loss statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement. The information presented in the other notes of the financial statements was transformed accordingly.

Amounts of the adjust entries for prior periods presented in the statements are shown in the tables below:

Title	As at 31 December 2011	As at 31 December 2010
Deferred tax assets . . . . .	7,319,811.70	7,824,155.21
<b>Non-current assets . . . . .</b>	<b>7,319,811.70</b>	<b>7,824,155.21</b>
<b>TOTAL ASSETS . . . . .</b>	<b>7,319,811.70</b>	<b>7,824,155.21</b>
Retained earnings . . . . .	(31,126,836.20)	(28,930,718.47)
Non-controlling interests . . . . .	(78,676.83)	(4,424,890.58)
<b>Total equity . . . . .</b>	<b>(31,205,513.03)</b>	<b>(33,355,609.05)</b>
Non-current provisions . . . . .	38,525,324.73	41,179,764.26
<b>Total liabilities . . . . .</b>	<b>38,525,324.73</b>	<b>41,179,764.26</b>
<b>TOTAL LIABILITIES AND EQUITY . . . . .</b>	<b>7,319,811.70</b>	<b>7,824,155.21</b>
<b>Title</b>	<b>Year ended 31 December 2011</b>	<b>Year ended 31 grudnia 2010</b>
<i>Sales of products and goods for resale including excise tax . . . . .</i>	194,915,688.63	353,837,750.23
Cost of sales . . . . .	146,787,958.86	357,962,594.92
Other operating income . . . . .	(3,162,559.27)	(9,458,310.26)
General and administrative expenses . . . . .	(2,654,439.52)	(2,654,439.52)
Other operating expenses . . . . .	(3,162,559.27)	(9,458,310.26)
<b>Profit/loss before tax . . . . .</b>	<b>50,782,169.29</b>	<b>(1,470,405.17)</b>
Income tax . . . . .	9,648,612.17	(279,376.98)
<b>Net profit/loss for the financial year . . . . .</b>	<b>41,133,557.12</b>	<b>(1,191,028.19)</b>
<b>Net other comprehensive income . . . . .</b>	<b>(38,983,461.11)</b>	<b>3,341,124.20</b>
<b>Total comprehensive income . . . . .</b>	<b>2,150,096.01</b>	<b>2,150,096.01</b>
Attributable to:		
Equity holders of the parent company . . . . .	1,905,558.86	1,835,413.22
Non-controlling interests . . . . .	244,537.15	314,682.79
<b>Earnings per share (in PLN) . . . . .</b>	<b>0.01</b>	<b>(0.00)</b>

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

## ENERGA SA Group

Consolidated financial statements for the years 2010 - 2012 ended 31 December

(in PLN)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 10. Operating segments

The Group's organisation and management are divided into segments, taking into account the nature of the products and services.

According to the division introduced in 2012, the Group distinguishes the following business segments: distribution of electricity, renewable energy sources, baseload power plants, CHP, sales, and other services.

Information presented for each segment accounts for derecognition of inter-company transactions between Group companies operating in the same segment. Eliminations of inter-company transactions between Group companies operating in different segments are presented as derecognitions and consolidation adjustments.

Electricity distribution segment consists of the business of distribution of electricity by ENERGA—OPERATOR SA (Distribution System Operator), and activities directly related to the distribution activities conducted by other companies.

Renewable energy segment consists of investments in renewable energy sources and production of electricity from renewable sources, including hydro, wind and bio-energy plants.

Baseload power plant segment consists of manufacturing and investment activities in the area of conventional power plants and service and repair activities directly related to the generation of electricity from conventional sources.

CHP (Combined Heat and Power) segment consists of manufacturing activity conducted through power plants and the business of heat distribution.

Sales segment consists of sales activities related to trading in electrical energy and customer service operated by ENERGA—OBRÓT SA and ENERGA Obsługa i Sprzedaż Sp. z o.o. and lighting services provided by the company ENERGA Oświetlenie Sp. z o.o.

Services segment consists of accounting and HR and payroll services, ICT operations, investment project management, procurement, and manufacturing of and trade in biofuels.

Other activities include hotel and training centres and transportation services. The parent company was also classified under other activity.

In the 2011 consolidated financial statements, the data was presented for the following segments: distribution of electricity, trading in energy and customer service, production of energy (including hydropower), and others.

Electricity distribution segment consisted of the business of distribution of electricity by Distribution System Operator—ENERGA—OPERATOR SA, and of activities directly related to the distribution activities conducted by other companies.

Trading in energy and customer service segment consisted of trading in electricity and customer service led by ENERGA—OBRÓT SA and ENERGA Obsługa i Sprzedaż Sp. z o.o.

Power generation segment consisted of manufacturing activity conducted through conventional power plants, hydroelectric power plants and power plants.

Other activities included mainly street lighting, heat distribution, grid construction, procurement, training centres and transport operations and ICT activities. The parent company was also classified under other activity.

The consolidated financial statements for 2010 present information concerning the following segments: electricity and heat distribution, distribution system operator support services, baseload power plants and

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

**ENERGA SA Group**  
**Consolidated financial statements for the years 2010 - 2012 ended 31 December**  
**(in PLN)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**10. Operating segments (Continued)**

combined heat and power plants, hydroelectric plants, trading in electricity, customer service, lighting and other.

The assets, liabilities, income and expenses presented for each segment did not account for derecognition of inter-company transactions between Group companies operating in the same segment. All eliminations of inter-company transactions between Group companies were presented as derecognitions and consolidation adjustments.

Other segment information included all eliminations of inter-company transactions between Group companies.

Distribution segment consisted of the business of distribution of electricity by the Distribution System Operator (DSO)—ENERGA—OPERATOR SA and its supporting companies and distribution of thermal energy by ENERGA Ostrołęckie Przedsiębiorstwo Energetyki Ciepłej Sp. z o.o.

The trading segment comprised trading in electricity, conducted primarily by ENERGA—OBRÓT SA.

The customer service segment comprised customer service activity conducted by ENERGA Obsługa i Sprzedaż Sp. z o.o.

The generation segment comprised power generation activity conducted via conventional power plants, hydroelectric plants and combined heat and power plants. The generation segment was composed of two subsegments: baseload power plants and combined heat and power plants as well as hydroelectric plants.

The baseload power plant and combined heat and power plant subsegment comprises generation via conventional power plants and combined heat and power plants. The hydroelectric plant subsegment comprises generation via hydroelectric plants.

The lighting segment comprised activity related to lighting of streets, roads and other public areas, distribution and sale of electricity for lighting purposes, as well as construction, maintenance and operation of lighting installations.

Other activity comprised primarily training centres and ICT activity. The parent company was also classified under other activity.

The Group settles transactions between segments as if they related to unassociated entities—using current market prices.

Financial revenue and costs are reported at the level of segments in net figures because so presented, they are analysed by the Management Board.

Financial liabilities include liabilities arising from borrowings and issued bonds.

Investment outlays include purchases of property, plant and equipment, intangible assets and investment property, and expenses associated with the preparation of investments.

The Group does not present information by geographical segments, because its activities for foreign customers have no significant impact on the result of the Group as a whole.

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

**ENERGA SA Group**  
**Consolidated financial statements for the years 2010 - 2012 ended 31 December**  
**(in PLN)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**10. Operating segments (Continued)**

The tables below show revenues and expenses for the period from 1 January to 31 December 2012 and the assets and liabilities as at 31 December 2012 assigned to individual segments, together with comparative data restated according to the new segment division and the principles of presentation of inter-company transaction eliminations:

<b>31 December 2012</b>	<b>Distribution of electricity</b>	<b>Sales</b>	<b>CHP</b>	<b>System power plants</b>	<b>Renewable energy sources</b>	<b>Services</b>	<b>Other</b>	<b>Total</b>	<b>Consolidation eliminations and adjustments</b>	<b>Consolidated total</b>
<b>Revenue</b>										
Sales to external clients . . . . .	841,792,088.53	9,265,967,389.82	128,545,963.38	641,439,235.02	170,527,343.10	94,956,803.54	33,570,139.69	11,176,798,963.08	—	11,176,798,963.08
Inter-segment sales . . . . .	2,786,385,670.85	645,717,121.38	29,067,672.37	397,016,295.71	181,063,942.57	557,843,998.12	75,376,657.05	4,672,471,358.05	(4,672,471,358.05)	—
<b>Total segment revenues</b> . . . . .	<b>3,628,177,759.38</b>	<b>9,911,684,511.20</b>	<b>157,613,635.75</b>	<b>1,038,455,530.73</b>	<b>351,591,285.67</b>	<b>652,800,801.66</b>	<b>108,946,796.74</b>	<b>15,849,270,321.13</b>	<b>(4,672,471,358.05)</b>	<b>11,176,798,963.08</b>
EBITDA . . . . .	1,224,626,186.55	264,467,378.07	4,194,473.92	(107,420,179.34)	261,399,727.04	24,012,341.37	(74,800,476.79)	1,596,479,450.82	32,766,189.18	1,629,245,639.99
Profit/(loss) on continuing operations before tax and finance income/expenses . . . . .	618,095,981.84	239,905,376.65	(3,941,044.40)	(167,582,753.70)	229,534,528.76	10,463,115.85	(81,799,326.62)	844,675,878.38	61,330,883.12	906,006,761.50
Net finance income/expenses . . . . .	(212,414,493.96)	8,097,701.23	(930,968.55)	(3,026,848.08)	7,387,003.38	719,645.26	626,453,984.56	426,286,023.84	(706,174,375.16)	(279,888,351.32)
Share of profit/(loss) of the associates . . . . .	—	—	—	—	—	—	—	—	214,637.16	214,637.16
<b>Profit before tax</b> . . . . .	<b>405,681,487.88</b>	<b>248,003,077.88</b>	<b>(4,872,012.95)</b>	<b>(170,609,601.78)</b>	<b>236,921,532.14</b>	<b>11,182,761.11</b>	<b>544,654,657.94</b>	<b>1,270,961,902.22</b>	<b>(644,628,854.88)</b>	<b>626,333,047.34</b>
Income tax . . . . .	78,766,832.22	56,231,886.50	(813,933.80)	(8,063,949.35)	46,251,146.66	200,648.21	(5,959,009.66)	166,613,620.78	(65,870.13)	166,547,750.65
Loss on discontinued operations and disposal of assets classified as held for sale . . . . .	—	—	—	—	—	—	(3,364,820.10)	(3,364,820.10)	—	(3,364,820.10)
<b>Net profit/(loss) for the financial year</b> . . . . .	<b>326,914,655.66</b>	<b>191,771,191.38</b>	<b>(4,058,079.15)</b>	<b>(162,545,652.43)</b>	<b>190,670,385.48</b>	<b>10,982,112.90</b>	<b>547,248,847.50</b>	<b>1,100,983,461.34</b>	<b>(644,562,984.75)</b>	<b>456,420,476.59</b>
<b>Assets and liabilities</b>										
Cash and cash equivalents . . . . .	702,427,041.75	247,751,029.93	89,104,242.23	61,195,290.40	246,300,074.14	31,891,536.00	690,389,021.03	2,069,058,235.48	—	2,069,058,235.48
<b>Total assets</b> . . . . .	<b>11,245,093,616.59</b>	<b>2,387,365,718.19</b>	<b>446,716,921.97</b>	<b>1,016,330,218.03</b>	<b>736,446,674.87</b>	<b>335,057,535.74</b>	<b>9,389,415,280.64</b>	<b>25,556,425,966.03</b>	<b>(10,643,653,227.36)</b>	<b>14,912,772,738.67</b>
Financial liabilities . . . . .	3,058,362,720.58	2,365,356.25	143,036,967.09	144,629,859.24	90,500,405.45	1,504,136.21	4,015,479,317.38	7,455,878,762.20	(3,960,882,740.32)	3,494,996,021.88
<b>Total liabilities</b> . . . . .	<b>5,524,907,398.53</b>	<b>1,358,496,874.32</b>	<b>210,940,295.32</b>	<b>439,244,590.30</b>	<b>158,555,761.18</b>	<b>192,131,325.45</b>	<b>4,357,225,049.98</b>	<b>12,241,501,295.08</b>	<b>(5,047,251,022.18)</b>	<b>7,194,250,272.90</b>
<b>Other segment information</b>										
Capital expenditure . . . . .	1,371,846,515.66	30,406,805.32	135,019,945.36	212,654,436.65	67,009,071.59	51,965,713.35	38,963,152.95	1,907,865,640.88	(59,015,953.72)	1,848,849,687.16
Depreciation . . . . .	606,530,204.71	24,562,001.42	8,135,518.32	60,162,574.36	31,865,198.28	13,549,225.52	6,998,849.83	751,803,572.44	(28,564,693.95)	723,238,878.49
Impairment loss of property, plant and equipment . . . . .	282,229.90	(93,678.34)	1,149,509.21	122,582,711.42	—	(167,659.62)	199,160.50	123,952,273.07	(980.90)	123,951,292.17

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

**ENERGA SA Group**  
**Consolidated financial statements for the years 2010 - 2012 ended 31 December**  
**(in PLN)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**10. Operating segments (Continued)**

31 December 2011 (restated)	Distribution of electricity	Sales	CHP	System power plants	Renewable energy sources	Services	Other	Total	Consolidation eliminations and adjustments	Consolidated total
<b>Revenue</b>										
Sales to external clients . . . . .	615,661,679.50	8,721,986,546.31	122,337,266.48	578,685,841.55	187,834,921.11	108,709,446.81	32,789,200.32	10,368,004,902.08	—	10,368,004,902.08
Inter-segment sales . . . . .	2,684,138,519.30	705,802,508.13	27,202,112.21	639,565,403.44	270,343,059.87	461,296,290.70	87,598,552.30	4,875,946,445.95	(4,875,946,445.95)	—
<b>Total segment revenues . . . . .</b>	<b>3,299,800,198.80</b>	<b>9,427,789,054.44</b>	<b>149,539,378.69</b>	<b>1,218,251,244.99</b>	<b>458,177,980.98</b>	<b>570,005,737.51</b>	<b>120,387,752.62</b>	<b>15,243,951,348.03</b>	<b>(4,875,946,445.95)</b>	<b>10,368,004,902.08</b>
EBITDA . . . . .	924,192,320.07	167,510,352.87	10,420,281.13	115,984,841.07	372,148,177.77	2,054.26	(41,338,431.37)	1,548,919,595.80	(29,218,986.19)	1,519,700,609.61
Profit/(loss) on continuing operations before tax and finance income/expenses . . . . .	387,604,894.42	139,825,645.41	3,874,083.78	62,791,702.59	337,566,495.49	(6,343,176.22)	(49,965,706.78)	875,353,938.69	(12,438,692.07)	862,915,246.62
Net finance income/expenses . . . . .	(33,805,477.46)	26,107,993.03	2,047,499.37	3,343,343.65	11,480,583.16	3,924,528.61	796,186,508.28	809,284,978.64	(774,074,731.70)	35,210,246.94
Share of profit/(loss) of the associates . . . . .	—	—	—	—	—	—	—	—	1,077,365.06	1,077,365.06
<b>Profit before tax . . . . .</b>	<b>353,799,416.96</b>	<b>165,933,638.44</b>	<b>5,921,583.15</b>	<b>66,135,046.24</b>	<b>349,047,078.65</b>	<b>(2,418,647.61)</b>	<b>746,220,801.50</b>	<b>1,684,638,917.33</b>	<b>(785,436,058.71)</b>	<b>899,202,858.62</b>
Income tax . . . . .	75,575,723.30	35,543,725.23	1,391,195.62	12,978,018.61	61,015,356.29	3,530,087.21	5,163,089.58	195,197,195.84	1,416,114.04	196,613,309.88
<b>Net profit/(loss) for the financial year . . . . .</b>	<b>278,223,693.66</b>	<b>130,389,913.21</b>	<b>4,530,387.53</b>	<b>53,157,027.63</b>	<b>288,031,722.36</b>	<b>(5,948,734.82)</b>	<b>741,057,711.92</b>	<b>1,489,441,721.49</b>	<b>(786,852,172.75)</b>	<b>702,589,548.74</b>
<b>Assets and liabilities</b>										
Cash and cash equivalents . . . . .	782,752,365.25	251,361,995.75	32,002,427.44	144,042,709.55	366,025,735.41	55,106,001.22	145,982,942.07	1,777,274,176.69	—	1,777,274,176.69
<b>Total assets . . . . .</b>	<b>9,831,512,598.49</b>	<b>2,226,594,915.82</b>	<b>220,108,622.99</b>	<b>1,146,980,287.13</b>	<b>838,217,561.27</b>	<b>295,075,419.71</b>	<b>7,304,540,643.78</b>	<b>21,863,030,049.19</b>	<b>(8,177,747,050.05)</b>	<b>13,685,282,999.14</b>
Financial liabilities . . . . .	1,908,664,235.06	4,862,057.80	2,053,807.83	33,699,698.87	70,176,644.74	14,613,860.51	1,893,225,193.31	3,927,295,498.12	(1,978,094,282.87)	1,949,201,215.25
<b>Total liabilities . . . . .</b>	<b>4,180,493,909.71</b>	<b>1,477,430,153.07</b>	<b>75,380,362.10</b>				<b>2,134,659,654.02</b>	<b>8,656,825,791.06</b>	<b>(2,857,053,202.66)</b>	<b>5,799,772,588.40</b>
Capital expenditure . . . . .	1,218,692,298.21	30,150,845.28	55,878,601.28	92,197,917.68	52,622,625.66	15,449,980.39	67,662,643.88	1,532,654,912.38	(87,152,185.37)	1,445,502,727.01
Depreciation . . . . .	536,587,425.65	27,684,707.46	6,546,197.35	53,193,138.48	34,581,682.28	6,345,230.48	8,627,275.41	673,565,657.11	(16,780,294.12)	656,785,362.99
Impairment loss of property, plant and equipment . . . . .	235,451.25	(157,665.41)	671,821.58	—	66,356.00	80,569.04	—	896,532.46	—	896,532.46

The accounting policies and notes to the consolidated financial statements form an integral part thereof.



**ENERGA SA Group**  
**Consolidated financial statements for the years 2010 - 2012 ended 31 December**  
**(in PLN)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**10. Operating segments (Continued)**

31 December 2010 (restated)	Distribution of electricity	Sales	CHP	System power plants	Renewable energy sources	Services	Other	Total	Consolidation eliminations and adjustments	Consolidated total
<b>Revenue</b>										
Sales to external clients . . . . .	488,320,655.73	7,687,591,390.04	138,627,549.86	685,489,387.56	321,680,577.23	111,795,615.16	34,255,078.05	9,467,760,253.63	—	9,467,760,253.63
Inter-segment sales . . . . .	2,642,080,067.63	530,875,022.19	28,403,529.43	174,432,290.61	258,558,324.60	346,363,918.33	104,679,202.78	4,085,392,355.57	(4,085,392,355.57)	—
<b>Total segment revenues</b> . . . . .	<b>3,130,400,723.36</b>	<b>8,218,466,412.23</b>	<b>167,031,079.29</b>	<b>859,921,678.17</b>	<b>580,238,901.83</b>	<b>458,159,533.49</b>	<b>138,934,280.83</b>	<b>13,553,152,609.20</b>	<b>(4,085,392,355.57)</b>	<b>9,467,760,253.63</b>
EBITDA . . . . .	650,793,862.37	242,677,480.37	10,152,175.54	97,214,753.78	483,566,706.92	5,294,401.06	(763,848.41)	1,488,935,531.63	(81,347,722.07)	1,407,587,809.56
Profit/(loss) on continuing operations before tax and finance income/expenses . . . . .	158,340,826.11	218,435,448.60	2,380,507.14	41,839,369.54	446,736,443.57	(425,634.70)	(20,007,773.52)	847,299,186.74	(31,129,380.64)	816,169,806.10
Net finance income/expenses . . . . .	(77,045,593.80)	32,098,042.72	1,872,751.23	(3,617,647.47)	13,500,236.89	3,024,987.33	384,857,812.67	354,690,589.57	(375,918,836.94)	(21,228,247.37)
Share of profit/(loss) of the associates . . . . .	—	—	—	—	—	—	—	—	668,319.37	668,319.37
<b>Profit before tax</b> . . . . .	<b>81,295,232.31</b>	<b>250,533,491.32</b>	<b>4,253,258.37</b>	<b>38,221,722.07</b>	<b>460,236,680.46</b>	<b>2,599,352.63</b>	<b>364,850,039.15</b>	<b>1,201,989,776.31</b>	<b>(406,379,898.21)</b>	<b>795,609,878.10</b>
Income tax . . . . .	19,999,397.49	51,212,913.16	6,477,440.97	6,545,449.23	87,853,780.84	936,553.54	(2,815,191.00)	170,210,344.23	782,533.25	170,992,877.48
Loss on discontinued operations . . . . .	—	—	—	—	—	—	(378,008.92)	(378,008.92)	—	(378,008.92)
<b>Net profit/(loss) for the financial year</b> . . . . .	<b>61,295,834.82</b>	<b>199,320,578.16</b>	<b>(2,224,182.60)</b>	<b>31,676,272.84</b>	<b>372,382,899.62</b>	<b>1,662,799.09</b>	<b>367,287,221.23</b>	<b>1,031,401,423.16</b>	<b>(407,162,431.46)</b>	<b>624,238,991.70</b>
<b>Assets and liabilities</b>										
Cash and cash equivalents . . . . .	235,954,604.30	367,949,844.57	79,302,055.02	128,030,444.52	386,939,364.37	37,796,123.86	447,582,479.13	1,683,554,915.77	—	1,683,554,915.77
<b>Total assets</b> . . . . .	<b>8,687,599,771.47</b>	<b>2,083,837,038.90</b>	<b>204,585,463.59</b>	<b>951,863,669.54</b>	<b>869,411,961.38</b>	<b>250,217,301.73</b>	<b>6,877,999,267.38</b>	<b>19,925,514,473.99</b>	<b>(7,285,371,051.70)</b>	<b>12,640,143,422.29</b>
Financial liabilities . . . . .	1,092,219,844.99	6,631,999.81	4,676,394.79	40,000,000.00	7,899,995.25	20,516,659.43	998,960,536.37	2,170,905,430.64	(1,094,499,746.78)	1,076,405,683.86
<b>Total liabilities</b> . . . . .	<b>3,405,820,569.41</b>	<b>1,465,239,904.16</b>	<b>62,298,252.43</b>	<b>363,100,361.78</b>	<b>149,461,682.43</b>	<b>149,477,686.98</b>	<b>1,256,503,134.27</b>	<b>6,851,901,591.46</b>	<b>(2,125,358,754.37)</b>	<b>4,726,542,837.09</b>
<b>Other segment information</b>										
Capital expenditure . . . . .	997,131,091.44	20,917,609.62	7,417,311.91	113,726,065.03	57,955,227.40	7,347,728.77	41,060,940.89	1,245,555,975.06	(82,870,920.98)	1,162,685,054.08
Depreciation . . . . .	492,453,036.26	24,242,031.77	7,771,668.40	55,375,384.24	36,830,263.35	5,720,035.76	19,243,925.11	641,636,344.89	(50,218,341.43)	591,418,003.46
Impairment loss of property, plant and equipment . . . . .	730,276.20	(419,114.69)	422,552.79	48,268,724.81	7,731,791.63	61,722.22	(37,459.02)	56,758,493.94	(48,692.82)	56,709,801.12

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

ENERGA SA Group

Consolidated financial statements for the years 2010 - 2012 ended 31 December

(in PLN)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Revenues and costs

11.1. Other operating revenues

<u>Title</u>	<u>Year ended</u> <u>31 December 2012</u>	<u>Year ended</u> <u>31 December 2011</u> <u>(restated)</u>	<u>Year ended</u> <u>31 December 2010</u> <u>(restated)</u>
Subsidies . . . . .	6,805,217.65	5,534,647.38	3,726,163.48
Reversal of impairment allowances for other assets . . . . .	1,384,902.23	1,622,549.81	3,991,491.33
Reversal of provisions (e.g.litigations) . . . . .	64,990,992.82	48,100,828.79	18,060,779.05
Penalties, compensations and fines received . . . . .	35,539,782.91	15,763,845.43	18,914,039.22
Tax refund . . . . .	662,435.04	516,016.85	510,848.33
Refund of litigation expenses . . . . .	6,087,982.81	4,222,921.40	3,123,517.00
Liabilities written off . . . . .	—	352,802.93	309,714.93
Revenues from illigal energy consumption . . . . .	5,296,336.69	3,879,784.63	7,892,544.19
Revenues from the sale of emmision rights . . . . .	—	—	5,973,051.00
Litigation with PSE SA . . . . .	—	62,737,569.94	—
Other . . . . .	14,153,848.95	11,735,246.86	6,658,771.50
<b>Total other operating income . . . . .</b>	<b><u>134,921,499.10</u></b>	<b><u>154,466,214.02</u></b>	<b><u>69,160,920.03</u></b>

11.2. Other operating expenses

<u>Title</u>	<u>Year ended</u> <u>31 December 2012</u>	<u>Year ended</u> <u>31 December 2011</u> <u>(restated)</u>	<u>Year ended</u> <u>31 December 2010</u> <u>(restated)</u>
Loss on disposal/liquidation of property, plant & equipment/intangible assets . . . . .	16,532,038.84	23,741,062.21	9,007,151.14
Donations . . . . .	2,417,727.13	4,534,015.38	7,057,860.98
Creation of valuation allowances for other assets . . . . .	1,841,590.18	4,412,815.34	233,872.46
Creation of provisions . . . . .	64,945,540.66	61,770,370.50	51,216,691.03
Litigation with PSE SA . . . . .	62,514,169.94	—	—
Restructuring severance payments . . . . .	60,428,236.36	129,479,290.21	119,983,340.85
Compensations . . . . .	2,828,589.33	25,359,217.42	12,579,611.90
Litigation expenses . . . . .	2,239,189.71	4,483,774.07	3,991,450.64
Social activity expenses . . . . .	476,895.29	770,422.92	858,989.07
Damages' repairs expenses . . . . .	23,675,522.02	23,250,743.89	13,870,978.62
Costs of illegal energy consumption . . . . .	1,915,974.07	1,092,624.53	2,673,892.67
Other . . . . .	10,961,440.26	19,425,472.79	5,016,391.77
<b>Total other operating expenses . . . . .</b>	<b><u>250,776,913.79</u></b>	<b><u>298,319,809.26</u></b>	<b><u>226,490,231.13</u></b>

For more information on a dispute between subsidiary ENERGA—OPERATOR SA and PSE SA see Note 42

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

**ENERGA SA Group**  
**Consolidated financial statements for the years 2010 - 2012 ended 31 December**  
**(in PLN)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**11. Revenues and costs (Continued)**

**11.3. Finance income**

<u>Title</u>	<u>Year ended 31 December 2012</u>	<u>Year ended 31 December 2011</u>	<u>Year ended 31 December 2010</u>
<b>Income on financial instruments, including: . . . . .</b>	<b>75,269,074.10</b>	<b>199,840,148.27</b>	<b>81,771,935.16</b>
Interest income . . . . .	74,767,445.38	160,388,362.61	73,230,486.93
Dividend income . . . . .	78,162.00	828,587.44	362,464.72
Revaluation of financial assets (including reversal of valuation allowances for financial assets) . . . . .	162,944.98	1,740,460.66	7,933,332.59
Foreign exchange gains . . . . .	17,927.54	1,200,518.90	245,650.92
Profit on sales of investments . . . . .	242,594.20	35,682,218.66	—
<b>Other financial income, including: . . . . .</b>	<b>3,927,837.43</b>	<b>8,107,276.18</b>	<b>714,641.36</b>
Interest on budgetary receivables . . . . .	31,998.00	697,795.00	36,852.40
Other . . . . .	3,895,839.43	7,409,481.18	677,788.96
<b>Total . . . . .</b>	<b><u>79,196,911.53</u></b>	<b><u>207,947,424.45</u></b>	<b><u>82,486,576.52</u></b>

**11.4. Finance costs**

<u>Title</u>	<u>Year ended 31 December 2012</u>	<u>Year ended 31 December 2011</u>	<u>Year ended 31 December 2010</u>
<b>Costs of financial instruments, including: . . . . .</b>	<b>247,791,929.72</b>	<b>111,160,276.34</b>	<b>41,714,297.99</b>
Interest expenses . . . . .	179,580,903.03	102,473,137.25	41,153,415.49
Revaluation of financial assets (including creation of valuation allowances) . . . . .	47,724,705.71	4,314,898.49	14,764.56
Foreign exchange losses . . . . .	1,359,184.14	88,830.78	546,117.94
Loss on disposal of investments . . . . .	19,127,136.84	4,283,409.82	—
<b>Other financial expenses, including: . . . . .</b>	<b>111,293,333.13</b>	<b>61,576,901.17</b>	<b>62,000,525.90</b>
Actuarial and other interests . . . . .	45,469,421.84	53,313,329.36	53,683,796.61
Interest on budget liabilities . . . . .	414,880.90	454,528.91	1,433,321.35
Litigation with PSE SA . . . . .	62,986,774.47	—	—
Other . . . . .	2,422,255.92	7,809,042.90	6,883,407.94
<b>Total . . . . .</b>	<b><u>359,085,262.85</u></b>	<b><u>172,737,177.51</u></b>	<b><u>103,714,823.89</u></b>

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

**ENERGA SA Group**  
**Consolidated financial statements for the years 2010 - 2012 ended 31 December**  
**(in PLN)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**11. Revenues and costs (Continued)**

**11.5. Expenses by nature**

<u>Title</u>	<u>Year ended</u> <u>31 December 2012</u>	<u>Year ended</u> <u>31 December 2011</u> <u>(restated)</u>	<u>Year ended</u> <u>31 December 2010</u> <u>(restated)</u>
<b>Expenses by nature</b>			
Depreciation and amortisation expense . . . . .	723,238,878.49	656,785,362.99	591,418,003.46
Impairment losses on property, plant and equipment and intangible assets . . . . .	123,951,292.17	896,532.46	56,709,801.12
Materials and energy used . . . . .	1,016,462,709.81	1,131,184,065.40	1,015,438,615.91
External services . . . . .	1,218,637,067.31	1,199,382,939.68	1,110,366,079.86
Taxes and fees . . . . .	277,722,371.76	260,241,620.42	244,269,777.28
Employee benefits expense . . . . .	999,728,252.34	1,097,035,165.04	1,051,280,094.72
Valuation allowance for inventories . . . . .	(6,461,553.17)	6,998,379.57	541,926.55
Valuation allowance for trade receivables . . .	66,110,145.00	36,088,007.33	27,844,175.38
Other expenses . . . . .	83,838,149.54	75,098,580.16	81,005,529.71
<b>Total expenses by nature . . . . .</b>	<b><u>4,503,227,313.25</u></b>	<b><u>4,463,710,653.05</u></b>	<b><u>4,178,874,003.99</u></b>
Change in inventories, prepayments and accruals . . . . .	(10,696,690.24)	(20,541,545.71)	(54,306,632.39)
Cost of producing services for own needs (negative figure) . . . . .	(152,861,595.46)	(244,255,723.25)	(117,334,351.49)
Selling and distribution expenses (negative figure) . . . . .	(247,540,477.90)	(187,903,647.62)	(109,249,130.02)
General and administrative expenses (negative figure) . . . . .	(375,341,228.01)	(414,277,517.92)	(329,753,904.04)
Cost of merchandise and raw aterials sold . . .	5,815,267,759.34	5,162,322,676.13	4,487,028,116.32
<b>Cost of sales . . . . .</b>	<b><u>9,532,055,080.98</u></b>	<b><u>8,759,054,894.68</u></b>	<b><u>8,055,258,102.37</u></b>

As described in Note 9.29 to these financial statements, when preparing the consolidated financial statements for the year ended 31 December 2012, the Group changed its accounting policy for recognizing actuarial gains and losses from the valuation of defined benefit plans and past employment cost, and also changed the presentation of selected revenues and expenses. In order to maintain comparability, relevant items of expenses by nature for the periods ended 31 December 2010 and 31 December 2011 have been restated accordingly.

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

ENERGA SA Group

Consolidated financial statements for the years 2010 - 2012 ended 31 December

(in PLN)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Revenues and costs (Continued)

11.6. Depreciation and impairment write-downs recognized in the profit and loss statement

Title	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
<b>Items included in cost of sales:</b>	<b>822,124,178.64</b>	<b>641,742,223.45</b>	<b>624,879,190.92</b>
Depreciation of property, plant & equipment	645,698,667.92	601,696,499.14	553,808,884.47
Impairment loss on property, plant and equipment	123,936,935.99	638,799.08	56,504,453.42
Amortization of intangible assets	51,536,170.09	38,755,982.14	14,007,747.72
Impairment loss on intangible assets	16,577.27	188,842.39	—
Depreciation of investment property	736,666.87	462,100.70	558,105.31
Impairment loss on investment property	199,160.50	—	—
<b>Items included in costs of sales:</b>	<b>5,097,907.17</b>	<b>2,768,188.89</b>	<b>2,250,508.51</b>
Depreciation of property, plant & equipment	3,291,751.04	1,862,607.73	1,365,328.83
Impairment loss on property, plant and equipment	(2,221.09)	68,890.99	—
Amortization of intangible assets	1,808,377.22	836,690.17	885,179.68
<b>Items included in general and administrative expenses:</b>	<b>20,167,245.35</b>	<b>13,171,483.11</b>	<b>20,138,720.64</b>
Depreciation of property, plant & equipment	16,342,756.50	7,380,194.48	9,106,473.42
Impairment loss on property, plant and equipment	—	—	85,347.70
Amortization of intangible assets	3,811,306.97	5,778,106.75	10,826,899.52
Impairment loss on intangible assets	—	—	120,000.00
Depreciation of investment property	13,181.88	13,181.88	—
<b>Items included in the cost of producing services for own needs</b>	<b>—</b>	<b>—</b>	<b>1,762,853.74</b>

11.7 Employee benefit expenses

Title	Year ended 31 December 2012	Year ended 31 December 2011 (restated)	Year ended 31 December 2010 (restated)
Wages and salaries	675,400,897.48	794,356,603.08	764,075,083.18
Social security contributions	102,538,132.02	127,852,768.16	134,392,102.97
Post-employment benefits and jubilee awards	72,860,204.21	30,316,954.72	5,467,605.43
Other costs of employee benefits, including:	148,929,018.63	144,508,839.08	147,345,303.14
<i>Energy tariff—current costs</i>	<i>11,599,792.35</i>	<i>22,260,536.33</i>	<i>21,059,562.60</i>
<i>Company social benefit fund—charges for the current financial year</i>	<i>48,379,149.87</i>	<i>45,324,652.56</i>	<i>45,116,089.00</i>
<i>Employee Pension Plan</i>	<i>34,051,487.24</i>	<i>42,332,073.27</i>	<i>35,136,187.25</i>
<i>Insurance expenses</i>	<i>1,774,517.71</i>	<i>2,242,260.82</i>	<i>1,432,342.06</i>
<i>Employee training</i>	<i>13,087,570.42</i>	<i>11,129,843.20</i>	<i>9,326,175.89</i>
<i>Expenses related to health and safety</i>	<i>8,786,622.16</i>	<i>10,233,336.18</i>	<i>8,831,813.06</i>
<i>Other</i>	<i>31,249,878.88</i>	<i>10,986,136.72</i>	<i>26,443,133.28</i>
<b>Employee benefits expense</b>	<b>999,728,252.34</b>	<b>1,097,035,165.04</b>	<b>1,051,280,094.72</b>

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

**ENERGA SA Group**  
**Consolidated financial statements for the years 2010 - 2012 ended 31 December**  
**(in PLN)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**12. Income tax**

**12.1. Tax expenses**

Major components of income tax expense for the year ended 31 December 2012 are as follows:

<u>Title</u>	<u>Year ended</u> <u>31 December 2012</u>	<u>Year ended</u> <u>31 December 2011</u> (restated)	<u>Year ended</u> <u>31 December 2010</u> (restated)
<b>Income statement</b>			
Current income tax expense . . . . .	223,490,833.98	257,965,303.25	216,242,538.04
Adjustments to income tax for prior years . . . . .	(5,116,908.85)	9,694,423.87	1,990,299.68
Fixed-rate income tax on dividends received . . . . .	—	146,015.00	—
Deferred income tax expense . . . . .	<u>(51,826,174.48)</u>	<u>(71,192,432.24)</u>	<u>(47,239,960.24)</u>
<b>Tax expense recognized in the income statement . . .</b>	<b><u>166,547,750.65</u></b>	<b><u>196,613,309.88</u></b>	<b><u>170,992,877.48</u></b>
<b>Statement of comprehensive income</b>			
Income tax . . . . .	<u>7,122,031.01</u>	<u>(9,144,268.66)</u>	<u>783,720.49</u>
<b>Tax gain/(expense) recognised in statement of</b> <b>comprehensive income . . . . .</b>	<b><u>7,122,031.01</u></b>	<b><u>(9,144,268.66)</u></b>	<b><u>783,720.49</u></b>

The Group's income tax in the years 2010 - 2012 was in principle subject to the general rules. With the exception of the Tax Capital Group formed in April 2012 by a subsidiary ENERGA—OPERATOR SA (see the description in Note 34), there were no other cases resulting in different rules for determining the tax charge as compared to the general provisions in this regard.

**12.2. Reconciliation of effective tax rate**

The reconciliation of the income tax on profit before tax at the statutory tax rate and the income tax calculated at the Group's effective tax rate is as follows:

<u>Title</u>	<u>Year ended</u> <u>31 December 2012</u>	<u>Year ended</u> <u>31 December 2011</u> (restated)	<u>Year ended</u> <u>31 December 2010</u> (restated)
<b>Profit before tax on continuing operations . . . . .</b>	<b>626,333,047.34</b>	<b>899,202,858.62</b>	<b>795,609,878.10</b>
Loss before tax on discontinued operations . . . . .	(3,372,398.01)	—	(378,008.92)
<b>Profit before tax . . . . .</b>	<b>622,960,649.33</b>	<b>899,202,858.62</b>	<b>795,231,869.18</b>
<b>Tax at the Poland's statutory tax rate of 19% . . . . .</b>	<b>118,362,523.37</b>	<b>170,848,543.14</b>	<b>151,094,055.14</b>
Adjustments to income tax for prior years . . . . .	(5,116,908.85)	9,694,423.87	1,990,299.68
Tax impact of non-taxable income and non tax-deductible expenses . . . . .	<u>53,294,558.22</u>	<u>16,070,342.87</u>	<u>17,908,522.66</u>
<b>Tax at the effective tax rate . . . . .</b>	<b><u>166,540,172.74</u></b>	<b><u>196,613,309.88</u></b>	<b><u>170,992,877.48</u></b>
Income tax (charge) as per the income statement . .	166,547,750.65	196,613,309.88	170,992,877.48
Income tax attributable to discontinued operations and disposal of assets held for sale . . . . .	(7,577.91)	—	—

The current tax expense is calculated on the basis of applicable tax regulations. The application of these rules differentiates the tax profit (loss) from the net profit (loss), due to the exclusion of non-taxable income and non tax-deductible expenses either temporarily or permanently.. Tax expense is calculated on the basis of the tax rates applicable in a given year. In 2010 - 2012, the rate was 19%. The current regulations do not change the tax rates for future periods.

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.



**ENERGA SA Group**  
**Consolidated financial statements for the years 2010 - 2012 ended 31 December**  
**(in PLN)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**12. Income tax (Continued)**

The tax year and the period for which these financial statements are prepared, correspond to a calendar year.

**12.3. Deferred income tax**

Deferred tax assets and liabilities are attributable to the following:

<u>Title</u>	<u>Year ended 31 December 2012</u>	<u>Year ended 31 December 2011 (restated)</u>	<u>Year ended 31 December 2010 (restated)</u>
<b>Deferred tax assets . . . . .</b>	<b>487,329,686.39</b>	<b>452,610,928.12</b>	<b>382,693,203.27</b>
on the difference between the tax and carrying value of property, plant & equipment and intangible assets . . . . .	86,132,885.26	76,497,246.11	58,873,431.31
on the difference between the tax and carrying value of inventories . . . . .	468,153.66	3,278,062.51	2,152,477.93
on the difference between the tax and carrying value of loans, receivables, financial assets, and liabilities . . . . .	36,977,180.64	26,388,664.20	20,972,858.46
power infrastructure received free of charge and connection fees received . . . . .	74,314,800.47	82,386,118.06	77,339,951.87
on post-employment benefits provisions . . . . .	87,197,067.19	90,266,568.46	79,400,946.06
on provisions for jubilee bonuses . . . . .	52,327,347.26	40,848,648.24	38,201,517.73
on provisions for reclamation of ash landfills . . . .	1,766,819.50	903,328.40	2,498,287.58
on provisions for liabilities for gas emissions obligations . . . . .	58,235.00	5,892,757.45	1,385,309.88
on provisions for the obligation to present energy certificates of origin . . . . .	40,096,774.75	51,043,005.27	25,328,142.46
on restructuring provisions . . . . .	10,813,461.12	12,187,105.15	8,358,621.69
unpaid employee salaries and benefits . . . . .	5,320,072.46	5,664,054.60	4,389,356.75
on other provisions . . . . .	48,362,150.86	22,258,580.68	38,932,602.89
accrued expenses . . . . .	22,375,354.60	23,322,756.33	11,167,170.42
tax losses . . . . .	2,551,607.56	4,472,734.64	4,758,972.05
other . . . . .	18,567,776.06	7,201,298.02	8,933,556.19
<b>Set-off . . . . .</b>	<b>(277,459,319.37)</b>	<b>(281,223,235.51)</b>	<b>(266,686,499.68)</b>
<b>Deferred tax assets after impairment allowances and set-off . . . . .</b>	<b><u>209,870,367.02</u></b>	<b><u>171,387,692.61</u></b>	<b><u>116,006,703.59</u></b>

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

ENERGA SA Group

Consolidated financial statements for the years 2010 - 2012 ended 31 December

(in PLN)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Income tax (Continued)

Title	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
<b>Deferred tax liabilities</b> . . . . .	<b>797,145,546.55</b>	<b>806,804,569.72</b>	<b>820,193,568.72</b>
on the difference between the tax and carrying value of property, plant & equipment and intangible assets . . . . .	739,114,886.08	727,161,246.91	738,648,340.82
accrued revenues . . . . .	34,223,295.57	34,201,087.62	30,106,543.54
difference between the tax and carrying value of energy certificates of origin . . . . .	7,825,610.65	17,992,895.30	13,901,411.23
on the difference between the tax and carrying value of loans, receivables, financial assets, and liabilities . . . . .	15,191,004.22	27,071,026.27	35,987,158.24
other . . . . .	790,750.03	378,313.62	1,550,114.89
<b>Set-off</b> . . . . .	<b>(277,459,319.37)</b>	<b>(281,223,235.51)</b>	<b>(266,686,499.68)</b>
<b>Deferred tax liabilities after set-off</b> . . . . .	<b>519,686,227.18</b>	<b>525,581,334.21</b>	<b>553,507,069.04</b>

Changes in deferred tax asset and liabilities are presented in the table below:

Title	Year ended 31 December 2012	Year ended 31 December 2011 (restated)	Year ended 31 December 2010 (restated)
<b>Deferred tax assets before valuation allowance</b>			
<b>Opening balance:</b> . . . . .	<b>452,610,928.12</b>	<b>382,693,203.27</b>	<b>331,264,946.82</b>
<i>Increases</i> . . . . .	184,971,096.34	128,939,199.88	87,936,625.37
recognised in profit or loss . . . . .	173,160,760.80	119,794,931.22	87,936,625.37
recognised in other comprehensive income . . . . .	11,810,335.54	9,144,268.66	—
<i>Decreases</i> . . . . .	(150,252,338.07)	(59,021,475.03)	(36,508,368.92)
recognised in profit or loss . . . . .	(131,389,649.48)	(59,021,475.03)	(37,292,089.41)
recognised in other comprehensive income . . . . .	(18,862,688.59)	—	783,720.49
<b>Closing balance</b> . . . . .	<b>487,329,686.39</b>	<b>452,610,928.12</b>	<b>382,693,203.27</b>
<b>Set-off</b> . . . . .	<b>(277,459,319.37)</b>	<b>(281,223,235.51)</b>	<b>(266,686,499.68)</b>
<b>Deferred tax assets after valuation allowance at the end of the period</b> . . . . .	<b>209,870,367.02</b>	<b>171,387,692.61</b>	<b>116,006,703.59</b>
<b>Deferred tax liabilities Opening balance:</b> . . . . .	<b>806,804,569.72</b>	<b>820,193,568.72</b>	<b>805,322,294.42</b>
<b>Adjustment of the opening balance</b> . . . . .	—	—	<b>9,899,257.60</b>
<b>Opening balance after adjustments</b> . . . . .	<b>806,804,569.72</b>	<b>820,193,568.72</b>	<b>815,221,552.02</b>
<i>Increases</i> . . . . .	39,900,452.68	239,567,724.98	48,449,797.29
recognised in profit or loss . . . . .	39,830,774.72	239,567,724.98	48,449,797.29
recognised in other comprehensive income . . . . .	69,677.96	—	—
<i>Decreases</i> . . . . .	(49,559,475.85)	(252,956,723.98)	(43,477,780.59)
recognised in profit or loss . . . . .	(49,559,475.85)	(252,956,723.98)	(43,477,780.59)
<b>Closing balance</b> . . . . .	<b>797,145,546.55</b>	<b>806,804,569.72</b>	<b>820,193,568.72</b>
<b>Set-off</b> . . . . .	<b>(277,459,319.37)</b>	<b>(281,223,235.51)</b>	<b>(266,686,499.68)</b>
<b>Deferred tax liabilities at the end of the period</b> . . . . .	<b>519,686,227.18</b>	<b>525,581,334.21</b>	<b>553,507,069.04</b>

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

**ENERGA SA Group**

**Consolidated financial statements for the years 2010 - 2012 ended 31 December**

**(in PLN)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**13. Social assets and liabilities of the Company Social Benefit Fund**

The Act of 4 March 1994 on the Company Social Benefit Fund (“CSBF”) as amended stipulates that the CSBF is created by employers (companies) employing more than 20 full time employees. Entities belonging to the Group create such funds and make periodic contributions thereto. The funds established in the ENERGA SA Group companies do not include any property, plant and equipment. The objective of the funds is to subsidise social activities of the companies, to provide loans to employees and to subsidise other social expenses such as contributions to costs of employees’ holidays.

The Group’s entities set off at the level of their individual businesses assets of their funds against their obligations to the fund, since these assets do not constitute separate assets of the Group. The net balance as at 31 December 2012 amounts to PLN 167 thousand presented as part of other short-term assets, as at 31 December 2011 amounted to PLN 440 thousand presented as part of other current liabilities and as at 31 December 2010 amounted to PLN 28 thousand presented as part of other short-term assets.

The table below presents an analysis of assets, liabilities and expenses of the funds.

<u>Title</u>	<u>As at 31 December 2012</u>	<u>As at 31 December 2011</u>	<u>As at 31 December 2010</u>
Loans granted to employees . . . . .	18,991,629.35	22,562,055.58	26,664,434.08
Cash and cash equivalents . . . . .	6,202,308.50	6,797,962.31	5,753,361.13
Fund’s liabilities . . . . .	25,026,668.24	29,800,091.86	32,389,808.57
<b>Balance after set-off . . . . .</b>	<b><u>167,269.61</u></b>	<b><u>(440,073.97)</u></b>	<b><u>27,986.64</u></b>
Charges to the fund during the period . . . . .	48,379,149.87	45,324,652.56	45,116,089.00

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

**ENERGA SA Group**  
**Consolidated financial statements for the years 2010 - 2012 ended 31 December**  
**(in PLN)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**14. Property, plant and equipment**

	Land	Buildings, premises and civil and marine engineering facilities	Plant and equipment	Vehicles	Other property, plant & equipment	Property, plant & equipment under construction	Total
<i>Gross book value</i>							
<b>Opening balance as at 1 January 2012</b>	<b>89,877,929.53</b>	<b>8,327,108,630.49</b>	<b>2,674,620,157.18</b>	<b>208,081,377.74</b>	<b>351,129,810.54</b>	<b>674,573,366.40</b>	<b>12,325,391,271.88</b>
Direct purchase*	38,045,404.90	6,314,253.28	8,476,643.09	9,127,235.07	3,410,328.10	1,586,286,826.11	1,651,660,690.55
Transfer from property, plant and equipment under construction	4,501,813.09	830,747,090.03	407,445,269.24	32,230,305.79	101,941,243.35	(1,376,865,721.50)	—
Sale, disposal	(379,358.41)	(7,509,605.26)	(8,749,467.43)	(4,689,844.99)	(5,372,160.68)	(126,465.95)	(26,826,902.72)
Scrapping	—	(7,231,496.32)	(9,274,931.84)	(390,589.98)	(11,056,289.16)	(1,099,527.62)	(29,052,834.92)
Donations and gratuitous transfers	—	—	(94,362.14)	(18,062.36)	—	—	(112,424.50)
Reclassification between groups	(14,490,274.81)	(13,157,514.51)	(4,143,890.25)	(728,531.09)	(3,425,855.06)	33,585,147.85	(2,360,917.87)
Gratuitous receipt	—	3,547,289.44	80,700.00	—	—	—	3,627,989.44
Reclassification to investment property	—	—	—	—	—	(411,573.00)	(411,573.00)
Reclassification from investment property	80,891.94	936,168.34	—	—	—	2,936,215.80	3,953,276.08
Capitalized borrowing costs	—	—	—	—	—	18,598,132.85	18,598,132.85
Reclassification to assets held for sale	(1,051,500.00)	(8,249,857.60)	(145,615.00)	—	(81,040.80)	—	(9,528,013.40)
Acquisition/disposal of subsidiary	189,900.00	388,310.54	3,131,830.53	—	658.25	409,553.23	4,120,252.55
Other changes	263,363.89	(242,531.56)	(1,243,910.35)	(101,692.06)	(43,636.93)	(1,698,815.94)	(3,067,222.95)
<b>Closing balance as at 31 December 2012</b>	<b>117,038,170.13</b>	<b>9,132,650,736.87</b>	<b>3,070,102,423.03</b>	<b>243,510,198.12</b>	<b>436,503,057.61</b>	<b>936,187,138.23</b>	<b>13,935,991,723.99</b>
<i>Cumulative depreciation and impairment</i>							
<b>Opening balance as at 1 January 2012</b>	<b>—</b>	<b>(2,170,224,144.49)</b>	<b>(782,628,193.81)</b>	<b>(82,333,477.42)</b>	<b>(138,827,740.83)</b>	<b>(714,264.91)</b>	<b>(3,174,727,821.46)</b>
Depreciation for the period	—	(405,226,991.17)	(178,324,476.07)	(34,122,488.73)	(47,659,219.49)	—	(665,333,175.46)
Impairment losses	(395,116.38)	(11,638,467.24)	(1,101,818.01)	(29,320.40)	(118,806.58)	(119,921,000.41)	(133,204,529.02)
Reversal of impairment losses	—	562,103.18	248,067.34	—	30,162.20	66,356.00	906,688.72
Sale, disposal	—	1,416,229.07	6,075,662.48	4,009,387.92	3,779,418.03	—	15,280,697.50
Scrapping	—	3,497,546.30	5,871,620.55	289,644.56	7,324,589.97	—	16,983,401.38
Reclassification to assets held for sale	237,170.69	2,019,975.40	49,356.46	—	26,584.75	—	2,333,087.30
Donations and gratuitous transfers	—	—	94,362.14	18,062.36	—	—	112,424.50
Reclassification between groups	—	11,384,699.88	(8,924,741.50)	(102,211.86)	3,171.35	—	2,360,917.87
Acquisition/disposal of subsidiary	—	—	(185,821.32)	—	—	—	(185,821.32)
Reclassification to investment property	—	(32,931.46)	—	—	—	—	(32,931.46)
Other changes	—	(19,293.34)	335,147.97	101,692.05	14,069.32	—	431,616.00
<b>Closing balance as at 31 December 2012</b>	<b>(157,945.69)</b>	<b>(2,568,261,273.87)</b>	<b>(958,490,833.77)</b>	<b>(112,168,711.52)</b>	<b>(175,427,771.28)</b>	<b>(120,568,909.32)</b>	<b>(3,935,075,445.45)</b>
<b>Net book value as at 1 January 2012</b>	<b>89,877,929.53</b>	<b>6,156,884,486.00</b>	<b>1,891,991,963.37</b>	<b>125,747,900.32</b>	<b>212,302,069.71</b>	<b>673,859,101.49</b>	<b>9,150,663,450.42</b>
<b>Net book value as at 31 December 2012</b>	<b>116,880,224.44</b>	<b>6,564,389,463.00</b>	<b>2,111,611,589.26</b>	<b>131,341,486.60</b>	<b>261,075,286.33</b>	<b>815,618,228.91</b>	<b>10,000,916,278.54</b>

\* including self-constructed assets in the amount of 89,274,013.47

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

**ENERGA SA Group**  
**Consolidated financial statements for the years 2010 - 2012 ended 31 December**  
**(in PLN)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**14. Property, plant and equipment (Continued)**

	Land	Buildings, premises and civil and marine engineering facilities	Plant and equipment	Vehicles	Other property, plant & equipment	Property, plant & equipment under construction	Total
<i>Gross book value</i>							
<b>Opening balance as at 1 January 2011</b>	<b>70,038,338.04</b>	<b>7,737,203,457.72</b>	<b>2,400,547,041.49</b>	<b>172,491,478.23</b>	<b>314,048,999.90</b>	<b>374,722,907.92</b>	<b>11,069,052,223.30</b>
Direct purchase*	17,860,988.26	5,989,270.71	11,316,569.66	17,413,941.73	1,889,519.95	1,268,563,634.93	1,323,033,925.24
Transfer from property, plant and equipment under construction	2,296,992.84	607,854,705.22	295,088,482.38	29,067,570.33	50,026,772.58	(984,334,523.35)	—
Sale, disposal	(250,215.78)	(13,287,091.28)	(8,093,969.18)	(8,697,249.91)	(3,896,531.15)	(596,156.04)	(34,821,213.34)
Scrapping	—	(4,619,552.59)	(22,896,135.83)	(2,012,639.65)	(11,653,509.89)	(529,981.26)	(41,711,819.22)
Donations and gratuitous transfers	—	—	—	(43,200.00)	—	—	(43,200.00)
Reclassification between groups	—	(6,591,512.72)	(320,651.58)	—	(2,683,068.27)	8,474,774.61	(1,120,457.96)
Gratuitous receipt	—	5,013,486.42	245,632.21	—	—	—	5,259,118.63
Reclassification to investment property	(132,061.94)	(1,792,613.06)	—	—	—	(47,480.00)	(1,972,155.00)
Capitalized borrowing costs	—	—	—	—	—	15,669,854.74	15,669,854.74
Other changes	63,888.11	(2,661,519.93)	(1,266,811.97)	(138,522.99)	3,397,627.42	(7,349,665.15)	(7,955,004.51)
<b>Closing balance as at 31 December 2011</b>	<b>89,877,929.53</b>	<b>8,327,108,630.49</b>	<b>2,674,620,157.18</b>	<b>208,081,377.74</b>	<b>351,129,810.54</b>	<b>674,573,366.40</b>	<b>12,325,391,271.88</b>
<i>Cumulative depreciation and impairment</i>							
<b>Opening balance as at 1 January 2011</b>	<b>—</b>	<b>(1,791,698,986.37)</b>	<b>(651,281,091.35)</b>	<b>(63,643,063.36)</b>	<b>(110,768,285.25)</b>	<b>(526,668.58)</b>	<b>(2,617,918,094.91)</b>
Depreciation for the period	—	(385,412,807.47)	(157,364,334.49)	(28,381,898.56)	(39,780,260.83)	—	(610,939,301.35)
Impairment losses	—	(658,772.14)	(315,812.24)	(555.23)	(347,220.62)	(187,596.33)	(1,509,956.56)
Reversal of impairment losses	—	327,539.19	267,793.96	4,191.71	202,741.63	—	802,266.49
Sale, disposal	—	1,924,142.30	5,373,825.78	7,474,525.62	2,850,780.96	—	17,623,274.66
Scrapping	—	2,151,589.12	19,453,175.68	1,922,132.84	9,147,498.66	—	32,674,396.30
Donations and gratuitous transfers	—	—	—	43,200.00	—	—	43,200.00
Reclassification between groups	—	1,410,556.31	319,303.82	—	(609,402.17)	—	1,120,457.96
Reclassification to investment property	—	250,682.24	—	—	—	—	250,682.24
Other changes	—	1,481,912.33	918,945.03	247,989.56	476,406.79	—	3,125,253.71
<b>Closing balance as at 31 December 2011</b>	<b>—</b>	<b>(2,170,224,144.49)</b>	<b>(782,628,193.81)</b>	<b>(82,333,477.42)</b>	<b>(138,827,740.83)</b>	<b>(714,264.91)</b>	<b>(3,174,727,821.46)</b>
<b>Net book value as at 1 January 2011</b>	<b>70,038,338.04</b>	<b>5,945,504,471.35</b>	<b>1,749,265,950.14</b>	<b>108,848,414.87</b>	<b>203,280,714.65</b>	<b>374,196,239.34</b>	<b>8,451,134,128.39</b>
<b>Net book value as at 31 December 2011</b>	<b>89,877,929.53</b>	<b>6,156,884,486.00</b>	<b>1,891,991,963.37</b>	<b>125,747,900.32</b>	<b>212,302,069.71</b>	<b>673,859,101.49</b>	<b>9,150,663,450.42</b>

\* including self-constructed assets in the amount of PLN 238,470,366.26.

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

**ENERGA SA Group**  
**Consolidated financial statements for the years 2010 - 2012 ended 31 December**  
**(in PLN)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**14. Property, plant and equipment (Continued)**

	Land	Buildings, premises and civil and marine engineering facilities	Plant and equipment	Vehicles	Other property, plant & equipment	Property, plant & equipment under construction	Total
<i>Gross book value</i>							
<b>Opening balance as at 1 January 2010</b>	<b>48,161,948.74</b>	<b>7,267,871,985.52</b>	<b>2,138,971,078.89</b>	<b>138,206,384.97</b>	<b>281,210,633.02</b>	<b>224,306,942.66</b>	<b>10,098,728,973.80</b>
Direct purchase	15,125,911.28	13,744,748.85	29,822,827.98	9,781,342.60	9,392,949.38	985,543,211.21	1,063,410,991.30
Transfer from property, plant and equipment under construction	6,806,986.62	472,847,801.17	241,406,422.02	35,761,265.89	81,121,354.32	(837,943,830.02)	—
Sale, disposal	(56,508.60)	(5,760,893.47)	(4,962,409.79)	(8,260,562.66)	(43,115,470.17)	(568,724.34)	(62,724,569.03)
Reclassification between groups	—	(187,545.08)	134,967.29	(16,647.54)	69,225.33	—	—
Donations and gratuitous transfers	—	—	(14,739.03)	(12,600.00)	—	—	(27,339.03)
Scrapping	—	(19,173,012.55)	(4,842,205.07)	(3,035,020.71)	(14,754,272.94)	—	(41,804,511.27)
Gratuitous receipt	—	6,310,220.27	44,036.02	—	—	—	6,354,256.29
Reclassification to assets held for sale	—	—	—	—	—	(990,729.53)	(990,729.53)
Capitalized borrowing costs	—	—	—	—	—	4,062,000.00	4,062,000.00
Other changes	—	1,550,153.01	(12,936.82)	67,315.68	124,580.96	314,037.94	2,043,150.77
<b>Closing balance as at 31 December 2010</b>	<b>70,038,338.04</b>	<b>7,737,203,457.72</b>	<b>2,400,547,041.49</b>	<b>172,491,478.23</b>	<b>314,048,999.90</b>	<b>374,722,907.92</b>	<b>11,069,052,223.30</b>
<i>Cumulative depreciation and impairment</i>							
<b>Opening balance as at 1 January 2010</b>	<b>—</b>	<b>(1,426,928,955.57)</b>	<b>(459,913,366.23)</b>	<b>(51,999,399.39)</b>	<b>(127,688,810.26)</b>	<b>(149,708.13)</b>	<b>(2,066,680,239.58)</b>
Depreciation for the period	—	(365,051,958.41)	(147,301,452.40)	(20,795,611.80)	(31,820,918.25)	—	(564,969,940.86)
Impairment losses	—	(3,907,114.81)	(51,757,844.59)	(22,061.00)	(26,768.21)	(376,960.45)	(56,090,749.06)
Reversal of impairment losses	—	—	407,749.48	2,599.96	14,770.16	—	425,119.60
Sale, disposal	—	342,861.86	2,391,694.12	6,135,932.52	38,569,258.05	—	47,439,746.55
Reclassification between groups	—	45,091.27	(41,222.08)	—	(3,869.19)	—	—
Donations and gratuitous transfers	—	—	9,902.92	12,600.00	—	—	22,502.92
Scrapping	—	3,816,749.80	4,838,768.53	3,022,838.27	9,526,266.18	—	21,204,622.78
Other changes	—	(15,660.51)	84,678.90	38.08	661,786.27	—	730,842.74
<b>Closing balance as at 31 December 2010</b>	<b>—</b>	<b>(1,791,698,986.37)</b>	<b>(651,281,091.35)</b>	<b>(63,643,063.36)</b>	<b>(110,768,285.25)</b>	<b>(526,668.58)</b>	<b>(2,617,918,094.91)</b>
<b>Net book value as at 1 January 2010</b>	<b>48,161,948.74</b>	<b>5,840,943,029.95</b>	<b>1,679,057,712.66</b>	<b>86,206,985.58</b>	<b>153,521,822.76</b>	<b>224,157,234.53</b>	<b>8,032,048,734.22</b>
<b>Net book value as at 31 December 2010</b>	<b>70,038,338.04</b>	<b>5,945,504,471.35</b>	<b>1,749,265,950.14</b>	<b>108,848,414.87</b>	<b>203,280,714.65</b>	<b>374,196,239.34</b>	<b>8,451,134,128.39</b>

\* including self-constructed assets in the amount of PLN 95,438,448.23.

The accounting policies and notes to the consolidated financial statements form an integral part thereof.



**ENERGA SA Group**

**Consolidated financial statements for the years 2010 - 2012 ended 31 December**

**(in PLN)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(Continued)**

**14. Property, plant and equipment (Continued)**

The carrying value of property, plant and equipment in use as at 31 December 2012, 31 December 2011 and 31 December 2010 under finance leases and leases with purchase options amounted respectively to PLN 10.6 m, PLN 4 m and PLN 0.7 m.

The carrying value of property, plant and equipment pledged as a collateral for liabilities is disclosed in Note 36.5.

Expenditures for property, plant and equipment incurred by the Group are funded with earmarked financing for clearly specified investments. Therefore the Group capitalises only earmarked financing costs without capitalising general financing costs.

***Impairment tests for property, plant and equipment***

The last impairment test for the property, plant and equipment related to electricity distribution activities was carried out by the Group as at 31 December 2011. The analysis did not show the need for an impairment loss of property, plant and equipment. As at 31 December 2012 there were no indicators found which would result in necessity of re-testing for impairment.

The Group performed impairment tests for the other main cash-generating units (“CGU”) including heat distribution activities and generation activities by determining their recoverable value as at 31 December 2012.

The recoverable amount of assets was determined using discounted net cash flows based on financial projections for the years 2012 - 2017 for electricity distribution activities, for generation activities and for heat energy distribution activities. For heat distribution activities the discount rate of 7.84% was applied while for the generation activities the discount rate ranging from 8.44% to 11.02% was used.

The tests did not show the need for an impairment loss of property, plant and equipment.

In addition, following the suspension of Ostrołęka C project (see the description in Note 42) non-current assets related to its implementation were tested for impairment.

The analysis covered assets of the subsidiary Elektrownia Ostrołęka SA, established to build and operate a new power unit in Ostrołęka with the capacity of about 850 - 1000 MWe. The recoverable amount of assets was determined at their fair value, corresponding to the market value of marketable property, plant and equipment less their respective costs to sell. As a result of the analysis an impairment loss of the property, plant and equipment was recognised in the amount of PLN 122.6 m.

**15. Leases**

**15.1. Operating lease liabilities—the Group as a lessee**

Future minimum lease payments on non-cancellable operating lease agreements are payable as follows:

	Year ended 31 December 2012	Lease payments as at Year ended 31 December 2011	Year ended 31 December 2010
Within up to 1 year . . . . .	2,876,054.73	1,843,455.36	3,324,859.91
Within 1 to 5 years . . . . .	4,682,198.04	2,286,811.28	2,069,303.22
Over 5 years . . . . .	—	—	—
<b>Total lease payments . . . . .</b>	<b><u>7,558,252.77</u></b>	<b><u>4,130,266.64</u></b>	<b><u>5,394,163.13</u></b>

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

ENERGA SA Group

Consolidated financial statements for the years 2010 - 2012 ended 31 December

(in PLN)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

**15. Leases (Continued)**

In addition, the Group's entities hold land perpetual usufruct rights obtained free of charge by way of an administrative decision, which in accordance with IAS 17 are classified as operating leases.

Land perpetual usufruct rights acquired for a consideration are classified by the Group as operating leases, while any payments incurred for the acquisition of such rights are considered prepayments of future fees, are amortised over the entire lease term and are presented in the statement of financial position as intangible assets.

The Group pays annual fees for the land perpetual usufruct rights. During the years ended on 31 December 2012, 31 December 2011 and 31 December 2010 such fees amounted to PLN 5.8 m, PLN 5.3 m and PLN 1.4 m respectively.

**15.2. Operating lease receivables—the Group as a lessor**

Future minimum lease payments under non-cancellable operating lease agreements are receivable as follows:

	Year ended 31 December 2012	Lease receivables as at Year ended 31 December 2011	Year ended 31 December 2010
Within up to 1 year . . . . .	25,188,047.00	21,738,182.00	22,673,268.90
Within 1 to 5 years . . . . .	142,487,585.81	118,588,133.62	103,232,800.00
Over 5 years . . . . .	—	—	15,392,500.00
<b>Total leasing fees . . . . .</b>	<b><u>167,675,632.81</u></b>	<b><u>140,326,315.62</u></b>	<b><u>141,298,568.90</u></b>

Operating leases relate to facilities in the pumped storage power plant Żydowo, through which PSE—Operator S.A. (Transmission System Operator—TSO) is provided with an intervention operation service involving the disposition and use of the power plant by TSO for purposes of intervention balancing of the active and reactive power and of control over power disbursements in the grid of the National Power System. The service includes an intervention reserve of active power and voltage and reactive power control. The assets used to provide the service are at the sole disposition of TSO, which has the right to administer the generation units belonging to the power plant. The agreement under which the service is provided satisfies conditions for its recognition under leases, as defined in IFRIC 4, however it does not transfer the entirety of risks and benefits associated with the leased property to TSO.

Total operating lease payments recognized as revenues in 2012, 2011 and 2010 amounted respectively to PLN 27.0 m, PLN 24.2 m and PLN 35.7 m.

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

**ENERGA SA Group**  
**Consolidated financial statements for the years 2010 - 2012 ended 31 December**  
**(in PLN)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**15. Leases (Continued)**

**15.3. Liabilities from finance leases and leases with a purchase option**

Future minimum lease payments under these agreements and the present value of minimum lease payments are as follows:

	Year ended 31 December 2012		Year ended 31 December 2011		Year ended 31 December 2010	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Within up to 1 year . . . . .	7,303,309.00	6,555,588.11	1,399,401.63	1,384,556.94	9,020,239.45	8,658,608.31
Within 1 to 5 years . . . . .	7,643,756.00	7,293,035.79	3,683,136.83	3,570,618.79	1,555,893.19	1,534,691.86
Over 5 years . . . . .	—	—	—	—	101,120.44	97,120.44
<b>Total minimum lease payments . . . . .</b>	<b>14,947,065.00</b>	<b>13,848,623.90</b>	<b>5,082,538.46</b>	<b>4,955,175.73</b>	<b>10,677,253.08</b>	<b>10,290,420.61</b>
Less finance costs . . . . .	1,098,441.10		127,362.73		386,832.47	
<b>Current value of minimum lease payments, including:: . . . . .</b>	<b>13,848,623.90</b>	<b>13,848,623.90</b>	<b>4,955,175.73</b>	<b>4,955,175.73</b>	<b>10,290,420.61</b>	<b>10,290,420.61</b>
Short-term . . . . .	6,555,588.11		1,384,556.94		8,658,608.31	
Long-term . . . . .	7,293,035.79		3,570,618.79		1,631,812.30	

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

**ENERGA SA Group**

**Consolidated financial statements for the years 2010 - 2012 ended 31 December**

**(in PLN)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**16. Investment properties**

Investment properties of the ENERGA Group's companies include land, land perpetual usufruct rights and buildings, rented to third parties in whole or in part.

The carrying value of investment properties presented in the consolidated statement of financial position is not significantly different from their fair value.

	<u>Year ended</u> <u>31 December 2012</u>	<u>Year ended</u> <u>31 December 2011</u>	<u>Year ended</u> <u>31 December 2010</u>
<b>Opening balance (net)</b> . . . . .	<b>24,552,344.90</b>	<b>19,026,164.08</b>	<b>26,043,537.30</b>
Increases . . . . .	515,222.31	6,249,496.07	—
Depreciation . . . . .	(749,848.75)	(475,282.58)	(558,105.31)
Reclassification to assets classified as held for sale . . . . .	(2,306,329.20)	—	—
Decreases . . . . .	(4,951,399.44)	(248,032.67)	(6,459,267.91)
<b>Closing balance (net)</b> . . . . .	<b><u>17,059,989.82</u></b>	<b><u>24,552,344.90</u></b>	<b><u>19,026,164.08</u></b>

Rental revenues and direct operating expenses for the investment properties were as follows:

<u>Title</u>	<u>Year ended</u> <u>31 December 2012</u>	<u>Year ended</u> <u>31 December 2011</u>	<u>Year ended</u> <u>31 December 2010</u>
Rental income from investment property . . . . .	1,566,090.86	1,934,996.67	2,017,713.29
Direct operating expenses related to investment property, which generated rental income in the period . . . . .	848,426.28	1,148,250.07	2,516,931.27
Direct operating expenses related to investment property, which did not generate rental income in the period . . . . .	62,596.88	352,692.90	1,229.00

**17. Goodwill**

	<u>Year ended</u> <u>31 December 2012</u>	<u>Year ended</u> <u>31 December 2011</u>	<u>Year ended</u> <u>31 December 2010</u>
<b>Gross value at the beginning of the period</b> . . . . .	<b>17,609,509.58</b>	<b>17,246,353.14</b>	<b>17,246,353.14</b>
<b>Total increases, of which:</b> . . . . .	<b>11,017,864.33</b>	<b>363,156.44</b>	<b>—</b>
acquisition of the entity's shares . . . . .	11,017,864.33	363,156.44	—
<b>Total decreases</b> . . . . .	<b>—</b>	<b>—</b>	<b>—</b>
<b>Gross value at the end of the period</b> . . . . .	<b>28,627,373.91</b>	<b>17,609,509.58</b>	<b>17,246,353.14</b>
<b>Impairment at the beginning of the period</b> . . . . .	<b>—</b>	<b>—</b>	<b>—</b>
increase . . . . .	—	—	—
decrease . . . . .	—	—	—
<b>Impairment at the end of the period</b> . . . . .	<b>—</b>	<b>—</b>	<b>—</b>
<b>Net value at the beginning of the period</b> . . . . .	<b><u>17,609,509.58</u></b>	<b><u>17,246,353.14</u></b>	<b><u>17,246,353.14</u></b>
<b>Net value at the end of the period</b> . . . . .	<b><u>28,627,373.91</u></b>	<b><u>17,609,509.58</u></b>	<b><u>17,246,353.14</u></b>

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

**ENERGA SA Group**  
**Consolidated financial statements for the years 2010 - 2012 ended 31 December**  
**(in PLN)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**18. Intangible assets**

	Costs of development work	Licenses and patents		Right of perpetual usufruct of land	Emmision rights	Other intangible assets	Intangible assets not in use	Total
		Total	Including software					
<i>Gross value</i>								
<b>Opening balance as at 1 January 2012</b>	<b>707,121.20</b>	<b>190,472,906.67</b>	<b>104,873,691.59</b>	<b>84,919,347.69</b>	<b>489,331.92</b>	<b>48,769,059.44</b>	<b>128,193,211.14</b>	<b>453,550,978.06</b>
Direct purchase	—	3,506,644.48	2,029,904.94	3,950,590.90	34,754,336.49	7,712,584.79	116,439,792.17	166,363,948.83
Settlement of intangible assets not in use	—	173,587,553.09	131,051,809.87	—	—	37,430,246.29	(211,017,799.38)	—
Sale, disposal	—	(1,979,795.95)	(1,979,795.95)	(675,474.06)	—	(5,872,626.69)	—	(8,527,896.70)
Scrapping	(63,480.89)	(1,918,686.04)	(1,276,523.47)	(33,175.41)	—	(1,562,562.45)	—	(3,577,904.79)
Donations and gratuitous transfers	—	—	—	(6,408.64)	—	—	—	(6,408.64)
Reclassification between groups	—	(7,124,384.36)	(271,978.79)	—	—	(9,455,564.46)	16,579,948.82	—
Capitalized borrowing costs	—	—	—	—	—	—	2,230,008.12	2,230,008.12
Reclassification from investment assets	—	—	—	12,227.64	—	—	—	12,227.64
Reclassification to assets classified as held for sale	—	—	—	(886,646.36)	—	—	—	(886,646.36)
Redemption of emmision rights	—	—	—	—	(35,243,668.41)	—	—	(35,243,668.41)
Other changes	—	142,348.09	142,108.11	(294,961.39)	—	—	26,815.17	(125,798.13)
<b>Closing balance as at 31 December 2012</b>	<b>643,640.31</b>	<b>356,686,585.98</b>	<b>234,569,216.30</b>	<b>86,985,500.37</b>	<b>0.00</b>	<b>77,021,136.92</b>	<b>52,451,976.04</b>	<b>573,788,839.62</b>
<i>Cumulative amortization (depreciation) and impairment</i>								
<b>Opening balance as at 1 January 2012</b>	<b>(707,121.20)</b>	<b>(110,305,747.18)</b>	<b>(47,340,897.85)</b>	<b>(12,640,874.84)</b>	<b>—</b>	<b>(17,405,238.48)</b>	<b>—</b>	<b>(141,058,981.70)</b>
Depreciation for the period	—	(38,810,591.15)	(25,840,488.63)	(2,209,711.45)	—	(16,135,551.68)	—	(57,155,854.28)
Increase in impairment allowance	—	(30,191.64)	(30,191.64)	(731,539.86)	—	(1,404.24)	—	(763,135.74)
Sale, disposal	—	29,397.08	29,397.08	97,363.63	—	210,631.98	—	337,392.69
Scrapping	63,480.89	1,775,686.62	1,133,856.81	4,776.63	—	1,447,224.95	—	3,291,169.09
Donations and gratuitous transfers	—	—	—	367.67	—	—	—	367.67
Reclassification between groups	—	3,016,512.10	712,696.38	—	—	(3,016,512.10)	—	—
Reclassification to assets classified as held for sale	—	—	—	220,117.29	—	—	—	220,117.29
Other changes	—	(91,525.49)	(91,525.49)	(5,732.34)	—	—	—	(97,257.83)
<b>Closing balance as at 31 December 2012</b>	<b>(643,640.31)</b>	<b>(144,416,459.66)</b>	<b>(71,427,153.34)</b>	<b>(15,265,233.27)</b>	<b>—</b>	<b>(34,900,849.57)</b>	<b>—</b>	<b>(195,226,182.81)</b>
<b>Net value as at 1 January 2012</b>	<b>—</b>	<b>80,167,159.49</b>	<b>57,532,793.74</b>	<b>72,278,472.85</b>	<b>489,331.92</b>	<b>31,363,820.96</b>	<b>128,193,211.14</b>	<b>312,491,996.36</b>
<b>Net value as at 31 December 2012</b>	<b>—</b>	<b>212,270,126.32</b>	<b>163,142,062.96</b>	<b>71,720,267.10</b>	<b>0.00</b>	<b>42,120,287.35</b>	<b>52,451,976.04</b>	<b>378,562,656.81</b>

**ENERGA SA Group**  
**Consolidated financial statements for the years 2010 - 2012 ended 31 December**  
**(in PLN)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**18. Intangible assets (Continued)**

	Costs of development work	Licenses and patents		Right of perpetual usufruct of land	Emmision rights	Other intangible assets	Intangible assets not in use	Total
		Total	Including software					
<i>Gross value</i>								
<b>Opening balance as at 1 January 2011</b>	<b>707,121.20</b>	<b>161,638,780.22</b>	<b>72,479,249.81</b>	<b>85,464,911.71</b>	<b>6,528,934.23</b>	<b>90,151,770.35</b>	<b>28,945,208.70</b>	<b>373,436,726.41</b>
Direct purchase	—	1,103,350.33	590,619.38	641,866.59	—	2,877,953.62	87,654,503.16	92,277,673.70
Settlement of intangible assets not in use	—	52,323,165.12	33,866,174.98	—	—	24,890,617.46	(77,213,782.58)	—
Sale, disposal	—	(526,034.44)	(140,059.34)	(479,493.39)	—	(727,735.27)	(36,346.16)	(1,769,609.26)
Scrapping	—	(2,610,173.86)	(2,584,479.08)	(16,507.54)	—	(801,578.57)	(4,552,024.00)	(7,980,283.97)
Reclassification between groups	—	(21,805,666.90)	306,568.45	198,393.70	—	(67,615,137.24)	89,222,410.44	—
Capitalized borrowing costs	—	—	—	—	—	—	3,647,751.01	3,647,751.01
Gratuitous receipt	—	—	—	1,390.00	—	—	—	1,390.00
Reclassification to investment assets	—	—	—	(510,645.02)	—	—	—	(510,645.02)
Redemption of emmision rights	—	—	—	—	(6,039,602.31)	—	—	(6,039,602.31)
Other changes	—	349,486.20	355,617.39	(380,568.36)	—	(6,830.91)	525,490.57	487,577.50
<b>Closing balance as at 31 December 2011</b>	<b>707,121.20</b>	<b>190,472,906.67</b>	<b>104,873,691.59</b>	<b>84,919,347.69</b>	<b>489,331.92</b>	<b>48,769,059.44</b>	<b>128,193,211.14</b>	<b>453,550,978.06</b>
<i>Cumulative amortization (depreciation) and impairment</i>								
<b>Opening balance as at 1 January 2011</b>	<b>(707,121.20)</b>	<b>(84,719,601.47)</b>	<b>(31,561,543.42)</b>	<b>(9,794,031.82)</b>	<b>—</b>	<b>(8,827,313.29)</b>	<b>—</b>	<b>(104,048,067.78)</b>
Depreciation for the period	—	(32,720,833.46)	(18,791,785.41)	(2,161,970.86)	—	(10,487,974.74)	—	(45,370,779.06)
Increase in impairment allowance	—	(308,842.39)	(308,842.39)	—	—	—	(120,000.00)	(428,842.39)
Decrease in impairment allowance	—	—	—	—	—	120,000.00	120,000.00	240,000.00
Sale, disposal	—	163,175.54	134,319.12	79,654.02	—	112,439.31	—	355,268.87
Scrapping	—	2,335,404.35	2,246,421.89	2,569.55	—	521,254.38	—	2,859,228.28
Reclassification between groups	—	4,871,365.91	926,478.13	—	—	(4,871,365.91)	—	—
Reclassification to investment assets	—	—	—	36,007.03	—	—	—	36,007.03
Other changes	—	73,584.34	14,054.23	(803,102.76)	—	6,027,721.77	—	5,298,203.35
<b>Closing balance as at 31 December 2011</b>	<b>(707,121.20)</b>	<b>(110,305,747.18)</b>	<b>(47,340,897.85)</b>	<b>(12,640,874.84)</b>	<b>—</b>	<b>(17,405,238.48)</b>	<b>—</b>	<b>(141,058,981.70)</b>
<b>Net value as at 1 January 2011</b>	<b>—</b>	<b>76,919,178.75</b>	<b>40,917,706.39</b>	<b>75,670,879.89</b>	<b>6,528,934.23</b>	<b>81,324,457.06</b>	<b>28,945,208.70</b>	<b>269,388,658.63</b>
<b>Net value as at 31 December 2011</b>	<b>—</b>	<b>80,167,159.49</b>	<b>57,532,793.74</b>	<b>72,278,472.85</b>	<b>489,331.92</b>	<b>31,363,820.96</b>	<b>128,193,211.14</b>	<b>312,491,996.36</b>



**ENERGA SA Group**  
**Consolidated financial statements for the years 2010 - 2012 ended 31 December**  
**(in PLN)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**18. Intangible assets (Continued)**

	Costs of development work	Licenses and patents		Right of perpetual usufruct of land	Emmision rights	Other intangible assets	Intangible assets not in use	Total
		Total	Including software					
<i>Gross value</i>								
<b>Opening balance as at 1 January 2010</b>	<b>802,783.56</b>	<b>132,732,717.45</b>	<b>48,019,313.46</b>	<b>83,916,827.00</b>	<b>5,378,444.39</b>	<b>52,448,659.84</b>	<b>18,065,355.63</b>	<b>293,344,787.87</b>
Direct purchase	—	26,493,237.04	25,059,983.76	1,098,072.43	4,223,902.00	41,981,306.43	14,249,653.59	88,046,171.49
Settlement of intangible assets not in use	—	4,468,713.85	1,175,230.89	728,220.10	—	—	(5,196,933.95)	—
Sale, disposal	—	(532,024.71)	(506,800.04)	(201,895.60)	—	(1,825,719.93)	—	(2,559,640.24)
Reclassification between groups	(78,710.81)	674,260.40	674,260.40	—	—	78,710.81	(674,260.40)	—
Scrapping	—	(1,901,029.97)	(1,627,061.41)	—	—	(3,053,525.59)	—	(4,954,555.56)
Redemption of emmision rights	—	—	—	—	(3,073,412.16)	—	—	(3,073,412.16)
Other changes	(16,951.55)	(297,093.84)	(315,677.25)	(76,312.22)	—	522,338.79	2,501,393.83	2,633,375.01
<b>Closing balance as at 31 December 2010</b>	<b>707,121.20</b>	<b>161,638,780.22</b>	<b>72,479,249.81</b>	<b>85,464,911.71</b>	<b>6,528,934.23</b>	<b>90,151,770.35</b>	<b>28,945,208.70</b>	<b>373,436,726.41</b>
<i>Cumulative amortization (depreciation) and impairment</i>								
<b>Opening balance as at 1 January 2010</b>	<b>(678,328.32)</b>	<b>(63,552,432.53)</b>	<b>(21,501,964.67)</b>	<b>(7,739,365.62)</b>	—	<b>(9,008,490.65)</b>	—	<b>(80,978,617.12)</b>
Depreciation for the period	(48,470.58)	(23,098,139.17)	(11,718,712.67)	(2,087,869.10)	—	(655,478.44)	—	(25,889,957.29)
Increase in impairment allowance	—	—	—	—	—	(120,000.00)	—	(120,000.00)
Sale, disposal	—	84,455.51	54,153.30	90,897.25	—	226,904.11	—	402,256.87
Reclassification between groups	19,677.70	(19,677.70)	(19,677.70)	—	—	—	—	—
Scrapping	—	1,887,621.80	1,624,658.30	—	—	632,004.73	—	2,519,626.53
Other changes	—	(21,429.38)	0.02	(57,694.35)	—	97,746.96	—	18,623.23
<b>Closing balance as at 31 December 2010</b>	<b>(707,121.20)</b>	<b>(84,719,601.47)</b>	<b>(31,561,543.42)</b>	<b>(9,794,031.82)</b>	—	<b>(8,827,313.29)</b>	—	<b>(104,048,067.78)</b>
<b>Net value as at 1 January 2010</b>	<b>124,455.24</b>	<b>69,180,284.92</b>	<b>26,517,348.79</b>	<b>76,177,461.38</b>	<b>5,378,444.39</b>	<b>43,440,169.19</b>	<b>18,065,355.63</b>	<b>212,366,170.75</b>
<b>Net value as at 31 December 2010</b>	<b>—</b>	<b>76,919,178.75</b>	<b>40,917,706.39</b>	<b>75,670,879.89</b>	<b>6,528,934.23</b>	<b>81,324,457.06</b>	<b>28,945,208.70</b>	<b>269,388,658.63</b>

As at 31 December 2012, the carrying value of software used under financial leases amounted to PLN 9.5 m. As at 31 December 2011, the Group did not use any software under finance leases. As at 31 December 2010, the carrying value of the software used under finance leases amounted to PLN 15.9 m.

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

**ENERGA SA Group**  
**Consolidated financial statements for the years 2010 - 2012 ended 31 December (Continued)**  
**(in PLN)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**19. Investments in associated entities valued using the equity method**

The tables below provide summary information on investments in associated entities valued using the equity method:

<u>Name of associate</u>	<u>SOEN SP. Z O.O.</u>	<u>SŁUPSKIE TOWARZYSTWO KOSZYKÓWKI SPORTOWA S.A.*</u>	<u>OŚWIETLENIE ULICZNE I DROGOWE SP. Z O.O.</u>	<u>BIO-POWER SP. Z O.O.</u>	<u>TOTAL</u>
Share in the votes of the associate . . . . .	48.5%	40.9%	42.2%	25.0%	
<b>Year ended 31 December 2012</b>					
<i>Share in the balance sheet of the associate:</i>					
Current (short-term) assets . . . . .	1,614,927.59	323,563.07	6,545,009.00	54,312.99	
Non-current (long-term) assets . . . . .	4,487,718.86	31,546.08	33,422,568.80	4,861,365.00	
Short-term liabilities . . . . .	1,657,029.41	582,339.97	4,935,585.40	2,386,296.46	
Long-term liabilities . . . . .	251,443.07	—	474,328.00	1,250,000.00	
<b>Share in net assets . . . . .</b>	<b>4,194,173.97</b>	<b>(227,230.82)</b>	<b>34,557,664.40</b>	<b>1,279,381.53</b>	
Goodwill . . . . .		—		1,301,084.26	
Impairment of investments in associates . . . . .	(3,194,173.97)	—	(26,027,664.40)	—	
<b>Shares and interests in associates presented in statement of financial position, of which: . . . . .</b>	<b>1,000,000.00</b>	<b>—</b>	<b>8,530,000.00</b>	<b>2,580,465.79</b>	<b>12,110,465.79</b>
—non-current assets . . . . .	—	—	—	2,580,465.79	2,580,465.79
—current assets** . . . . .	1,000,000.00	—	8,530,000.00	—	9,530,000.00
<b>Share in contingent liabilities . . . . .</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Share in the profit (loss) of the associated entity: . . . . .</b>	<b>(80,346.05)</b>	<b>—</b>	<b>474,604.50</b>	<b>(179,621.29)</b>	<b>214,637.16</b>

\* The value of the shares of Słupskie Towarzystwo Koszykówki Sportowa S.A. was in the preceding years covered by an impairment loss. Their carrying amount is zero and the share in profit/loss is not recognised in the Group's profit or loss.

\*\* Current assets include investments in associates that the Group intends to sell. These investments are covered by impairment loss to the value corresponding to their deemed net sale price.

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

**ENERGA SA Group**  
**Consolidated financial statements for the years 2010 - 2012 ended 31 December**  
**(in PLN)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**19. Investments in associated entities valued using the equity method (Continued)**

<u>Name of associate</u>	<u>SOEN SP. Z O.O.</u>	<u>SŁUPSKIE TOWARZYSTWO KOSZYKÓWKI SPORTOWA S.A.*</u>	<u>PRZEDSIĘBIORSTWO PRODUKCJI STRUNEKONOWYCH H ŻERDZI WIROWANYCH “WIRBET” SA</u>	<u>OŚWIETLENIE ULICZNE I DROGOWE SP. Z O.O.</u>	<u>BIO-POWER SP. Z O.O.</u>	<u>TOTAL</u>
Share in the votes of the associate . . . . .	48.5%	40.9%	30.6%	42.2%	25.0%	
<b>Year ended 31 December 2011</b>						
<i>Share in the balance sheet of the associate:</i>						
Current (short-term) assets . . . . .	1,592,351.98	214,682.45	2,575,437.75	9,755,881.03	998,236.33	
Non-current (long-term) assets . . . . .	4,578,253.20	15,278.85	2,930,030.23	33,692,093.96	4,746,984.47	
Short-term liabilities . . . . .	1,623,256.82	512,266.08	1,793,003.70	8,099,725.77	1,161,217.98	
Long-term liabilities . . . . .	272,828.34	—	224,832.12	1,265,189.32	3,125,000.00	
<b>Share in net assets . . . . .</b>	<b>4,274,520.02</b>	<b>(282,304.78)</b>	<b>3,487,632.16</b>	<b>34,083,059.90</b>	<b>1,459,002.82</b>	
Goodwill . . . . .	—	—	—	—	1,301,084.26	
Impairment of investments in associates . . . . .	(689,120.02)	—	—	(383,059.90)	—	
<b>Shares and interests in associates presented in statement of financial position, of which: . . . . .</b>	<b>3,585,400.00</b>	<b>—</b>	<b>3,487,632.16</b>	<b>33,700,000.00</b>	<b>2,760,087.08</b>	<b>43,533,119.24</b>
—non-current assets . . . . .	—	—	—	—	2,760,087.08	2,760,087.08
—current assets** . . . . .	3,585,400.00	—	—	33,700,000.00	—	37,285,400.00
—non-current assets classified as held for sale*** . . . . .	—	—	3,487,632.16	—	—	3,487,632.16
<b>Share in contingent liabilities . . . . .</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Share in the profit (loss) of the associated entity: . . . . .</b>	<b>(2,537.25)</b>	<b>—</b>	<b>592,624.48</b>	<b>477,554.10</b>	<b>9,723.73</b>	<b>1,077,365.06</b>

\* The value of the shares of Słupskie Towarzystwo Koszykówki Sportowa S.A. was in the preceding years covered by an impairment loss. Their carrying amount is zero and the share in profit/loss is not recognised in the Group's profit or loss.

\*\* Current assets include investments in associates that the Group intends to sell. These investments are covered by impairment loss to the value corresponding to their deemed net sale price.

\*\*\* As at 31 December 2011 the shares in Wirbet SA satisfied conditions of the definition of non-current assets classified as held for sale.

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

**ENERGA SA Group**  
**Consolidated financial statements for the years 2010 - 2012 ended 31 December**  
**(in PLN)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**19. Investments in associated entities valued using the equity method (Continued)**

<u>Name of associate</u>	<u>SOEN SP. Z O.O.</u>	<u>SŁUPSKIE TOWARZYSTWO KOSZYKÓWKI SPORTOWA S.A.*</u>	<u>PRZEDSIĘBIORSTWO PRODUKCJI STRUNEKONOWYCH H ŻERDZI WIROWANYCH "WIRBET" SA</u>	<u>OŚWIETLENIE ULICZNE I DROGOWE SP. Z O.O.</u>	<u>TOTAL</u>
Share in the votes of the associate . . . . .	48.50%	40.90%	30.60%	42.2%	
<b>Year ended 31 December 2010</b>					
<i>Share in the balance sheet of the associate:</i>					
Current (short-term) assets . . . . .	1,982,695.71	171,794.57	2,513,314.25	7,012,542.81	
Non-current (long-term) assets . . . . .	4,328,435.66	21,827.41	2,631,239.94	34,271,928.20	
Short-term liabilities . . . . .	1,537,750.29	429,320.76	1,399,612.06	6,850,579.20	
Long-term liabilities . . . . .	399,323.80	—	144,334.48	828,386.00	
<b>Share in net assets . . . . .</b>	<b>4,374,057.29</b>	<b>(235,698.79)</b>	<b>3,600,607.65</b>	<b>33,605,505.81</b>	
Goodwill . . . . .	—	—	—	—	
Impairment of investments in associates . . . . .	—	—	—	—	
<b>Shares and interests in associates presented in statement of financial position, of which: . . . . .</b>	<b>4,374,057.29</b>	<b>—</b>	<b>3,600,607.65</b>	<b>33,605,505.81</b>	<b>41,580,170.75</b>
<b>Share in contingent liabilities . . . . .</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Share in the profit (loss) of the associated entity: . . . . .</b>	<b>214,039.78</b>	<b>—</b>	<b>701,909.19</b>	<b>(247,629.60)</b>	<b>668,319.37</b>

\* The value of the shares of Słupskie Towarzystwo Koszykówki Sportowa S.A. was in the preceding years covered by an impairment loss. Their carrying amount is zero and the share in profit/loss is not recognised in the Group's profit or loss.

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

**ENERGA SA Group**

**Consolidated financial statements for the years 2010 - 2012 ended 31 December**

**(in PLN)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**20. Emission rights**

Changes in the volume (in thousand tons) of emission rights allocated under the National Allocation Plan as well as acquired by the Group in the secondary market were as follows:

<u>Title</u>	<u>2012 Number</u>	<u>2011 Number</u>	<u>2010 Number</u>
Granted under the National Allocation Plan . . . . .	3,080,376	3,080,376	3,080,331
Acquired on the secondary market . . . . .	1,862,000	1,000,000	126,718
<b>Total</b> . . . . .	<b><u>4,942,376</u></b>	<b><u>4,080,376</u></b>	<b><u>3,207,049</u></b>
Used for own needs . . . . .	(3,067,749)	(3,536,991)	(3,269,866)
Sold . . . . .	(2,411,744)	(500,000)	(99,950)
<b>Unused rights/(Shortfall)</b> . . . . .	<b><u>(537,117)</u></b>	<b><u>43,385</u></b>	<b><u>(162,767)</u></b>

As at 31 December 2012, a provision for the shortfall in emission rights in the amount of PLN 0.3 m was recognised.

**21. Inventory**

<u>Title</u>	<u>Historical cost</u>	<u>31 December 2012 Impairment charge</u>	<u>Carrying value</u>
Materials . . . . .	123,527,964.63	(827,442.40)	122,700,522.23
Finished products . . . . .	514,651.10	—	514,651.10
Semi-finished products and production in progress . . . . .	26,379,715.49	—	26,379,715.49
Merchandise . . . . .	26,585,199.51	(1,720,834.90)	24,864,364.61
Energy certificates of origin . . . . .	202,468,664.96	—	202,468,664.96
<b>Total</b> . . . . .	<b><u>379,476,195.69</u></b>	<b><u>(2,548,277.30)</u></b>	<b><u>376,927,918.39</u></b>
<b>Impairment of inventories as at 31 December 2011 . . . . .</b>			<b><u>(9,009,830.47)</u></b>
Impairment raised . . . . .			(1,150,969.58)
Impairment reversed . . . . .			7,612,522.75
Impairment used . . . . .			
<b>Impairment of inventories as at 31 December 2012 . . . . .</b>			<b><u>(2,548,277.30)</u></b>
<u>Title</u>	<u>Historical cost</u>	<u>31 December 2011 Impairment charge</u>	<u>Carrying value</u>
Materials . . . . .	118,869,580.00	(1,741,177.68)	117,128,402.32
Finished products . . . . .	1,017,850.63	(937.55)	1,016,913.08
Semi-finished products and production in progress . . . . .	28,458,034.93	—	28,458,034.93
Merchandise . . . . .	29,086,721.09	(543,643.49)	28,543,077.60
Energy certificates of origin . . . . .	227,450,035.70	(6,724,071.75)	220,725,963.95
<b>Total</b> . . . . .	<b><u>404,882,222.35</u></b>	<b><u>(9,009,830.47)</u></b>	<b><u>395,872,391.88</u></b>
<b>Impairment of inventories as at 31 December 2010 . . . . .</b>			<b><u>(2,160,723.71)</u></b>
Impairment raised . . . . .			(7,802,181.99)
Impairment reversed . . . . .			803,802.42
Impairment used . . . . .			149,272.81
<b>Impairment of inventories as at 31 December 2011 . . . . .</b>			<b><u>(9,009,830.47)</u></b>

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

**ENERGA SA Capital Group**

**Consolidated financial statements for the years 2010 - 2012 ended 31 December**

**(in PLN)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**21. Inventory (Continued)**

<u>Title</u>	<u>Historical cost</u>	<u>31 December 2010 Impairment charge</u>	<u>Carrying value</u>
Materials . . . . .	84,642,044.95	(1,572,130.08)	83,069,914.87
Finished products . . . . .	27,295,283.60	(5,257.63)	27,290,025.97
Semi-finished products and production in progress . . . . .	3,117,630.65	(6,190.81)	3,111,439.84
Merchandise . . . . .	29,271,777.19	(577,145.19)	28,694,632.00
Energy certificates of origin . . . . .	170,826,165.35	—	170,826,165.35
<b>Total . . . . .</b>	<b><u>315,152,901.74</u></b>	<b><u>(2,160,723.71)</u></b>	<b><u>312,992,178.03</u></b>
<b>Impairment of inventories as at 31 December 2009 . . . . .</b>			<b><u>(2,693,139.43)</u></b>
Impairment raised . . . . .			(919,918.15)
Impairment reversed . . . . .			377,991.60
Impairment used . . . . .			1,074,342.27
<b>Impairment of inventories as at 31 December 2010 . . . . .</b>			<b><u>(2,160,723.71)</u></b>

Group companies recognise write-downs of inventories taking into account economic impairment determined on the basis of ageing and turnover and realisable net selling price. Write-downs are released when the written-down inventory is consumed or sold.

**22. Cash and cash equivalents**

Cash at bank bears interest based on variable interest rates negotiated with the banks and depends on applicable interest rates for one-day bank deposits. Short-term deposits are made for varying periods ranging from one day to three months depending on the Group's current need for cash and earn interest based on interest rates determined during individual negotiations with the banks. Cash and cash equivalents include also units in the ENERGA Trading SFIO fund measured at fair value (valuation method as described in Note 9.13).

The balance of cash and cash equivalents presented in the cash flow statement are made up of the following items:

<u>Title</u>	<u>As at 31 December 2012</u>	<u>As at 31 December 2011</u>	<u>As at 31 December 2010</u>
Cash at bank and in hand . . . . .	390,197,826.60	152,164,830.19	200,873,228.35
Short term deposits up to 3 months . . . . .	972,731,706.21	429,921,501.67	572,433,402.57
Participation units in liquidity funds . . . . .	705,911,173.67	1,193,958,370.87	910,248,284.85
Other . . . . .	217,529.00	1,229,473.96	—
<b>Total cash and cash equivalents presented in the statement of financial position . . . . .</b>	<b><u>2,069,058,235.48</u></b>	<b><u>1,777,274,176.69</u></b>	<b><u>1,683,554,915.77</u></b>
Unrealised exchange differences and interest . . . . .	(13,654,636.68)	(14,099,878.41)	(12,244,219.22)
Current account overdraft . . . . .	(26,030,109.32)	(7,633,181.76)	(10,482,545.46)
<b>Total cash and cash equivalents presented in the cash flow statement . . . . .</b>	<b><u>2,029,373,489.48</u></b>	<b><u>1,755,541,116.52</u></b>	<b><u>1,660,828,151.09</u></b>

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.



**ENERGA SA Capital Group**

**Consolidated financial statements for the years 2010 - 2012 ended 31 December**

**(in PLN)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**23. Other assets**

**23.1. Other long-term assets**

<u>Title</u>	<u>Year ended 31 December 2012</u>	<u>Year ended 31 December 2011</u>	<u>Year ended 31 December 2010</u>
Trade receivables and other long-term receivables . .	217,564.50	499,670.59	3,637,933.08
Advances for property, plant & equipment under construction and intangible assets . . . . .	8,706,702.11	28,700,254.61	12,810,248.42
Bonds, treasury bills and debt securities . . . . .	27,107,314.83	—	—
Long-term prepayments and accrued expenses . . . .	21,194,172.81	2,005,969.95	1,757,357.15
Other . . . . .	1,573,345.97	1,193,102.40	66,371.39
<b>TOTAL . . . . .</b>	<b><u>58,799,100.22</u></b>	<b><u>32,398,997.55</u></b>	<b><u>18,271,910.04</u></b>

**23.2. Other short-term assets**

<u>Title</u>	<u>Year ended 31 December 2012</u>	<u>Year ended 31 December 2011</u>	<u>Year ended 31 December 2010</u>
Subscription . . . . .	202,630.93	363,803.10	335,604.41
Property, casualty and transport insurance . . . . .	14,776,584.50	14,336,859.45	8,616,710.32
Membership fees, training . . . . .	8,770.88	456.00	38,529.56
IT services . . . . .	675,667.74	885,159.14	1,739,518.79
Other deferred costs . . . . .	15,572,089.25	43,227,226.72	21,731,110.00
Advance payments towards trade payables . . . . .	7,058,738.27	7,225,738.02	12,232,754.21
VAT receivable . . . . .	93,687,221.80	109,276,923.50	102,246,796.85
Other tax receivables . . . . .	12,188,504.70	15,565,241.70	6,878,552.35
Net Company Social Benefit Fund asset . . . . .	603,430.25	616,718.27	660,661.18
Other short-term assets . . . . .	10,741,919.63	19,180,932.38	3,130,747.43
<b>TOTAL . . . . .</b>	<b><u>155,515,557.95</u></b>	<b><u>210,679,058.28</u></b>	<b><u>157,610,985.10</u></b>

**24. Discontinued operations and assets classified as held for sale**

**24.1. Discontinued operations**

In 2012, the Group decided to discontinue operations in the hotel industry. As at the date of these financial statements the subsidiaries, Kongres Sp. z o.o. and Międzynarodowe Centrum Szkolenia Energetyki Sp. z o.o., were placed into liquidation. The financial results of these companies (including write-downs created for non-current assets) are presented in the consolidated income statement as the result of discontinued operations.

In 2009, the Group discontinued its property management and property valuation businesses, and therefore the subsidiary ENERGA Nieruchomości S.A. was placed into liquidation. The company was finally liquidated in 2011.

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

**ENERGA SA Capital Group**

**Consolidated financial statements for the years 2010 - 2012 ended 31 December**

**(in PLN)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**24. Discontinued operations and assets classified as held for sale (Continued)**

The results of the discontinued operations for 2012 and comparative data for 2010 - 2011 are presented below:

<u>Title</u>	<u>Year ended 31 December 2012</u>	<u>Year ended 31 December 2011</u>	<u>Year ended 31 December 2010</u>
Revenue . . . . .	6,576,301.67	6,800,338.34	6,126,168.12
Costs . . . . .	24,670,587.55	11,505,345.28	9,790,136.56
Loss before tax . . . . .	(18,094,285.88)	(4,705,006.94)	(3,663,968.44)
Tax expense . . . . .	212,588.09	105,003.83	(90,863.10)
<b>Net loss . . . . .</b>	<b><u>(18,306,873.97)</u></b>	<b><u>(4,810,010.77)</u></b>	<b><u>(3,573,105.34)</u></b>
<b>Cash flows, of which: . . . . .</b>	<b><u>(8,868,543.92)</u></b>	<b><u>(4,104,611.96)</u></b>	<b><u>(855,974.13)</u></b>
from operating activities . . . . .	(4,516,572.47)	(810,933.02)	(145,959.81)
from investing activities . . . . .	398,335.61	258,166.09	(935,594.30)
from financing activities . . . . .	<u>(4,750,307.06)</u>	<u>(3,551,845.03)</u>	<u>225,579.98</u>
<b>Earnings per share from discontinued operations (ordinary and diluted) . . . . .</b>	<b><u>(0.00)</u></b>	<b><u>(0.00)</u></b>	<b><u>(0.00)</u></b>

The aggregate net result of discontinued operations in the years 2010 - 2012 is attributable to equity holders of the parent.

**24.2. Assets classified as held for sale**

Following the discontinuation of the hotel business in 2012, the Group took steps aimed at selling a part of the assets of Międzynarodowe Centrum Szkolenia Energetyki Sp. z o.o. (see the description in Note 41).

Currently, a search is in progress for prospective buyers for the hotel and leisure facilities. The Group expects that the process of selling those facilities will be completed in the next 12 months.

The Group recognised shares in the associate Przedsiębiorstwo Produkcji Strunobetonowych Żerdzi Wirowanych WIRBET SA and Towarowa Giełda Energii S.A. as assets classified as held for sale as at 31 December 2011.

The profit on disposal of assets classified as held for sale presented in the consolidated income statement for 2012 represents the profit on disposal of shares in Towarowa Giełda Energii S.A. and in the associate Przedsiębiorstwo Produkcji Strunobetonowych Żerdzi Wirowanych WIRBET SA.

**25. Other liabilities**

**25.1. Other long-term liabilities**

<u>Title</u>	<u>Year ended 31 December 2012</u>	<u>Year ended 31 December 2011</u>	<u>Year ended 31 December 2010</u>
<b>Other non-financial liabilities . . . . .</b>	<b><u>612,677.83</u></b>	<b><u>3,469,329.31</u></b>	<b><u>126,724.93</u></b>
Security for the proper performance of an agreement, guarantees . . . . .	—	184,666.36	126,724.93
Liabilities to employees on account of restructuring severance pay . . . . .	385,052.59	3,068,373.57	—
Other . . . . .	<u>227,625.24</u>	<u>216,289.38</u>	<u>—</u>
<b>Total . . . . .</b>	<b><u>612,677.83</u></b>	<b><u>3,469,329.31</u></b>	<b><u>126,724.93</u></b>

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

**ENERGA SA Capital Group**

**Consolidated financial statements for the years 2010 - 2012 ended 31 December**

**(in PLN)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**25. Other liabilities (Continued)**

**25.2. Other short-term liabilities**

<u>Title</u>	<u>Year ended 31 December 2012</u>	<u>Year ended 31 December 2011</u>	<u>Year ended 31 December 2010</u>
<b>Liabilities on account of taxes, customs duties, social security, salaries and others . . . . .</b>	<b>187,426,400.69</b>	<b>257,150,370.85</b>	<b>229,535,396.13</b>
Excise tax . . . . .	31,959,451.93	25,476,255.50	26,866,996.78
VAT . . . . .	85,234,399.38	153,213,234.72	119,334,911.18
Liabilities on social security insurance . . . . .	45,154,894.22	47,438,968.62	49,589,338.12
Personal income tax . . . . .	16,652,347.20	22,339,982.18	26,665,544.68
Environmental fees . . . . .	6,566,054.00	6,971,314.41	5,371,534.00
Property tax . . . . .	2,262.25	812,321.71	751,829.44
Other . . . . .	1,856,991.71	898,293.71	955,241.93
<b>Other non-financial liabilities . . . . .</b>	<b>198,748,031.87</b>	<b>253,508,968.90</b>	<b>316,994,410.12</b>
Payroll liabilities . . . . .	32,574,557.57	49,458,249.20	75,955,088.41
Liabilities to employees on account of restructuring severance pay . . . . .	7,280,543.00	21,716,295.72	—
Deferred counterparty payments and advances received . . . . .	153,410,926.47	142,206,105.72	124,330,314.01
Net Company Social Benefit Fund liability . . . . .	436,160.64	1,056,792.24	632,674.54
Liabilities on account of the substitution fee . . . . .	—	29,106,838.68	106,261,987.05
Other . . . . .	5,045,844.19	9,964,687.34	9,814,346.11
<b>Total . . . . .</b>	<b><u>386,174,432.56</u></b>	<b><u>510,659,339.75</u></b>	<b><u>546,529,806.25</u></b>

**26. Deferred income and accruals**

**26.1. Deferred income**

<u>Title</u>	<u>Year ended 31 December 2012</u>	<u>Year ended 31 December 2011</u>	<u>Year ended 31 December 2010</u>
Property, plant & equipment acquired free of charge . . . . .	63,056,581.26	64,100,144.77	60,540,348.10
Subsidies received . . . . .	96,026,848.07	87,792,959.98	47,173,461.51
Lease revenues . . . . .	20,625.00	1,673.36	5,426,185.66
Connection fees . . . . .	320,143,667.32	333,210,585.58	346,512,030.17
Other deferred income . . . . .	5,694,751.08	8,952,005.86	4,268,615.46
<b>TOTAL, including: . . . . .</b>	<b><u>484,942,472.73</u></b>	<b><u>494,057,369.55</u></b>	<b><u>463,920,640.90</u></b>
Long-term . . . . .	456,009,751.82	465,938,618.59	442,910,451.58
Short-term . . . . .	28,932,720.91	28,118,750.96	21,010,189.32

The subsidies disclosed by the Group arise mainly from the valuation of the preferential loan from the European Investment Bank (see description in Note 42). As at 31 December 2012, 2011 and 2010 the balance of subsidies recognised thereunder amounted respectively to PLN 74 m, PLN 80 m and PLN 42 m.

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

**ENERGA SA Capital Group**

**Consolidated financial statements for the years 2010 - 2012 ended 31 December**

**(in PLN)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**26. Deferred income and accruals (Continued)**

**26.2. Accruals**

<u>Title</u>	<u>Year ended 31 December 2012</u>	<u>Year ended 31 December 2011</u>	<u>Year ended 31 December 2010</u>
Accruals for unused holiday leave pay . . . . .	20,824,593.48	14,445,286.40	12,003,823.70
Accruals for annual bonus and other employee bonuses . . . . .	91,745,298.61	97,666,543.63	69,074,535.51
Management Board bonuses . . . . .	3,358,670.12	1,902,470.74	1,575,220.52
Other accruals . . . . .	1,836,462.02	8,737,048.32	3,151,095.01
<b>TOTAL . . . . .</b>	<b><u>117,765,024.23</u></b>	<b><u>122,751,349.09</u></b>	<b><u>85,804,674.74</u></b>

**27. Employee benefits**

**27.1. Employee stock plans**

As a result of the commercialisation of ENERGA—OPERATOR SA, initiated on 12 July 1993 and completed on 16 June 2008, the State Treasury assigned to employees 15% of shares in ENERGA—OPERATOR SA.

As a result of the commercialisation of ENERGA Elektrownie Ostrołęka SA, initiated on 31 August 1998 and completed on 13 May 2008, the State Treasury assigned to employees 15% of shares in ENERGA Elektrownie Ostrołęka SA.

The fair value of equity instruments issued to employees was recognized in previous years' earnings.

In 2009, ENERGA SA started the process of conversion of ENERGA—OPERATOR SA and ENERGA Elektrownie Ostrołęka SA shares (consolidated companies) into shares of ENERGA SA (consolidating company) pursuant to the Act dated 7 September 2007 on the principles of acquisition of shares from the State Treasury in the process of consolidation of power sector companies and the Decree of the Minister of Treasury dated 19 February 2008 on the method for determination of the number of shares of the consolidating company subject to conversion and the method of conversion of shares or rights to shares of the consolidated company into shares of the consolidating company.

This process completed on 13 August 2010.

A total of 15,098 persons were eligible for the share swap, who were entitled to 726,841,669 shares of ENERGA SA, with a nominal value of PLN 1 each. Share swap agreements were realised from 21 September 2009.

On completion, 13,643 persons agreed to swap their shares of the consolidated companies for the shares of the consolidating company by the end of 2011, and they jointly subscribed for 668,408,326 shares of ENERGA SA.

Despite the conversion being formally completed, there will still be instances of share swaps effected with the heirs of the eligible persons who had filed motions to declare vesting of inheritance before 13 August 2010.

**27.2. Retirement benefits and other post-employment benefits**

*Retirement and disability pension awards, jubilee awards*

The Group pays retirement or disability pension awards in the amounts specified by the Collective Bargaining Agreements to employees leaving on retirement or disability. Employees reaching a specified number of years in service are paid jubilee awards. The Group therefore raises a provision for the present value of their liability for retirement and disability pension awards and jubilee awards, based on a valuation by an actuary.

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

**ENERGA SA Capital Group**

**Consolidated financial statements for the years 2010 - 2012 ended 31 December**

**(in PLN)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**27. Employee benefits (Continued)**

*Employee's Energy Tariff*

Pursuant to the Collective Bargaining Agreement, as amended in 2005, the liability for payment of benefits under the so-called "Employee's energy tariff" for former employees of the energy industry and other entitled persons was transferred to individual companies from which such entitled persons originate. The Group therefore raised an appropriate provision for that purpose. The amount of the provision is estimated by an actuary. The provision raised is charged against operating expenses.

*Company Social Benefit Fund*

The Group's entities make contributions to their Company Social Benefit Funds for retired and disabled employees. Provisions are raised to cover the cost of these benefits, which are estimated using actuarial methods.

The amounts of such provisions and a reconciliation of changes in the balances are presented in the following tables:

	<u>Provision for pension and similar benefits</u>	<u>Energy tariff</u>	<u>Company Social Benefit Fund</u>	<u>Total</u>
<b>Opening balance as at 1 January</b>				
<b>2012 (restated) . . . . .</b>	<b>96,376,373.01</b>	<b>306,272,254.92</b>	<b>72,438,574.49</b>	<b>475,087,202.42</b>
Current service cost . . . . .	5,363,166.51	1,864,273.20	2,066,332.44	9,293,772.15
Actuarial gains and losses . . . . .	8,366,552.63	(50,204,724.23)	4,374,744.24	(37,463,427.36)
Benefits paid . . . . .	(2,081,615.82)	(9,007,223.91)	(2,336,455.92)	(13,425,295.65)
Past service cost . . . . .	(482,790.00)	—	—	(482,790.00)
Interest cost . . . . .	5,850,088.00	15,811,437.00	4,260,946.00	25,922,471.00
<b>Closing balance as at</b>				
<b>31 December 2012 . . . . .</b>	<b>113,391,774.33</b>	<b>264,736,016.98</b>	<b>80,804,141.25</b>	<b>458,931,932.56</b>
<b>Short-term as at 31 December</b>				
<b>2012 . . . . .</b>	<b>2,476,433.54</b>	<b>9,928,071.44</b>	<b>2,683,925.72</b>	<b>15,088,430.70</b>
<b>Long-term as at 31 December</b>				
<b>2012 . . . . .</b>	<b>110,915,340.79</b>	<b>254,807,945.54</b>	<b>78,120,215.53</b>	<b>443,843,501.86</b>
	<u>Provision for pension and similar benefits</u>	<u>Energy tariff</u>	<u>Company Social Benefit Fund</u>	<u>Total</u>
<b>As at 1 January 2011 (restated) . .</b>	<b>103,687,436.04</b>	<b>263,953,464.10</b>	<b>50,258,815.95</b>	<b>417,899,716.09</b>
Current service cost . . . . .	2,989,348.97	2,510,023.44	2,120,444.90	7,619,817.31
Actuarial gains and losses . . . . .	(654,998.95)	29,630,806.72	19,151,922.00	48,127,729.77
Benefits paid . . . . .	(14,780,415.55)	(5,133,443.28)	(2,364,896.26)	(22,278,755.09)
Interest cost . . . . .	5,135,002.50	15,311,403.94	3,272,287.90	23,718,694.34
<b>As at 31 December 2011</b>				
<b>(restated) . . . . .</b>	<b>96,376,373.01</b>	<b>306,272,254.92</b>	<b>72,438,574.49</b>	<b>475,087,202.42</b>
<b>Short-term as at 31 December</b>				
<b>2011 . . . . .</b>	<b>3,349,140.25</b>	<b>9,922,972.07</b>	<b>2,733,480.78</b>	<b>16,005,593.10</b>
<b>Long-term as at 31 December</b>				
<b>2011 (restated) . . . . .</b>	<b>93,027,232.76</b>	<b>296,349,282.85</b>	<b>69,705,093.71</b>	<b>459,081,609.32</b>

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

**ENERGA SA Capital Group**

**Consolidated financial statements for the years 2010 - 2012 ended 31 December**

**(in PLN)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**27. Employee benefits (Continued)**

	<u>Provision for pension and similar benefits</u>	<u>Energy tariff</u>	<u>Company Social Benefit Fund</u>	<u>Total</u>
<b>As at 1 January 2010 (restated) .</b>	<b>94,020,209.30</b>	<b>249,505,641.26</b>	<b>58,895,072.42</b>	<b>402,420,922.98</b>
Current service cost . . . . .	8,093,695.94	(649,320.33)	841,886.94	8,286,262.55
Actuarial gains and losses . . . . .	2,029,973.51	4,395,499.41	(10,550,317.61)	(4,124,844.69)
Benefits paid . . . . .	(5,755,085.71)	(3,456,058.24)	(1,981,565.80)	(11,192,709.75)
Interest cost . . . . .	5,298,643.00	14,157,702.00	3,053,740.00	22,510,085.00
<b>As at 31 December 2010 (restated), of which: . . . . .</b>	<b><u>103,687,436.04</u></b>	<b><u>263,953,464.10</u></b>	<b><u>50,258,815.95</u></b>	<b><u>417,899,716.09</u></b>
<b>Short-term as at 31 December 2011 . . . . .</b>	<b>3,543,264.89</b>	<b>8,122,884.88</b>	<b>2,427,331.60</b>	<b>14,093,481.37</b>
<b>Long-term as at 31 December 2011 (restated) . . . . .</b>	<b>100,144,171.15</b>	<b>255,830,579.22</b>	<b>47,831,484.35</b>	<b>403,806,234.72</b>

The principal assumptions made by the actuary as on the balance sheet date in calculating the amount of liability are as follows:

<u>Title</u>	<u>Year ended 31 December 2012</u>	<u>Year ended 31 December 2011</u>	<u>Year ended 31 December 2010</u>
Discount rate . . . . .	3.80%	5.55%	5.50%
Employee turnover rate . . . . .	0.00 - 8.50%	0.00 - 8.90%	0.00 - 5.70%
Expected salary increase rate . . . . .	4.50%	4.50%	4.50%
Expected Company Social Benefit Fund charge increase rate . . . . .	5.70%	5.80%	3.70%
Expected energy tariff increase rate . . . . .	<i>by price trend*</i>	<i>by price trend*</i>	<i>by price trend*</i>

\* the trend of energy prices was determined on the basis of industry experts' analyses

Based on data received from the actuary, the Group estimates that the impact of changes in assumptions on the amount of the provision for retirement and disability awards, jubilee awards, company social fund and energy tariff benefits would be as follows:

- Adopting a discount rate 1 percentage point higher would decrease the amount of the provisions for years 2012, 2011 and 2010 respectively by approximately 11%, 12% and 10%, and adopting a discount rate 1 percentage point lower would increase the provision by approximately 14%, 13% and 14%, respectively.
- Adopting forecasted salary growth rates 1 percentage point higher would increase the provisions in 2012, 2011 and 2010 by approximately 14%, 13% and 14%, respectively and adopting forecasted salary growth rates 1 percentage point lower would decrease the provision by approximately 11%, 12% and 10%, respectively.

**28. Earnings per share**

Basic earnings per share are calculated by dividing net earnings for a given period attributable to ordinary shareholders of the Parent by the weighted average number of ordinary shares outstanding in such period.

On the other hand, diluted earnings per share are calculated by dividing net earnings for the period attributable to ordinary shareholders (minus interest on redeemable preferred shares, convertible to ordinary shares) by the weighted average number of issued ordinary shares in the period (adjusted for the effect of dilutive options and dilutive redeemable preferred shares convertible to ordinary shares).

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.



**ENERGA SA Capital Group**

**Consolidated financial statements for the years 2010 - 2012 ended 31 December**

**(in PLN)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**28. Earnings per share (Continued)**

The earnings and share information presented below were used to calculate basic and diluted earnings per share:

<u>Title</u>	<u>Year ended</u> <u>31 December 2012</u>	<u>Year ended</u> <u>31 December 2011</u> <u>(restated)</u>	<u>Year ended</u> <u>31 December 2010</u> <u>(restated)</u>
Net profit on continued operations attributable to the ordinary shareholders of the parent company . . . . .	475,341,549.95	663,933,217.90	604,676,972.74
Net profit on discontinued operations attributable to the ordinary shareholders of the parent company . . . . .	<u>(18,306,873.97)</u>	<u>—</u>	<u>(378,008.92)</u>
<b>Net profit attributable to the ordinary shareholders of the parent company . . . . .</b>	<b><u>457,034,675.98</u></b>	<b><u>663,933,217.90</u></b>	<b><u>604,298,963.82</u></b>
Number of ordinary shares at the end of the financial period . . . . .	4,968,805,368.00	4,968,805,368.00	4,968,805,368.00
Number of issued common shares used to calculate basic earnings per share . . . . .	<u>4,968,805,368.00</u>	<u>4,968,805,368.00</u>	<u>4,968,805,368.00</u>
<b>Earnings per share from continued operations (ordinary and diluted) . . . . .</b>	<b><u>0.09</u></b>	<b><u>0.13</u></b>	<b><u>0.12</u></b>
<b>Earnings per share from discontinued operations (ordinary and diluted) . . . . .</b>	<b><u>(0.00)</u></b>	<b><u>—</u></b>	<b><u>(0.00)</u></b>

In the presented periods no dilution effect occurred.

**29. Dividends paid and proposed for payment**

<u>Title</u>	<u>Year ended</u> <u>31 December 2012</u>	<u>Year ended</u> <u>31 December 2011</u>	<u>Year ended</u> <u>31 December 2010</u>
<b>Dividends declared in the period</b>			
dividend declared by subsidiaries to non-controlling interests . . . . .	8,183,902.21	40,393,603.02	9,196,118.70
dividend declared by the parent . . . . .	<u>645,944,697.84</u>	<u>149,064,161.04</u>	<u>99,376,107.36</u>
<b>Total . . . . .</b>	<b><u>654,128,600.05</u></b>	<b><u>189,457,764.06</u></b>	<b><u>108,572,226.06</u></b>
<b>Dividends paid in the period</b>			
dividend paid in the period . . . . .	653,924,155.35	189,440,845.08	114,620,053.58
dividend per share paid by the Group . . . . .	0.13	0.04	0.02

When calculating the dividend per share paid by the Group, the weighted average number of shares of the parent was determined in the same manner as in the calculation of earnings per share, as described in Note 28 of the consolidated financial statements.

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

## ENERGA SA Capital Group

Consolidated financial statements for the years 2010 - 2012 ended 31 December

(in PLN)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 30. Business combinations

In connection with the restructuring of the Group in the years 2010 - 2012 the following mergers of the companies associated with the consolidation of sourcing, energy generation from renewable sources, lighting and telecommunication and IT businesses were carried out:

- On 30 April 2010 the District Court for the capital city of Warsaw in Warsaw issued the decision on the registration of the merger of ZEP—Info Sp. z o.o. and Zakład Energetyczny Płock—Centrum Techniki Energetycznej Sp. z o.o. by way of a transfer of the entire assets of Zakład Energetyczny Płock—Centrum Techniki Energetycznej Sp. z o.o. to ZEP—Info Sp. z o.o.
- On 1 June 2010 the District Court Gdańsk—Północ in Gdańsk issued the decision on the registration of the merger of ENERGA Oświetlenie Sp. z o.o. and Zakład Oświetlenia Drogowego “PÓLNOC” Sp. z o.o. by way of a transfer of the entire assets of Zakład Oświetlenia Drogowego “PÓLNOC” Sp. z o.o. to ENERGA Oświetlenie Sp. z o.o.;
- On 1 February 2011 the District Court Gdańsk—Północ in Gdańsk issued the decision on the registration of the merger of ENERGA Hydro Sp. z o.o. (previously ENERGA Elektrownie Straszyn Sp. z o.o.), ENERGA Elektrownie w Koszalinie Sp. z o.o. and ENERGA Elektrownie Łyna SA by way of a transfer of the entire assets of ENERGA Elektrownie w Koszalinie Sp. z o.o. and ENERGA Elektrownie Łyna SA to ENERGA Hydro Sp. z o.o.;
- On 20 October 2011 the District Court Gdańsk—Północ in Gdańsk issued the decision on the registration of the merger of ENERGA Informatyka i Technologie Sp. z o.o. (acquiring company) and ZEP—Info Sp. z o.o. (acquired company);
- On 23 January 2012 the District Court for the capital city of Warsaw in Warsaw issued the decision on the registration of the merger of Zaopatrzenie Energetyki Koszalin Sp. z o.o., Przedsiębiorstwo Zaopatrzenia Materiałowego Energetyki Słupsk Sp. z o.o. and Zakład Energetyczny Płock—Centrum Handlowe Sp. z o.o. by way of a transfer of the entire assets of Zaopatrzenie Energetyki Koszalin Sp. z o.o. and Przedsiębiorstwo Zaopatrzenia Materiałowego Energetyki Słupsk Sp. z o.o. to Zakład Energetyczny Płock—Centrum Handlowe Sp. z o.o.;
- On 20 December 2012 the District Court Gdańsk—Północ in Gdańsk issued the decision on registration of the merger of ENERGA Hydro Sp. z o.o. (acquiring company) and ENERGA Wind Sp. z o.o. (acquired company).

As the above mentioned mergers related to entities covered by the consolidated financial statements, they did not affect the Group's assets, liabilities, revenues, expenses and cash flows presented in the respective years. The mergers that took place in 2010 - 2012 did not result in change of control over any of the Group's companies, and therefore in the Group's opinion the transactions satisfied the definition of transactions under common control.

The situation in which a transaction or economic process requiring recognition in the statements prepared in accordance with IFRS is not regulated by the provisions of individual standards, is governed by the provisions of IAS 8 point 10-12. Those provisions require the entity preparing the statements in accordance with IFRS to create its own set of accounting principles indicating the specific characteristics of such accounting principles: fair representation of the financial position, results of operations and cash flows, reflection of the economic nature of transactions, impartiality, prudence and completeness in all respects.

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

**ENERGA SA Capital Group**  
**Consolidated financial statements for the years 2010 - 2012 ended 31 December**  
**(in PLN)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**31. Share capital and other components of equity**

**31.1. Share capital**

<u>Title</u>	<u>Year ended 31 December 2012</u>	<u>Year ended 31 December 2011</u>	<u>Year ended 31 December 2010</u>
A series registered shares with a par value of PLN 1 each . . . . .	255,000.00	255,000.00	255,000.00
B series registered shares with a par value of PLN 1 each . . . . .	4,845,611,133.00	4,845,611,133.00	4,845,611,133.00
C series registered shares with a par value of PLN 1 each . . . . .	122,939,235.00	122,939,235.00	122,939,235.00
<b>Total number of shares . . . . .</b>	<b><u>4,968,805,368.00</u></b>	<b><u>4,968,805,368.00</u></b>	<b><u>4,968,805,368.00</u></b>

The outstanding shares have a aggregate nominal value of PLN 4,968.8 m and are fully paid up.

**31.1.1 Shareholders' rights**

*Employee stock plan*

Pursuant to the Act on Commercialisation and Privatisation dated 30 June 1996, employees and former employees of the subsidiaries of ENERGA SA Group are entitled to receive shares of the entities where they were employed as at the date of the derecognition of the given commercialised state owned enterprise from the applicable register (see the description in Note 27.1).

**31.1.2 Significant shareholders**

<u>Title</u>	<u>Year ended 31 December 2012</u>	<u>Year ended 31 December 2011</u>	<u>Year ended 31 December 2010</u>
<b>State Treasury</b>			
share in capital . . . . .	84.18%	84.18%	84.19%
share in voting rights . . . . .	84.18%	84.18%	84.19%
<b>Minority shareholders</b>			
share in capital . . . . .	15.82%	15.82%	15.81%
share in voting rights . . . . .	15.82%	15.82%	15.81%

**31.2. Reserve capital**

The reserve capital was created from profit generated by the parent. As at 31 December 2012, 31 December 2011 and 31 December 2010, the reserve capital amounted to PLN 471.2 m, PLN 362.5 m and PLN 163.6 m, respectively.

**31.3. Retained earnings and dividend restrictions**

Retained earnings include amounts that are not subject to distribution, that is, may not be paid as dividends by the parent.

The statutory financial statements of all ENERGA companies for 2010 and 2011 were prepared in accordance with Polish accounting regulations. Statutory financial statements of ENERGA SA and ENERGA—OPERATOR SA for 2012 were prepared in accordance with IFRS-EU. The statutory financial statements of other ENERGA SA Group companies for 2012 were prepared in accordance with the Accounting Act.

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

**ENERGA SA Capital Group**

**Consolidated financial statements for the years 2010 - 2012 ended 31 December**

**(in PLN)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**31. Share capital and other components of equity (Continued)**

In accordance with the requirements of the Code of Commercial Companies, the parent and its joint—stock subsidiary companies are required to create reserve capital to cover losses. At least 8% of the profit for the financial year reported in the company's separate financial statements is allocated to reserve capital until it reaches an amount of at least one third of the share capital. The decision to draw from reserve capital is made by the General Meeting; however the part of the reserve capital that represents one third of the share capital may only be used to cover losses reported in the separate financial statements and may not be allocated for any other purposes.

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

ENERGA SA Group

Consolidated financial statements for the years 2010 - 2012 ended 31 December

(in PLN)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

32. Provisions

	Post-employment benefits	Jubilee awards	Claims by counterparties	Legal claims	Employee matters	For reclamation of ash landfills	Provision for liabilities for gas emissions	Provision for redemption of energy certificates of origin	Restructuring provision	Other provisions	Total
As at 1 January 2012 (restated)	475,087,202.42	217,784,884.20	6,161.09	76,764,633.28	3,115,187.49	4,754,360.00	31,014,512.89	268,647,396.17	64,142,658.71	37,264,442.79	1,178,581,439.04
Current service cost	9,293,772.15	15,001,912.92	—	—	—	—	—	—	—	—	24,295,685.07
Actuarial gains and losses	(37,463,427.36)	50,738,355.14	—	—	—	—	—	—	—	—	13,274,927.78
Benefits paid	(13,425,295.65)	(20,159,235.42)	—	—	—	—	—	—	—	—	(33,584,531.07)
Past service cost	(482,790.00)	(1,691,046.00)	—	—	—	—	—	—	—	—	(2,173,836.00)
Interest cost	25,922,471.00	13,732,220.00	—	—	—	4,544,690.00	—	—	—	—	44,199,381.00
Raised during the financial year	—	—	393,750.00	188,288,694.44	2,160,775.96	—	16,500.00	211,035,656.60	63,379,011.47	43,030,073.20	508,304,461.67
Released	—	—	—	(65,299,226.42)	(1,110,931.82)	—	(44,858.41)	(1,793,853.83)	(8,127,542.79)	(120,000.00)	(76,496,413.27)
Used	—	—	(6,161.09)	(1,055,989.46)	(659,326.21)	—	(30,679,654.48)	(266,853,542.34)	(62,481,174.12)	(28,534,148.65)	(390,269,996.35)
As at 31 December 2012 (restated)	458,931,932.56	275,407,090.84	393,750.00	198,698,111.84	3,505,705.42	9,299,050.00	306,500.00	211,035,656.60	56,912,953.27	51,640,367.34	1,266,131,117.87
Short-term as at 31 December 2012	15,088,430.70	18,650,984.26	393,750.00	198,698,111.84	3,478,393.10	—	306,500.00	211,035,656.60	56,082,663.58	51,610,830.09	555,345,320.17
Long-term as at 31 December 2012	443,843,501.86	256,756,106.58	—	—	27,312.32	9,299,050.00	—	—	830,289.69	29,537.25	710,785,797.70

	Post-employment benefits	Jubilee awards	Claims by counterparties	Legal claims	Employee matters	For reclamation of ash landfills	Provision for liabilities for gas emissions	Provision for redemption of energy certificates of origin	Restructuring provision	Other provisions	Total
As at 1 January 2011 (restated)	417,899,716.09	201,060,619.63	13,344,538.02	70,311,313.28	6,279,834.96	13,148,882.00	7,291,104.65	133,306,012.96	43,992,745.74	46,937,046.55	953,571,813.88
Current service cost	7,619,817.31	24,016,186.40	—	—	—	—	—	—	—	—	31,636,003.71
Actuarial gains and losses	48,127,729.77	(1,319,049.00)	—	—	—	—	—	—	—	—	46,808,680.77
Benefits paid	(22,278,755.09)	(17,210,989.55)	—	—	—	—	—	—	—	—	(39,489,744.64)
Interest cost	23,718,694.34	11,238,116.72	—	—	—	(8,394,522.00)	—	—	—	—	26,562,289.06
Raised during the financial year	—	—	6,161.09	65,706,389.48	3,115,187.48	—	30,272,051.77	646,463,550.47	94,246,554.44	40,165,926.98	879,975,821.71
Released	—	—	(2,036,382.09)	(33,674,505.43)	(6,204,634.60)	—	(1,049,548.54)	(717,460.50)	—	(10,131,607.89)	(53,814,139.05)
Used	—	—	(11,308,155.93)	(25,578,564.05)	(75,200.35)	—	(5,499,094.99)	(510,404,706.76)	(74,096,641.47)	(39,706,922.85)	(666,669,286.40)
As at 31 December 2011 (restated)	475,087,202.42	217,784,884.20	6,161.09	76,764,633.28	3,115,187.49	4,754,360.00	31,014,512.89	268,647,396.17	64,142,658.71	37,264,442.79	1,178,581,439.04
Short-term as at 31 December 2011	16,005,593.10	17,935,548.75	6,161.09	76,764,633.28	3,115,187.49	—	31,014,512.89	268,647,396.17	60,581,839.71	37,248,575.79	511,319,448.27
Long-term as at 31 December 2011 (restated)	459,081,609.32	199,849,335.45	—	—	—	4,754,360.00	—	—	3,560,819.00	15,887.00	667,261,990.77

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

**ENERGA SA Group**  
**Consolidated financial statements for the years 2010 - 2012 ended 31 December**  
**(in PLN)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**32. Provisions (Continued)**

	Post-employment benefits	Jubilee awards	Claims by counterparties	Legal claims	Employee matters	For reclamation of ash landfills	Provision for liabilities for gas emissions	Provision for redemption of energy certificates of origin	Restructuring provision	Provision for purchased energy estimates	Other provisions	Total
<b>As at 1 January 2010</b>												
(restated) . . . . .	<b>402,420,922.98</b>	<b>206,252,303.00</b>	<b>4,342,429.95</b>	<b>47,864,220.24</b>	<b>12,464,552.81</b>	<b>12,463,400.00</b>	<b>2,825,694.29</b>	<b>180,624,745.98</b>	—	<b>5,268,433.64</b>	<b>42,636,048.19</b>	<b>917,162,751.08</b>
Current service cost . . . . .	8,286,262.55	7,701,767.22	—	—	—	—	—	—	—	—	—	15,988,029.77
Actuarial gains and losses . . . . .	(4,124,844.69)	(10,541,469.04)	—	—	—	—	—	—	—	—	—	(14,666,313.73)
Benefits paid . . . . .	(11,192,709.75)	(13,715,897.55)	—	—	—	—	—	—	—	—	—	(24,908,607.30)
Past service cost . . . . .	—	—	—	—	—	—	—	—	—	—	—	—
Interest cost . . . . .	22,510,085.00	11,363,916.00	—	—	—	685,482.00	—	—	—	—	—	34,559,483.00
Raised during the financial year . . . . .	—	—	5,422,410.97	55,129,323.12	7,138,090.74	—	6,367,104.65	133,306,012.96	44,103,377.84	—	72,044,942.79	323,511,263.07
Released . . . . .	—	—	(4,889,787.15)	(14,789,944.77)	(7,522,436.98)	—	—	(2,732,199.02)	(8,552.80)	(2,831,638.92)	(17,554,824.82)	(50,329,384.46)
Used . . . . .	—	—	(2,874,820.75)	(26,520,527.40)	(3,055,179.69)	—	(2,825,694.29)	(177,892,546.96)	(102,079.30)	(2,436,794.72)	(32,037,764.44)	(247,745,407.55)
Reclassification . . . . .	—	—	11,344,305.00	8,628,242.09	(2,745,191.92)	—	924,000.00	—	—	—	(18,151,355.17)	—
<b>As at 31 December 2010</b>												
(restated) . . . . .	<b>417,899,716.09</b>	<b>201,060,619.63</b>	<b>13,344,538.02</b>	<b>70,311,313.28</b>	<b>6,279,834.96</b>	<b>13,148,882.00</b>	<b>7,291,104.65</b>	<b>133,306,012.96</b>	<b>43,992,745.74</b>	—	<b>46,937,046.55</b>	<b>953,571,813.88</b>
<b>Short-term as at 31 December 2010</b>												
2010 . . . . .	<b>14,093,481.37</b>	<b>19,090,272.29</b>	<b>13,344,538.02</b>	<b>70,061,313.28</b>	<b>6,254,033.32</b>	—	<b>7,291,104.65</b>	<b>133,306,012.96</b>	<b>43,992,745.74</b>	—	<b>46,564,841.87</b>	<b>353,998,343.50</b>
<b>Long-term as at 31 December 2010</b>												
(restated) . . . . .	<b>403,806,234.72</b>	<b>181,970,347.34</b>	—	<b>250,000.00</b>	<b>25,801.64</b>	<b>13,148,882.00</b>	—	—	—	—	<b>372,204.68</b>	<b>599,573,470.38</b>

The accounting policies and notes to the consolidated financial statements form an integral part thereof.



**ENERGA SA Group**  
**Consolidated financial statements for the years 2010 - 2012 ended 31 December**  
**(in PLN)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**33. Investment obligations**

**Acquisition of shares in OPEC Sp. z o.o.**

On 25 February 2009 ENERGA SA and ENERGA Elektrownie Ostrołęka S.A. jointly became a strategic investor in Ostrołęckie Przedsiębiorstwo Energetyki Ciepłej Sp. z o.o. The respective share purchase agreement provides for implementation of an investment program for the development of district heating in the area of the city of Ostrołęka. ENERGA SA and ENERGA Elektrownie Ostrołęka S.A. undertook to invest at least PLN 320 m in the development of the distribution grid and in heat energy generation within 10 years. As at the end of 2012, investments of PLN 51 m had been made.

**Redevelopment of the heating network of ENERGA OPEC Sp. z o.o.**

On 12 September 2011 the subsidiary ENERGA OPEC Sp. z o.o. entered into an agreement with the National Environment Protection and Water Management Fund in Warsaw for subsidising the project "Redevelopment of the heating network in ENERGA OPEC Sp. z o.o. in Ostrołęka in order to reduce transmission losses". The project was scheduled for 2011 - 2013 and its budgeted total cost is PLN 33.8 m. The subsidy for the company will amount to 85% of eligible expenses which are capped at PLN 18.7 m. As at the end of 2012, the company incurred expenditures of PLN 9.5 m on the project.

**Liabilities of the Distribution System Operator**

ENERGA—OPERATOR SA (Distribution System Operator) operates pursuant to the—Energy Laws Act and on the basis of a granted concession. Both documents stipulate obligations including, but not limited to, the requirement for safe, secure and continuous supply of electricity and to connect new entities to the grid. The Energy Laws Act also requires the company to prepare development plans defining the scope of physical and financial investments which plans are then subject to agreement with the President of the Energy Regulatory Office. It may, therefore, be concluded that the development plan, once agreed, becomes a form of investment obligation of ENERGA—OPERATOR SA. The agreed expenditures for 2012 amount to PLN 1,264.4 m.

Planned expenditures for the 2013 - 2015 are as follows: 2013—PLN 1,209.8 m, 2014—PLN 1,135.6 m, 2015—PLN 1,109.1 m (at 2010 nominal prices).

The program for modernisation and redevelopment of the distribution grid, funded by international financing institutions is also a form of investment obligation (see Note 42).

**Agreement for "intervention operation" services**

The subsidiary ENERGA Hydro Sp. z o.o. (previously ENERGA Elektrownie Straszyn Sp. z o.o.) provides PSE—Operator S.A. with "intervention operation" services. Under the agreement, generating units of ENERGA Hydro Sp. z o.o. are made available to and are used by PSE—Operator SA for the intervention balancing of the active and reactive power and for control over power disbursements in the electricity grid of the National Power System (NPS) in order to ensure the current security of NPS operations.

The respective service agreement requires the modification of generating units in order to ensure proper operating parameters of the services delivered, in terms of a modernisation program pursued in accordance with the contractual schedule.

Annex 4 to the agreement, concluded on 31 March 2009, amended the terms related to the modernisation of generating units. Such changes were required due to a delay of the modernisation investments for reasons independent of ENERGA Hydro Sp. z o.o., including the failure to obtain necessary funding in addition to revenues from the Agreement, to finance the planned investments.

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

## ENERGA SA Capital Group

Consolidated financial statements for the years 2010 - 2012 ended 31 December

(in PLN)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 33. Investment obligations (Continued)

On 28 August 2009 a new agreement was concluded with PSE Operator SA under which the previous agreement was terminated and settled. In preparation for the execution of the new agreement, the modernisation program was updated in order to modify the technical scope to the limited financial expenditures. Finally it was agreed that the total expenditures for the modernisation of the Żydowo power plant would amount to PLN 134.3 m of which investments for PLN 125.3 m were carried out till 31 December 2012.

The external financing obtained through the bond issue program to fund the modernisation, as described in Note 42, is also a form of investment obligation.

#### Investment program of ENERGA Kogeneracja Sp. z o.o.

The bond issue program for funding the investments carried out by the subsidiary ENERGA Kogeneracja Sp. z o.o., covering the construction of a new power unit and the modernisation of the boiler through implementing a biomass joint combustion option is also an investment obligation. The aggregate planned capital expenditures amount to PLN 224.5 m of which investments for PLN 149.1 m were made till 31 December 2012. The bond issue program is connected with the external financing obtained, as described in Note 42.

### 34. Tax settlements

#### 34.1. Overview

Tax-related obligations and rights are set out in the Constitution, tax laws and ratified international agreements. Pursuant to the tax ordinance, taxes are defined as any public law, free of charge, compulsory and non-refundable cash payments to the State, province, county or municipality treasuries resulting from the tax law. According to objective criteria applicable taxes in Poland can be grouped into five categories: income taxes, turnover taxes, property taxes, transaction taxes, and other charges, not classified elsewhere.

In the context of business activities, income taxes (corporate income tax), turnover taxes (value added tax, excise tax) and property taxes (real estate tax and vehicle tax) are of significant importance. However other charges and payments that could be treated as quasi-taxes should not be overlooked. They include but are not limited to social security contributions and with respect to companies wholly owned by the State Treasury, contributions from profit.

The principal tax rates applicable in 2012 were as follows: corporate income tax rate—19%, basic VAT rate—23%, reduced VAT rates: 8%, 5%, 0%, in addition the supply of certain goods and services were subject to tax exemption.

Tax settlements and other areas of regulated operations (such as customs or foreign exchange matters) may be subject to controls carried out by administrative authorities which are authorised to impose significant penalties and sanctions. The lack of reference to long-established legal regulations in Poland results in the lack of clarity and consistency in the applicable regulations. Frequent differences of opinion as to how to interpret tax regulations, both internally within state authorities and between state authorities and businesses, create areas of uncertainty and conflict. Therefore tax related risk in Poland is significantly higher than is usually the case in countries with more developed tax systems.

Tax settlements are subject to inspection for 5 years beginning from the end of the year in which a tax payment was made. As a result of inspections, the tax settlements made by the Group to date may be increased by additional tax liabilities. The Group considers this to be remote as at 31 December 2012.

Poland's tax system is characterised by high volatility of tax regulations, high level of complexity, high potential penalties for fiscal crimes and offences and an overall pro-fiscal approach of the tax authorities.

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

## ENERGA SA Capital Group

Consolidated financial statements for the years 2010 - 2012 ended 31 December  
(in PLN)

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 34. Tax settlements (Continued)

Tax settlements and other regulated areas (customs or foreign exchange) may be inspected by the relevant authorities which are authorised to impose fines and sanctions together with penalty interest. Inspections may cover tax returns for the period of 5 years from the end of the calendar year in which the tax was due, especially in the area of real estate tax.

#### 34.2. ENERGA—OPERATOR Tax Group

On 28 December 2011 the subsidiary ENERGA—OPERATOR SA together with related entities:

- ENERGA—OPERATOR Eksploatacja i Inwestycje Elbląg Sp. z o.o.,
- ENERGA—OPERATOR Eksploatacja i Inwestycje Gdańsk Sp. z o.o.,
- ENERGA—OPERATOR Eksploatacja i Inwestycje Kalisz Sp. z o.o.,
- ENERGA—OPERATOR Eksploatacja i Inwestycje Płock Sp. z o.o.,
- ENERGA—OPERATOR Eksploatacja i Inwestycje Słupsk Sp. z o.o.,
- ENERGA—OPERATOR Eksploatacja i Inwestycje Toruń Sp. z o.o.,
- ENERGA—OPERATOR Techniczna Obsługa Odbiorców Sp. z o.o.

entered into a Tax Group Agreement under the name of PGK ENERGA—OPERATOR (“PGK”). ENERGA—OPERATOR SA was designated as the company representing PGK in relation to the obligations under the Corporate Income Tax Act and under provisions of the Tax Ordinance Act.

The PGK agreement became effective on 1 April 2012 and will remain in force for a period of 3 fiscal years.

The agreement was registered by the tax authorities on 30 January 2012 based on a decision of the Head of the Pomeranian Tax Office. In accordance with its provisions, the first fiscal year of PGK covered the period from 1 April 2012 to 31 December 2012.

Income taxes are imposed on the income of PGK, being the surplus of the aggregate income of all the companies making up PGK in excess of aggregate losses.

In terms of the Resolution No. 428/VII dated 6 March 2012, the Management Board of ENERGA—OPERATOR SA agreed, pursuant to Article 25 sec. 1b of the Corporate Income Tax Act, on the application by PGK of quarterly advances with respect to corporate income tax for its first fiscal year. Therefore, tax payments are made in the form of quarterly advances.

#### 34.3. Reimbursement of the excise tax

Due to the inconsistency of the domestic excise tax laws with the provisions of the Energy Directive, during 2009, the subsidiaries ENERGA Elektrownie Ostrołęka SA, ENERGA Kogeneracja Sp. z o.o. and ENERGA Elektrociepłownia Kalisz S.A. applied to the competent customs authorities for recognition and reimbursement of the overpaid excise tax for 2006 - 2008 in the amount of PLN 175.4 m. The subsidiaries, in accordance with the Excise Tax Act, declared and paid excise tax on energy sold to non-end users in 2006 - 2008, while according to the laws in force in the European Union, electricity is subject to tax no earlier than upon delivery to the end user.

As at reporting date, proceedings were pending before the competent tax authorities and administrative courts in relation to the applications submitted by the subsidiaries.

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

## ENERGA SA Capital Group

Consolidated financial statements for the years 2010 - 2012 ended 31 December

(in PLN)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 34. Tax settlements (Continued)

#### 34.4. Tax inspections

On 31 January 2011 the Parent Company applied to the Pomeranian Tax Office in Gdańsk for recognition of an overpayment in flat rate personal income tax for 2009 in the amount of PLN 25.1 m. At the same time the Company revised to its PIT-8AR return. The overpayment consisted of PLN 23.4 m of the flat rate tax paid by the company and PLN 1.7 m in penalty interest on the tax arrears. On 31 March 2011, the principal of the recognised overpayment together with accrued interest was reimbursed to ENERGA SA.

On 31 January 2011 a subsidiary, ENERGA—OPERATOR SA, filed a revised CIT-8 return for 2009 together with the motion for the recognition of an overpayment. The underlying basis for revising the tax return was a favourable individual tax interpretations of the Minister of Finance obtained in relation to taxation of spin-off transactions. In the revised return the amount of income tax of PLN 24.8 m was reported, whereas the company applied for recognition of an overpayment equal to PLN 91.9 m. As a result of the application filed by the company, proceedings for the recognition of the overpayment were initiated.

On 21 June 2011 the decision determining the amount of corporate income tax liability for the fiscal year from 1 January to 31 December 2009 at PLN 24.8 m was issued, which is consistent with the findings during the tax inspection. The overpayment of corporate income tax acknowledged by that decision, in the amount of PLN 91.9 m, was reimbursed by the Pomeranian Tax Office in Gdańsk on 22 June 2011.

### 35. Information on related entities

Transactions with related entities are concluded based on market prices of goods, products or services delivered.

#### 35.1. Transactions involving state-owned companies

The Group's ultimate parent is the State Treasury, therefore other state-owned companies are treated as related entities by the Group. ENERGA SA Group companies identify transactions with approximately 30 related entities of the State Treasury with which trading activities of Group companies are the most significant. The total value of transactions with these entities is presented in the table below. The transactions were carried on market related conditions. They mainly concern the purchase and sale of distribution services, sales of electricity and purchases of coal.

<u>As at</u>	<u>Receivables</u>	<u>Liabilities</u>
31 December 2012 . . . . .	146,539,832.34	39,188,891.50
31 December 2011 . . . . .	117,021,111.49	63,850,236.47
31 December 2010 . . . . .	153,015,429.15	144,332,054.80

<u>Period</u>	<u>Sale</u>	<u>Purchase</u>
12-month period ended 31 December 2012 . . . . .	1,110,605,779.41	1,112,542,457.70
12-month period ended 31 December 2011 . . . . .	911,503,531.42	1,459,970,970.39
12-month period ended 31 December 2010 . . . . .	1,209,357,523.36	1,738,052,726.57

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

**ENERGA SA Capital Group**

**Consolidated financial statements for the years 2010 - 2012 ended 31 December**

**(in PLN)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**35. Information on related entities (Continued)**

**35.2. Transactions with associates**

<u>Year ended</u> <u>31 December 2012</u>	<u>Sales</u>	<u>Purchases</u>	<u>Receivables</u>	<u>Liabilities</u>
Soen Sp. z o.o. . . . . .	1,150,635.84	4,708,220.67	34,481.04	951,884.71
Przedsiębiorstwo Produkcji Strunebetonowych Żerdzi Wirowanych “Wirbet” SA* . . . . .	220,626.49	351,137.18	—	—
Słupskie Towarzystwo Koszykówki Sportowa Spółka Akcyjna . . . . .	12,655.47	1,930,000.00	177.64	3,346.54
Oświetlenie Uliczne i Drogowe Sp. z o.o. . .	24,230,229.78	47,918.63	3,347,092.87	58,939.92
<b>Total</b> . . . . .	<b><u>25,614,147.58</u></b>	<b><u>7,037,276.48</u></b>	<b><u>3,381,751.55</u></b>	<b><u>1,014,171.17</u></b>

\* The transactions relate to the period from 1 January until the date the shares in WIRBET SA were sold, i.e. until 16 February 2012.

<u>Year ended</u> <u>31 December 2011</u>	<u>Sales</u>	<u>Purchases</u>	<u>Receivables</u>	<u>Liabilities</u>
Soen Sp. z o.o. . . . . .	1,240,856.27	5,484,050.03	36,047.32	803,517.65
Przedsiębiorstwo Produkcji Strunebetonowych Żerdzi Wirowanych “Wirbet” SA . . . . .	2,080,330.60	1,871,974.85	141,829.73	424,045.55
Słupskie Towarzystwo Koszykówki Sportowa Spółka Akcyjna . . . . .	—	2,333,000.00	—	20,659.85
Oświetlenie Uliczne i Drogowe Sp. z o.o. . .	20,892,820.34	14.21	4,158,647.42	25,144.89
<b>Total</b> . . . . .	<b><u>24,214,007.21</u></b>	<b><u>9,689,039.09</u></b>	<b><u>4,336,524.47</u></b>	<b><u>1,273,367.94</u></b>

<u>Year ended</u> <u>31 December 2010</u>	<u>Sales</u>	<u>Purchases</u>	<u>Receivables</u>	<u>Liabilities</u>
Soen Sp. z o.o. . . . . .	972,537.00	10,751,427.19	30,772.35	1,554,914.41
Przedsiębiorstwo Produkcji Strunebetonowych Żerdzi Wirowanych “Wirbet” SA . . . . .	1,970,085.24	3,972,589.67	165,698.90	246,537.16
Słupskie Towarzystwo Koszykówki Sportowa Spółka Akcyjna . . . . .	—	1,802,720.40	—	—
Oświetlenie Uliczne i Drogowe Sp. z o.o. .	35,047,421.24	—	2,850,070.12	—
<b>Total</b> . . . . .	<b><u>37,990,043.48</u></b>	<b><u>16,526,737.26</u></b>	<b><u>3,046,541.37</u></b>	<b><u>1,801,451.57</u></b>

As at the end of the reporting period there were no overdue receivables or liabilities with respect to transactions with associates.

**35.3. Loans to management board members**

As at the end of the accounting period there were no loans granted to members of the Management Board of ENERGA SA.

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

**ENERGA SA Capital Group**  
**Consolidated financial statements for the years 2010 - 2012 ended 31 December**  
**(in PLN)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**35. Information on related entities (Continued)**

**35.4. Other transactions involving management board members**

During the accounting period there were no transactions with the participation of members of the Management Board of ENERGA SA.

**35.5. Remuneration paid or payable to members of the Management Board and members of the Supervisory Board of the Group**

<u>Title</u>	<u>Year ended 31 December 2012</u>	<u>Year ended 31 December 2011</u>	<u>Year ended 31 December 2010</u>
Management Board of the parent company . . . . .	1,213,119.03	616,642.50	493,314.00
Supervisory Board of the parent company . . . . .	279,985.48	290,184.72	290,184.72
Management Boards of subsidiaries . . . . .	22,714,502.60	15,699,938.75	15,550,528.23
Supervisory Board of subsidiaries . . . . .	2,620,741.76	2,351,231.50	2,321,037.46
<b>Total . . . . .</b>	<b><u>26,828,348.87</u></b>	<b><u>18,957,997.47</u></b>	<b><u>18,655,064.41</u></b>

**35.6. Remuneration paid to key management personnel (excluding members of the Management Boards and the Supervisory Boards)**

<u>Title</u>	<u>Year ended 31 December 2012</u>	<u>Year ended 31 December 2011</u>	<u>Year ended 31 December 2010</u>
Short-term employee benefits (salaries and salary related costs) . . . . .	46,720,589.08	40,588,523.74	31,540,358.05
Jubilee awards . . . . .	902,874.80	827,863.73	581,241.64
Post-employment benefits . . . . .	81,160.00	43,515.25	92,166.80
Termination benefits . . . . .	304,299.69	887,181.41	502,554.49
<b>Total amount of remuneration paid to senior management (except for Management Boards and Supervisory Boards members) . . . . .</b>	<b><u>48,008,923.57</u></b>	<b><u>42,347,084.13</u></b>	<b><u>32,716,320.98</u></b>

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.



ENERGA SA Capital Group

Consolidated financial statements for the years 2010 - 2012 ended 31 December

(in PLN)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

36. Financial instruments

36.1. Carrying value of financial instruments by category and class

Title	As at 31 December 2012	As at 31 December 2011 (restated)	As at 31 December 2010 (restated)
<b>Classes of financial instruments</b>			
Deposits . . . . .	26,783,927.04	143,390.14	130,612.56
Bonds, treasury bills and other debt instruments . . . . .	27,107,314.83	—	—
(Non-consolidated) shareholdings . . . . .	2,830,952.87	10,138,049.90	33,105,322.68
Trade and other receivables . . . . .	1,521,621,657.06	1,519,992,847.68	1,454,894,542.60
Cash and cash equivalents, including: Units of participation in the ENERGA Trading SFIO fund . . . . .	2,069,058,235.48	1,777,274,176.69	1,683,554,915.77
705,911,173.67	1,193,958,370.87	910,248,284.85	
Receivables from sale of property, plant & equipment, intangible assets . . . . .	2,515,934.75	1,758,911.08	759,097.13
Other financial assets . . . . .	3,969,018.10	—	—
Derivative instruments (assets) . . . . .	—	1,696,200.60	2,076,116.20
<b>Total assets</b> . . . . .	<b>3,653,887,040.13</b>	<b>3,311,003,576.09</b>	<b>3,174,520,606.94</b>
Preferential loans and borrowings . . . . .	996,129,192.30	1,003,929,250.73	728,018,257.06
Loans and borrowings . . . . .	1,393,617,506.73	937,638,782.76	336,234,209.26
Overdrafts . . . . .	26,030,109.32	7,633,181.76	10,482,545.46
Bonds issued . . . . .	1,079,219,213.53	—	1,670,672.08
Trade and other liabilities . . . . .	717,100,810.70	720,610,158.00	750,914,424.06
Other financial liabilities . . . . .	19,297,226.38	6,676,374.45	6,752,799.11
Liabilities from purchase of property, plant & equipment and intangible assets . . . . .	139,033,963.05	166,281,846.24	204,444,439.27
Derivative instruments (liabilities) . . . . .	—	240,702.20	—
<b>Total liabilities</b> . . . . .	<b>4,370,428,022.01</b>	<b>2,843,010,296.14</b>	<b>2,038,517,346.30</b>
<b>Categories of financial instruments</b>			
Financial assets measured at fair value through profit or loss . . . . .	2,075,858,206.45	1,789,251,817.33	1,718,866,967.21
Investments held to maturity . . . . .	53,891,241.87	—	—
Loans and receivables . . . . .	1,524,137,591.81	1,521,751,758.76	1,455,653,639.73
<b>Total assets</b> . . . . .	<b>3,653,887,040.13</b>	<b>3,311,003,576.09</b>	<b>3,174,520,606.94</b>
Financial liabilities measured at fair value through profit or loss . . . . .	—	240,702.20	—
Financial liabilities measured at amortised cost .	4,370,428,022.01	2,842,769,593.94	2,038,517,346.30
<b>Total liabilities</b> . . . . .	<b>4,370,428,022.01</b>	<b>2,843,010,296.14</b>	<b>2,038,517,346.30</b>

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

**ENERGA SA Capital Group**

**Consolidated financial statements for the years 2010 - 2012 ended 31 December**

**(in PLN)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**36. Financial instruments (Continued)**

**36.2. Items of revenue, expenses, profits and losses recognised in the profit and loss account by category of financial instruments**

<b>Year ended 31 December 2012</b>	<b>Financial assets and liabilities measured at fair value through profit or loss</b>	<b>Investments held to maturity</b>	<b>Loans and receivables</b>	<b>Financial liabilities measured at amortized cost</b>	<b>Total</b>
Dividends and profit-sharing . . . . .	78,162.00	—	—	—	<b>78,162.00</b>
Interest income/(cost) . . . . .	45,476,888.12	683,337.00	28,584,766.42	(179,558,449.18)	<b>(104,813,457.64)</b>
Foreign exchange gains and losses . .	—	—	(1,327,280.13)	(13,976.47)	<b>(1,341,256.60)</b>
Reversal of impairment allowances/ increase of value . . . . .	162,944.98	—	56,745,973.93	—	<b>56,908,918.91</b>
Creation of Impairment allowances/ decrease of value . . . . .	(19,575,047.26)	—	(122,856,118.93)	—	<b>(142,431,166.19)</b>
Profit/(loss) on sale of investments . .	(18,884,542.64)	—	—	—	<b>(18,884,542.64)</b>
<b>Total net profit/(loss) . . . . .</b>	<b><u>7,258,405.20</u></b>	<b><u>683,337.00</u></b>	<b><u>(38,852,658.71)</u></b>	<b><u>(179,572,425.65)</u></b>	<b><u>(210,483,342.16)</u></b>

<b>Year ended 31 December 2011</b>	<b>Financial assets and liabilities measured at fair value through profit or loss</b>	<b>Investments held to maturity</b>	<b>Loans and receivables</b>	<b>Financial liabilities measured at amortized cost</b>	<b>Total</b>
Dividends and profit-sharing . . . . .	828,587.44	—	—	—	<b>828,587.44</b>
Interest income/(cost) . . . . .	64,335,930.48	96,036.38	95,956,395.75	(102,473,137.25)	<b>57,915,225.36</b>
Foreign exchange gains and losses . . .	—	—	1,563,929.37	(452,241.25)	<b>1,111,688.12</b>
Reversal of impairment allowances/ increase of value . . . . .	1,740,460.66	—	31,305,024.18	—	<b>33,045,484.84</b>
Creation of Impairment allowances/ decrease of value . . . . .	(4,309,386.69)	—	(67,398,543.31)	—	<b>(71,707,930.00)</b>
Profit/(loss) on sale of investments . . .	31,255,210.84	143,598.00	—	—	<b>31,398,808.84</b>
<b>Total net profit/(loss) . . . . .</b>	<b><u>93,850,802.73</u></b>	<b><u>239,634.38</u></b>	<b><u>61,426,805.99</u></b>	<b><u>(102,925,378.50)</u></b>	<b><u>52,591,864.60</u></b>

<b>Year ended 31 December 2010</b>	<b>Financial assets and liabilities measured at fair value through profit or loss</b>	<b>Investments held to maturity</b>	<b>Loans and receivables</b>	<b>Financial liabilities measured at amortized cost</b>	<b>Total</b>
Dividends and profit-sharing . . . . .	362,464.72	—	—	—	<b>362,464.72</b>
Interest income/(cost) . . . . .	52,227,193.50	297,700.00	20,705,593.43	(41,153,415.49)	<b>32,077,071.44</b>
Foreign exchange gains and losses . . . .	—	—	(1,156.36)	(299,310.66)	<b>(300,467.02)</b>
Reversal of impairment allowances/ increase of value . . . . .	849,507.43	—	23,859,216.58	—	<b>24,708,724.01</b>
Creation of Impairment allowances/ decrease of value . . . . .	(14,764.56)	—	(51,703,391.96)	—	<b>(51,718,156.52)</b>
<b>Total net profit/(loss) . . . . .</b>	<b><u>53,424,401.09</u></b>	<b><u>297,700.00</u></b>	<b><u>(7,139,738.31)</u></b>	<b><u>(41,452,726.15)</u></b>	<b><u>5,129,636.63</u></b>

**36.3. Fair value of financial instruments**

The book value of the following financial assets and liabilities is a reasonable approximation of their fair value:

- loans granted, receivables and other financial liabilities,
- financial assets and liabilities at fair value through profit or loss.

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

**ENERGA SA Capital Group**

**Consolidated financial statements for the years 2010 - 2012 ended 31 December**

**(in PLN)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**36. Financial instruments (Continued)**

The fair value of derivatives used by the Group, contracted on the Polish forward energy market excluding transactions made through Towarowa Giełda Energii, is determined using the MTM (Mark-to-Market) method, the current result of the power optimisation at any given time.

For the valuation of a product which is being delivered during the time of the valuation, MTM is calculated on the basis of the last settlement price published by the exchange for the product in question. For the valuation of a product which is not yet started to be delivered, MTM is calculated on the basis of the settlement price published by the exchange as at the valuation date.

This methodology applies when determining the fair value of derivatives based on commodities and carbon dioxide emission rights, quoted on foreign markets and for property rights to co-generated energy and foreign exchange CFD contracts.

For non-listed units there is no active market and it is not either possible to apply to them any other valuation techniques providing reasonable output values, so the Group is not able to determine the range of their possible fair values. These assets are measured at cost less impairment losses.

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

**ENERGA SA Group**  
**Consolidated financial statements for the years 2010 - 2012 ended 31 December (Continued)**  
**(in PLN)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**36. Financial instruments (Continued)**

**36.4. Description of significant items in the various categories of financial instruments**

**36.4.1 Loans and receivables**

Trade receivables are a key item in the category of financial instruments accounted for as loans and receivables.

**As at 31/12/2012**

<u>Trade receivables and other financial receivables</u>	<u>Not overdue</u>	<u>&lt; 30 days</u>	<u>30 - 90 days</u>	<u>Overdue 90 - 180 days</u>	<u>180 - 360 days</u>	<u>&gt;360 days</u>	<u>Total</u>
Before impairment allowances	1,273,723,839.78	170,332,206.58	105,835,933.19	25,921,654.75	16,506,379.29	127,224,741.84	1,719,544,755.43
Impairment allowances determined individually	—	(1,122,013.93)	(5,611,640.54)	(2,615,372.01)	(2,850,523.95)	(1,921,269.63)	(14,120,820.06)
General impairment allowances	(33,470,960.55)	(4,269,442.93)	(3,497,038.26)	(4,699,238.04)	(10,317,137.93)	(125,032,525.85)	(181,286,343.56)
Total impairment allowances	(33,470,960.55)	(5,391,456.86)	(9,108,678.80)	(7,314,610.05)	(13,167,661.88)	(126,953,795.48)	(195,407,163.62)
<b>After impairment allowances</b>	<b><u>1,240,252,879.23</u></b>	<b><u>164,940,749.72</u></b>	<b><u>96,727,254.39</u></b>	<b><u>18,607,044.70</u></b>	<b><u>3,338,717.41</u></b>	<b><u>270,946.36</u></b>	<b><u>1,524,137,591.81</u></b>

**As at 31/12/2011**

<u>Trade receivables and other financial receivables</u>	<u>Not overdue</u>	<u>&lt; 30 days</u>	<u>30 - 90 days</u>	<u>Overdue 90 - 180 days</u>	<u>180 - 360 days</u>	<u>&gt;360 days</u>	<u>Total</u>
Before impairment allowances	1,286,950,546.25	166,358,730.88	73,644,355.98	20,946,250.58	17,096,357.13	98,561,273.59	1,663,557,514.41
Impairment allowances determined individually	(16,023,742.57)	(1,080,339.10)	(4,273,225.59)	(4,531,929.31)	(5,607,205.17)	(1,513,420.23)	(33,029,861.97)
General impairment allowances	—	—	(194,073.25)	(244,519.28)	(11,289,447.79)	(97,047,853.36)	(108,775,893.68)
Total impairment allowances	(16,023,742.57)	(1,080,339.10)	(4,467,298.84)	(4,776,448.59)	(16,896,652.96)	(98,561,273.59)	(141,805,755.65)
<b>After impairment allowances</b>	<b><u>1,270,926,803.68</u></b>	<b><u>165,278,391.78</u></b>	<b><u>69,177,057.14</u></b>	<b><u>16,169,801.99</u></b>	<b><u>199,704.17</u></b>	<b><u>—</u></b>	<b><u>1,521,751,758.76</u></b>

**As at 31/12/2010**

<u>Trade receivables and other financial receivables</u>	<u>Not overdue</u>	<u>&lt; 30 days</u>	<u>30 - 90 days</u>	<u>Overdue 90 - 180 days</u>	<u>180 - 360 days</u>	<u>&gt;360 days</u>	<u>Total</u>
Before impairment allowances	1,241,722,015.87	147,618,542.25	60,295,711.35	19,653,347.52	17,332,056.38	85,574,012.09	1,572,195,685.46
Impairment allowances determined individually	(2,189,412.32)	(4,725,190.11)	(1,753,939.57)	(1,388,430.94)	(1,540,857.31)	(9,625,084.46)	(21,222,914.71)
General impairment allowances	—	—	(8,808,738.50)	(3,191,140.32)	(8,807,122.33)	(74,512,129.87)	(95,319,131.02)
Total impairment allowances	(2,189,412.32)	(4,725,190.11)	(10,562,678.07)	(4,579,571.26)	(10,347,979.64)	(84,137,214.33)	(116,542,045.73)
<b>After impairment allowances</b>	<b><u>1,239,532,603.55</u></b>	<b><u>142,893,352.14</u></b>	<b><u>49,733,033.28</u></b>	<b><u>15,073,776.26</u></b>	<b><u>6,984,076.74</u></b>	<b><u>1,436,797.76</u></b>	<b><u>1,455,653,639.73</u></b>

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

ENERGA SA Group

Consolidated financial statements for the years 2010 - 2012 ended 31 December

(in PLN)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

36. Financial instruments (Continued)

36.4.2 Write-downs of financial assets

	Impairment of trade receivables	Impairment of bonds, treasury bills and other debt securities	Impairment of shares
<b>Impairment allowances as at 1 January</b>			
<b>2012</b> .....	<b>141,805,755.65</b>	—	<b>2,780,214.31</b>
Impairment allowances created .....	122,856,118.93	18,071,543.22	91,276.69
Impairment allowances used .....	(12,508,737.03)	—	—
Impairment allowances reversed .....	(56,745,973.93)	—	—
<b>Impairment allowances as at 31 December</b>			
<b>2012</b> .....	<b><u>195,407,163.62</u></b>	<b><u>18,071,543.22</u></b>	<b><u>2,871,491.00</u></b>

	Impairment of trade receivables	Impairment of bonds, treasury bills and other debt securities	Impairment of shares
<b>Impairment allowances as at 1 January</b>			
<b>2011</b> .....	<b>116,542,045.73</b>	—	<b>216,537.85</b>
Impairment allowances created .....	67,393,031.51	—	2,563,676.46
Impairment allowances used .....	(10,824,297.41)	—	—
Impairment allowances reversed .....	(31,305,024.18)	—	—
<b>Impairment allowances as at 31 December</b>			
<b>2011</b> .....	<b><u>141,805,755.65</u></b>	<b><u>—</u></b>	<b><u>2,780,214.31</u></b>

	Impairment of trade receivables	Impairment of bonds, treasury bills and other debt securities	Impairment of shares
<b>Impairment allowances as at 1 January</b>			
<b>2010</b> .....	<b>108,001,498.50</b>	—	<b>201,773.29</b>
Impairment allowances created .....	51,703,391.96	—	14,764.56
Impairment allowances used .....	(19,303,628.15)	—	—
Impairment allowances reversed .....	(23,859,216.58)	—	—
<b>Impairment allowances as at 31 December</b>			
<b>2010</b> .....	<b><u>116,542,045.73</u></b>	<b><u>—</u></b>	<b><u>216,537.85</u></b>

36.4.3 Financial liabilities measured at amortised cost

36.4.3.1 Loans and borrowings

	As at 31 December 2012	As at 31 December 2011	As at 31 December 2010
	PLN	PLN	PLN
<b>Currency</b> .....			
<b>Reference Rate</b> .....	<b>WIBOR, Rediscount rate</b>	<b>WIBOR, Rediscount rate</b>	<b>WIBOR, Rediscount rate</b>
<b>Value of the loan/borrowing</b>	<b>2,415,776,808.35</b>	<b>1,949,201,215.25</b>	<b>1,074,735,011.78</b>
<b>Of which, repayable:</b>			
up to 1 year (short-term)	389,638,937.15	44,964,972.70	41,099,028.77
1 to 2 years .....	275,676,042.74	185,478,381.11	24,099,919.19
2 to 3 years .....	371,394,171.43	215,123,603.18	115,131,612.27
3 to 5 years .....	440,623,971.04	436,280,739.02	213,527,800.36
over 5 years .....	938,443,685.99	1,067,353,519.24	680,876,651.19

Detailed information on loans and borrowings is set out in Note 42.

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

**ENERGA SA Capital Group**  
**Consolidated financial statements for the years 2010 - 2012 ended 31 December**  
**(in PLN)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**36. Financial instruments (Continued)**

**36.4.3.2 Liabilities under notes issued**

	<u>As at 31 December 2012</u>	<u>As at 31 December 2011</u>	<u>As at 31 December 2010</u>
<b>Currency</b> . . . . .	<b>PLN</b>	—	<b>PLN</b>
<b>Reference Rate</b> . . . . .	<b>WIBOR</b>	—	<b>WIBOR</b>
<b>Value of the issue</b> . . . . .	<b>1,079,219,213.53</b>	—	<b>1,670,672.08</b>
of which, repayable:			
up to 1 year (short-term) . . . . .	—	—	1,670,672.08
1 to 2 years . . . . .	7,340,062.54	—	—
2 to 3 years . . . . .	7,390,623.35	—	—
3 to 5 years . . . . .	14,995,575.98	—	—
over 5 years . . . . .	1,049,492,951.66	—	—

Detailed information on issued notes is set out in Note 42.

**36.4.3.3 Overdrafts**

As at 31 December 2012, 2011 and 2010 the value of overdrafts available to the Group amounted respectively to PLN 3,492 m, PLN 3,064 m and PLN 2,504 m.

**36.5. Security for the repayment of liabilities**

As at the balance sheet date assets of the following carrying value constituted securities for the repayment of actual or contingent liabilities:

<u>Group of assets on which security was established</u>	<u>31 December 2012</u>	<u>31 December 2011</u>	<u>31 December 2010</u>
Property, plant and equipment . . . . .	78,417,217.14	92,753,136.13	117,776,150.52
Receivables . . . . .	300,000.00	3,841,771.23	20,741,068.46
Inventory . . . . .	25,302,771.93	32,037,633.92	42,734,190.79
Cash resources . . . . .	130,438,152.99	195,328,061.67	202,363,631.74
<b>Total assets securing repayment of financial liabilities</b> . . . . .	<b><u>234,458,142.06</u></b>	<b><u>323,960,602.95</u></b>	<b><u>383,615,041.51</u></b>

Presented securities refer mainly to the loan granted to ENERGA SA Capital Group's companies by the National Environment Protection and Water Management Fund as well as loans and guarantees granted by the banks Pekao SA, Deutsche Bank Polska SA, ING Bank Śląski SA, Nordea Bank Polska S.A. and Bank PKO BP S.A.

**36.6. Conditions / issues related to financial instruments not existing in the Group**

During the accounting period ended on 31 December 2012, 2011 and 2010 none of the following economic events and conditions requiring disclosure existed in the Group:

- by the balance sheet date, the Group did not exercise the option to designate a financial instrument on its initial recognition as measured at fair value through profit or loss (IFRS 7, par. 9, 10, 11),
- no reclassification of financial assets was made which would change a method applicable for the valuation of such assets (IFRS 7, par. 12),

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.



**ENERGA SA Capital Group**

**Consolidated financial statements for the years 2010 - 2012 ended 31 December**

**(in PLN)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**36. Financial instruments (Continued)**

- no securities on any of the categories of assets were established in favour of the Group which would improve lending conditions (IFRS 7, par. 15) and the Group did not take over any assets as part of the recovery against securities established in its favour (IFRS 7, par.38),
- the Group did not issue any instruments including both liability and equity components (IFRS 7, par. 17),
- the Capital Group did not breach any loan agreements (IFRS 7, par. 18),
- the Group does not apply hedge accounting principles,
- no financial assets were acquired at a price materially different than their fair value (IFRS 7, par. 28).

**37. Contingent assets and liabilities**

**37.1. Contingent liabilities and other security**

Contingent liabilities and other security as at the balance sheet date are presented in the table below:

<u>Liabilities arising from</u>	<u>31 December 2012</u>	<u>31 December 2011</u>	<u>31 December 2010</u>
guarantees . . . . .	476,787,827.79	498,799,625.58	702,964,817.46
bills of exchange . . . . .	78,815,097.09	94,630,540.04	30,732,524.81
legal claims . . . . .	144,065,627.81	62,038,518.31	18,093,958.54
other . . . . .	13,440,666.74	2,725,556.14	128,750.74
<b>Total . . . . .</b>	<b><u>713,109,219.43</u></b>	<b><u>658,194,240.07</u></b>	<b><u>751,920,051.55</u></b>

**Guarantees**

The Group reports mainly the following items as guarantees:

1. guarantees issued by the banks acting on behalf of ENERGA—OBRÓT SA for business partners to cover liabilities under contracted trade agreements, including:
  - Nordea Bank Polska S.A., Nordea Bank Finland Plc—Master Agreement for Bank Guarantees of 27 November 2008 valid until 26 October 2013. Bank guarantee limit as at 31 December 2012, 2011 and 2010 amounted respectively to PLN 120 m, PLN 120 m and PLN 400 m;
  - PEKAO SA—Master Agreement of 18 February 2010 valid until 31 January 2013. Guarantee limit as at 31 December 2012, 2011 and 2010 amounted respectively to PLN 150 m, PLN 200 m and PLN 200 m;
  - Deutsche Bank Polska SA—Credit Agreement of 19 May 2009 valid until 16 May 2013. As at 31 December 2012 agreement amounted to PLN 130 m (PLN 100 m as at 31 December 2011 and 2010) which may be used as an overdraft up to PLN 100 m (PLN 50 m as at 31 December 2011 and 2010) or bank guarantees up to PLN 130 m (PLN 100 m as at 31 December 2011 and 2010);
  - ING Bank Śląski SA—Master Guarantee Line Agreement of 18 November 2011 valid until 30 June 2013 with the extension option by subsequent 12 months. Bank guarantee limit amounted up to PLN 50 m as at 31 December 2012, 2011 and 2010.
2. as at 31 December 2012 and 2011—guarantees issued by NORDEA BANK POLSKA SA on behalf of ENERGA—OPERATOR SA constitute a due security for the agreement entered into with Warmia and Mazury province with the registered office in Olsztyn—PLN 17.7 m.

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

**ENERGA SA Capital Group**  
**Consolidated financial statements for the years 2010 - 2012 ended 31 December**  
**(in PLN)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**37. Contingent assets and liabilities (Continued)**

**Promissory notes**

The Group reports mainly the following items as promissory notes:

- as at 31 December 2012, 2011 and 2010—promissory note for PLN 30 m issued by ENERGA—OBRÓT SA on 22 January 2008, submitted to PSE S.A. to secure the agreement for transmission services;
- as at 31 December 2012 and 2011—blank promissory notes for PLN 14.8 m issued by ENERGA—OPERATOR SA, constitutes a performance bond for the agreement on subsidising the project from the funds of the European Regional Development Funds as part of the Regional Operating Program Warmia and Mazury 2007-2013;
- as at 31 December 2012 and 2011—blank promissory note for PLN 8.8 m issued by ENERGA—OPERATOR SA, constituting a security for the reimbursement of funds paid out by the National Environment Protection and Water Management Fund (“NEPWMF”) under the agreement on subsidising the project “Reduction of power losses in the grid in the area of ENERGA—OPERATOR SA operations”;
  - as at 31 December 2012 and 2011—blank promissory note for PLN 15.9 m issued by ENERGA OPEC Sp. z o.o., constituting a security for the reimbursement of funds paid out by the National Environment Protection and Water Management Fund (“NEPWMF”) under the agreement on subsidising the project “Redevelopment of the heating network in ENERGA OPEC Sp. z o.o. in Ostrołęka in order to reduce transmission losses”;
- as at 31 December 2012 and 2011—blank promissory note for PLN 3.5 mln issued by ENERGA—OPERATOR SA, as a security for payments for the energy on the balancing market under the Power Transmission Agreement entered into by and between ENERGA—OPERATOR SA and Polskie Sieci Elektroenergetyczne Operator SA.

**Actions against the Group**

As actions against related entities the Group discloses contingent liabilities under contentious actions against ENERGA Group’s companies for which the probability of the companies prevailing is rather high and for such actions an appropriate provision is created.

The Group recognizes under this item mainly contingent liabilities for contentious actions associated with the power facilities of ENERGA—OPERATOR SA located on private lands (see the description in Note 42). As at 31 December 2012 and 2011 the estimated value of such claims amounted respectively to PLN 144.1 m and PLN 62 m.

**37.2. Contingent assets**

In 2011, the Group recognised a contingent asset in the amount of PLN 32.2 m from statutory interest accrued by the subsidiary ENERGA—OPERATOR on the amount of PLN 123 m awarded by the Appeal Court in Warsaw I Civil Department Division in the case brought by PSE Operator SA against ENERGA—OPERATOR SA (see Note 42). As at 31 December 2012, the Group adjusted the value of such asset to PLN 27.9 m following new developments in the case.

As at 31 December 2012, 2011 and 2010, the Group did not recognize any other significant contingent assets.

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

## ENERGA SA Capital Group

Consolidated financial statements for the years 2010 - 2012 ended 31 December

(in PLN)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 38. Objectives and principles of financial risk management

Key financial instruments used by the Group include bank loans, bonds, cash, short-term deposits and units in liquidity funds. The main purpose of such financial instruments is their use as a measure to finance the Group's activities.

The Group enters into derivative transactions too. The purpose of these transactions is to manage the risk arising in the course of the Group's business activities.

The main risks arising from the Group's financial instruments include:

- market risk,
- liquidity risk and
- credit risk.

The Management Board reviews and adopts applicable rules for managing each such risk—those rules are summarised below. The Group also monitors market price risk relating to all of the financial instruments it possesses.

The Group identifies the following main types of market risk to which it is exposed:

- interest rate risk,
- foreign currency risk,
- risk of price changes on the wholesale electricity market.

For purposes of the analysis of sensitivity to changes in market risk factors ENERGA SA Capital Group uses a scenario-based analysis method. The Group uses experts' scenarios reflecting a subjective opinion of the Group on future developments in individual market risk factors.

Scenario analyses presented in this section are aimed at analysing the impact of changes in market risk factors on the financial results of the Group. The analyses cover only the items which satisfy conditions of the definition of financial instruments.

In its analyses of sensitivity to the interest rate risk the Group applies a parallel shift of the interest rate curve by a potential possible change in the reference interest rates during the next year. Average benchmark interest rates in a given year were used to analyse sensitivity to interest rate changes. The extent of potential changes in interest rates was estimated based on the implied volatility of ATMF options (at-the-money-forward) for interest rates quoted on the interbank market for currencies in which the Group holds exposure to the interest rate risk as at the balance sheet date.

Potential possible changes in exchange rates were calculated on the basis of annual implied volatilities of currency options quoted on the interbank market for a particular currency pair as at the balance sheet date or in the absence of available market quotations based on historical volatilities for the period of one year before the balance sheet date.

For purposes of the analysis of sensitivity to changes in interest rates, the effect of changes in risk factors was referred to the value of interest revenues/ expenses for financial instruments measured at amortised cost and to the fair value at the balance sheet date of financial instruments measured at fair value.

Below there is a sensitivity analysis for each type of market risk to which the Company is exposed as at the balance sheet date showing the impact on gross profit which would result from possible changes in the risk factors by class of financial assets and liabilities.

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

**ENERGA SA Capital Group**

**Consolidated financial statements for the years 2010 - 2012 ended 31 December**

**(in PLN)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**38. Objectives and principles of financial risk management (Continued)**

**38.1. Interest rate risk**

The Group identifies exposure to changes in WIBOR interest rates. The following table shows the sensitivity of the gross financial result to reasonably possible changes in interest rates assuming that other risk factors are constant for such classes of financial instruments which are exposed to the interest rate risk:

Financial Assets and Liabilities	31 December 2012		Interest rate risk sensitivity analysis as at 31 December 2012 WIBOR Gross financial result	
	Carrying value PLN	Value exposed to the risk PLN	WIBOR + 110 bp	WIBOR - 110 bp
	Deposits . . . . .	26,783,927.04	26,783,927.04	2,946,231.97
Cash and cash equivalents . . .	2,069,058,235.48	1,363,147,061.81	149,946,176.80	(149,946,176.80)
Preferential loans and borrowings . . . . .	996,129,192.30	996,129,192.30	(109,574,211.15)	109,574,211.15
Loans and borrowings . . . . .	1,393,617,506.73	1,393,617,506.73	(153,297,925.74)	153,297,925.74
Bonds issued . . . . .	1,079,219,213.53	1,079,219,213.53	(118,714,113.49)	118,714,113.49
Current account overdraft . . .	26,030,109.32	26,030,109.32	(2,863,312.03)	2,863,312.03
<b>Change of gross profit . . . .</b>			<b>(231,557,153.63)</b>	<b>231,557,153.63</b>

Financial Assets and Liabilities	31 December 2011		Interest rate risk sensitivity analysis as at 31 December 2011 WIBOR Gross financial result	
	Carrying value PLN	Value exposed to the risk PLN	WIBOR + 84 bp	WIBOR - 84 bp
	Deposits . . . . .	143,390.14	143,390.14	1,204.48
Cash and cash equivalents . . . . .	1,777,274,176.69	583,315,805.82	4,899,852.77	(4,899,852.77)
Preferential loans and borrowings . . . . .	1,003,929,250.73	1,003,929,250.73	(8,433,005.71)	8,433,005.71
Loans and borrowings . . . . .	937,638,782.76	937,638,782.76	(7,876,165.78)	7,876,165.78
Current account overdraft . . . . .	7,633,181.76	7,633,181.76	(64,118.73)	64,118.73
<b>Change of gross profit . . . . .</b>			<b>(11,472,232.97)</b>	<b>11,472,232.97</b>

Financial Assets and Liabilities	31 December 2010		Interest rate risk sensitivity analysis as at 31 December 2010 WIBOR Gross financial result	
	Carrying value PLN	Value exposed to the risk PLN	WIBOR + 42 bp	WIBOR - 42 bp
	Deposits . . . . .	130,612.56	130,612.56	548.57
Cash and cash equivalents . . . . .	1,683,554,915.77	773,306,630.92	3,247,887.85	(3,247,887.85)
Preferential loans and borrowings . . . . .	728,018,257.06	728,018,257.06	(3,057,676.68)	3,057,676.68
Loans and borrowings . . . . .	336,234,209.26	336,234,209.26	(1,412,183.68)	1,412,183.68
Bonds issued . . . . .	10,482,545.46	10,482,545.46	(44,026.69)	44,026.69
Current account overdraft . . . . .	1,670,672.08	1,670,672.08	(7,016.82)	7,016.82
<b>Change of gross profit . . . . .</b>			<b>(1,272,467.45)</b>	<b>1,272,467.45</b>

Changes in interest rates do not have a direct impact on the value of the Group's equity.

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

**ENERGA SA Capital Group**

**Consolidated financial statements for the years 2010 - 2012 ended 31 December**

**(in PLN)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**38. Objectives and principles of financial risk management (Continued)**

**38.2. Currency risk**

The Group is exposed to foreign exchange risk on its transactions. Such risk appears in the event when an the Group's companies carry out sales or purchases in currencies other than their measurement currency.

The Group identifies exposure to the risk of changes to EUR/PLN exchange rates. The following table shows the sensitivity of the gross financial result to reasonably possible changes in foreign exchange rates assuming that other risk factors are constant for such classes of financial instruments which are exposed to the risk of changes in foreign exchange rates:

Financial Assets and Liabilities	31 December 2012		Foreign exchange risk sensitivity analysis as at 31 December 2012	
	Carrying value PLN	Value exposed to the risk PLN	EUR/PLN Gross financial result	
			EUR/PLN rate + 8.65%	EUR/PLN rate - 8.65%
Trade receivables . . . . .	1,521,621,657.06	250,008.56	21,625.74	(21,625.74)
Cash and cash equivalents.	2,069,058,235.48	5,267,805.26	455,665.16	(455,665.16)
Trade liabilities . . . . .	717,100,810.70	1,756,562.62	(151,942.67)	151,942.67
<b>Change of gross profit . .</b>			<b><u>325,348.23</u></b>	<b><u>(325,348.23)</u></b>

Financial Assets and Liabilities	31 December 2011		Foreign exchange risk sensitivity analysis as at 31 December 2011	
	Carrying value PLN	Value exposed to the risk PLN	EUR/PLN Gross financial result	
			EUR/PLN rate + 14,1%	EUR/PLN rate - 14,1%
Trade receivables . . . . .	1,519,992,847.68	2,039,049.91	286,486.51	(286,486.51)
Cash and cash equivalents.	1,777,274,176.69	6,528,817.03	917,298.79	(917,298.79)
Trade liabilities . . . . .	720,610,158.00	1,059,445.14	(148,852.04)	148,852.04
<b>Change of gross profit . .</b>			<b><u>1,054,933.26</u></b>	<b><u>(1,054,933.26)</u></b>

Financial Assets and Liabilities	31 December 2010		Foreign exchange risk sensitivity analysis as at 31 December 2010	
	Carrying value PLN	Value exposed to the risk PLN	EUR/PLN Gross financial result	
			EUR/PLN rate + 12,3%	EUR/PLN rate - 12,3%
Trade receivables . . . . .	1,454,894,542.60	2,169,234.13	266,815.80	(266,815.80)
Cash and cash equivalents	1,683,554,915.77	670,646.03	82,489.46	(82,489.46)
Trade liabilities . . . . .	750,914,424.06	328,538.73	(40,410.26)	40,410.26
<b>Change of gross profit . .</b>			<b><u>308,895.00</u></b>	<b><u>(308,895.00)</u></b>

At present, the Group is not significantly exposed to the risks associated with foreign exchange rates because cash settlements of the Group are carried out mainly in the domestic currency.

The projected medium-term Eurobond issue as part of the EMTN Bond Program (see the description in Note 42) may expose the Group to risks associated with foreign exchange rates as these bonds will be issued in EUR. In order to minimise currency risk, the company plans to adopt a hedging strategy. As a result of adopting this strategy, currency forwards as well as interest rate and currency swaps will be concluded to mitigate the Company's exposure to these risks.

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

## ENERGA SA Capital Group

Consolidated financial statements for the years 2010 - 2012 ended 31 December

(in PLN)

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 38. Objectives and principles of financial risk management (Continued)

##### 38.3. Price of goods risk

The main areas of ENERGA Group's activities subject to the price risk are: coal supply for power plants and heat and power plants and the risk of exchange prices when trading in energy, property rights and carbon dioxide emission rights.

The most significant risk refers to changes in purchase prices of electricity and property rights in the wholesale market for long-, medium- and short-term contracts on the Polish market and financial instruments in foreign markets such as futures / forward contracts for electricity, CO<sub>2</sub> emissions and selected commodities.

In order to mitigate the risk associated with the volatility of purchase prices in the wholesale market the Group takes steps protecting against sudden price changes by optimising the contracting process through entering into respective contracts in certain proportions and for a variety of products. In addition, the purchase process is spread over time so that the average price of the Group's portfolio better aligns with the average purchase price of the annual volume determined as a target on the basis of market prices.

At the same time the mechanism was implemented in order to reduce the wholesale and retail trading risk through the coordination, optimisation and synchronisation of any purchases and sales processes. As part of the process contracts entered into on the wholesale and retail markets are monitored and reported together with the analysis of assumed and accepted threshold parameters.

In order to reduce the risks associated with trading in financial instruments appropriate trading limits are fixed and the value at risk is monitored on a daily basis. In addition, the Group implemented certain rules for determining Stop Loss and Take Profit levels which are monitored on a current basis.

##### 38.4. Credit risk

The Group's credit risk is defined as the probability of the counterparty failing to satisfy its financial obligations. The credit risk is minimised through actions aimed at the value-based assessment of risk, monitoring of the financial condition of counterparties and securing the trade credit using any available tools such as bank guarantees, sureties, etc.

The credit risk is mitigated for counterparties with the largest turnovers or for the portfolio of wholesale accounts and the portfolio of strategic accounts. The following are of particular importance in this regard: analysis of creditworthiness, trading limits, certain provisions in agreements with counterparties and obtaining securities from customers with low credibility.

The Group implemented appropriate procedures to minimise the risk of default of counterparties. For the wholesale energy market respective procedures determine the limits of possible sales of electricity without requiring securities. For any transactions in excess of the above limit securities such as a bank guarantee are required.

When selling to strategic and business accounts respective procedures impose the obligation to assess the customers' reliability. For customers with low credibility a pre-condition for the sale is to obtain a security accepted by the Seller.

In addition, thanks to ongoing monitoring of the state of receivables, the Group's exposure to the risk of uncollectible receivables is insignificant.

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.



**ENERGA SA Capital Group**

**Consolidated financial statements for the years 2010 - 2012 ended 31 December**

**(in PLN)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**38. Objectives and principles of financial risk management (Continued)**

With regard to other financial assets of the Group such as cash and cash equivalents and certain derivatives, the credit risk of the Group arises when the other party to an agreement cannot make payments, and the maximum exposure to that risk is equal to the carrying value of those instruments.

Credit risk also applies to funds committed to the fund units of ENERGA Trading SFIO. According to the adopted investment policy the fund invests in assets such as cash financial instruments, government bonds and corporate mortgage bonds, certificates of deposit and other domestic debt instruments with high liquidity and a high level of security. The credit risk associated with investments in treasury bills and bonds is related to the risk of insolvency of the State Treasury. Larger doubts may concern the credit risk of investments in commercial debt instruments which is mitigated by an appropriately formulated investment policy of the fund. This is due to the fact that the fund may only invest in assets with an investment rating given by rating agencies or internally, by the fund management company.

There are no concentrations of credit risk within the Group.

**38.5. Liquidity risk**

The Group monitors the risk of a lack of funds using a tool for periodically planning liquidity. That tool takes into account maturities/due dates of both financial liabilities and assets and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity and flexibility of financing by using different sources of financing such as overdrafts, bank credits, bonds and financial leases.

A detailed description of the main titles of the external funding sourced by the Group was presented in Note 42.1

The table below shows the Group's financial liabilities by contractual amortisation schedule.

<b>31 December 2012</b>	<b>Less than 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
Interest-bearing loans and borrowings . . . . .	180,926,488.27	208,712,448.88	1,087,694,185.21	938,443,685.99	<b>2,415,776,808.35</b>
Bonds issued . . . . .	—	—	29,726,261.87	1,049,492,951.66	<b>1,079,219,213.53</b>
Trade and other liabilities . . . . .	868,275,503.31	5,394,033.25	1,762,463.58	—	<b>875,432,000.14</b>
<b>Total financial liabilities . . . . .</b>	<b><u>1,049,201,991.58</u></b>	<b><u>214,106,482.13</u></b>	<b><u>1,119,182,910.66</u></b>	<b><u>1,987,936,637.65</u></b>	<b><u>4,370,428,022.02</u></b>

<b>31 December 2011 (restated)</b>	<b>Less than 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
Interest-bearing loans and borrowings . . . . .	2,158,993.87	42,805,978.83	836,882,723.31	1,067,353,519.24	<b>1,949,201,215.25</b>
Trade and other liabilities . . . . .	889,985,206.74	2,105,679.19	1,718,194.95	—	<b>893,809,080.88</b>
<b>Total financial liabilities . . . . .</b>	<b><u>892,144,200.61</u></b>	<b><u>44,911,658.02</u></b>	<b><u>838,600,918.26</u></b>	<b><u>1,067,353,519.24</u></b>	<b><u>2,843,010,296.13</u></b>

The Group's financial assets are highly liquid. They mainly include cash and cash equivalents as well as trade receivables. The structure of cash and cash equivalents is presented in Note 22. The aging analysis of trade receivables is reported under Note 36.4.1.

<b>31 December 2010 (restated)</b>	<b>Less than 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
Interest-bearing loans and borrowings . . . . .	1,411,620.25	39,687,408.52	352,759,331.82	680,876,651.19	<b>1,074,735,011.78</b>
Bonds issued . . . . .	1,670,672.08	—	—	—	<b>1,670,672.08</b>
Trade and other liabilities . . . . .	939,162,765.69	22,611,221.37	310,775.38	26,900.00	<b>962,111,662.44</b>
<b>Total financial liabilities . . . . .</b>	<b><u>942,245,058.02</u></b>	<b><u>62,298,629.89</u></b>	<b><u>353,070,107.20</u></b>	<b><u>680,903,551.19</u></b>	<b><u>2,038,517,346.30</u></b>

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

**ENERGA SA Capital Group**

**Consolidated financial statements for the years 2010 - 2012 ended 31 December**

**(in PLN)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**38. Objectives and principles of financial risk management (Continued)**

ENERGA Group's financial policy effective as of the date of these financial statements requires that the maximum debt of ENERGA Group, measured by the ratio of net debt to EBITDA (in consolidated figures) should not exceed 3.0. For the purposes of its long-term strategic investment plan ENERGA Group adopted an even more restrictive level of this ratio, i.e. 2.5.

**39. Capital management**

The main objective of the Group's capital management is to maintain its investment grade credit rating and healthy capital ratios which would be supportive for the Group's operations and would allow to maximise value for its shareholders.

The Group manages its shareholding structure and changes it as economic conditions change. In order to maintain or adjust its shareholding structure, the Group may change dividends paid to shareholders, return the capital to shareholders or issue new shares. In 2012 there were no changes to the objectives, principles and processes applicable in this area.

The Group monitors the state of capital using the leverage ratio, counted as the relation of net debt to total capital increased by net debt. The Group's net debt includes interest-bearing loans and credits, issued bonds and debt securities, trade liabilities and other financial liabilities less cash and cash equivalents. The capital comprises convertible preferred shares and equity belonging to shareholders of the parent reduced by reserve capital from unrealised net profit.

<u>Title</u>	<u>As at 31 December 2012</u>	<u>As at 31 December 2011 (restated)</u>	<u>As at 31 December 2010 (restated)</u>
Interest-bearing loans and borrowings . . . . .	2,415,776,808.35	1,949,201,215.25	1,074,735,011.78
Bonds issued . . . . .	1,079,219,213.53	—	1,670,672.08
Trade liabilities and other financial liabilities	875,432,000.13	893,809,080.89	962,111,662.44
Less cash and cash equivalents . . . . .	<u>(2,069,058,235.48)</u>	<u>(1,777,274,176.69)</u>	<u>(1,683,554,915.77)</u>
<b>Net debt</b> . . . . .	<b><u>2,301,369,786.53</u></b>	<b><u>1,065,736,119.45</u></b>	<b><u>354,962,430.53</u></b>
<b>Equity</b> . . . . .	<b><u>7,718,522,465.77</u></b>	<b><u>7,885,510,410.74</u></b>	<b><u>7,913,600,585.20</u></b>
<b>Capital and net debt</b> . . . . .	<b><u>10,019,892,252.30</u></b>	<b><u>8,951,246,530.19</u></b>	<b><u>8,268,563,015.73</u></b>
Leverage ratio . . . . .	0.23	0.12	0.04

**40. Employment structure**

Average employees in the Group was as follows:

<u>Title</u>	<u>Year ended 31 December 2012</u>	<u>Year ended 31 December 2011</u>	<u>Year ended 31 December 2010</u>
Blue collar employees . . . . .	6,640	6,671	7,320
Non-blue collar employees . . . . .	4,409	4,969	12,350
<b>Total</b> . . . . .	<b><u>11,049</u></b>	<b><u>11,640</u></b>	<b><u>12,350</u></b>

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

## ENERGA SA Capital Group

Consolidated financial statements for the years 2010 - 2012 ended 31 December  
(in PLN)

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 41. Information on significant events having taken place after the balance sheet date of the consolidated financial statements

##### 41.1. Capital Group restructuring

On 4 January 2013 ENERGA BIO Sp. z o.o. signed the sale agreement for all its shares (90% of the share capital) in Biogazownia Starogard Sp. z o.o. for the price of PLN 1.45 m.

Following the decision to discontinue the Group's activities in the area of hotel services on 1 February 2013 the subsidiary Międzynarodowe Centrum Szkolenia Energetyki Sp. z o.o. was placed into liquidation.

On 27 February 2013, following the completion of the liquidation proceedings Elektrownia Wodna we Włocławku Sp. z o.o. was deleted from the National Court Register.

##### 41.2. Acquisitions

On 19 February 2013 ENERGA Hydro Sp. z o.o. signed the purchase agreement for up to 100% of shares in the Companies making up on-shore wind assets of Dong Energy Wind Power A/S in Poland as part of the consortium with the partner: PGE Polska Grupa Energetyczna SA with the registered office in Warsaw. Subject to the approval of the concentration by way of the decision of the President of the Office for Competition and Consumer Protection ("OCCP") ENERGA Hydro Sp. z o.o. will become the owner of:

- 100% of shares of Dong Energy Karcino Sp. z o.o. with the registered office in Warsaw,
- 100% of shares of Dong Energy Tuszyń Sp. z o.o. with the registered office in Warsaw,
- 100% of shares of Dong Energy Pancierzyn Sp. z o.o. with the registered office in Warsaw,
- 100% of shares of Dong Energy Gąsiorowo Sp. z o.o. with the registered office in Warsaw,
- 100% of shares of Dong Energy 3 Sp. z o.o. with the registered office in Warsaw,
- 100% of shares of Dong Energy Olecko Sp. z o.o. with the registered office in Warsaw.

After the acquisition of the foregoing entities ENERGA Capital Group will hold one active 51 MW wind farm and the portfolio of wind projects on different stages of progress with the aggregate capacity of over 200 MW.

Moreover, on 26 February 2013 ENERGA Hydro Sp. z o.o. signed the purchase agreement for shares in Iberdrola Renewables Polska Sp. z o.o. acting in the consortium with the partner PGE Polska Grupa Energetyczna SA with the registered office in Warsaw. As a result of the transaction, subject to the approval of the concentration by OCCP ENERGA Hydro Sp. z o.o. will hold 67.3% of the shares in the acquired company. As part of the transaction ENERGA Capital Group will take over two active 114 MW wind farms and the portfolio of wind projects on different stages of progress with the aggregate capacity of over 1,186 MW.

##### 41.3. Dispute between PSE SA and PKN ORLEN SA

On 11 January 2013 there was a hearing before the Supreme Court as part of the dispute between ENERGA—OPERATOR SA and PSE SA and PKN ORLEN SA (see the description in Note 42).

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

## ENERGA SA Capital Group

Consolidated financial statements for the years 2010 - 2012 ended 31 December  
(in PLN)

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 42. Other information significantly affecting the assessment of assets, financial position and the financial result of the Group

##### 42.1. External funding

###### Loans to finance the investment program at ENERGA—OPERATOR SA

In the years 2009 - 2010 ENERGA SA together with its subsidiary ENERGA—OPERATOR SA entered into loan agreements aimed at financing the investment program of ENERGA—OPERATOR SA for the period 2009 - 2012<sup>1</sup> associated with the redevelopment and modernisation of the distribution grid:

1. agreement with the European Investment Bank (“EIB”) with the limit of up to PLN 1,050 m, concluded on 16 December 2009;
2. agreement with the European Bank for Reconstruction and Development (“EBRD”) with the limit of up to PLN 800 m, concluded on 29 April 2010;
3. agreement with the Nordic Investment Bank (“NIB”) with the limit of up to PLN 200 m, concluded on 30 April 2010.

The total amount of financing mobilised is PLN 2,050 m.

The loan agreements signed are long-term investment obligations—debts are repayable by 2025. The loan agreements are not secured on the borrowers’ assets and are mainly based on financial covenants.

As part of these agreements tranches in the following amounts were drawn:

a) in 2010:

- PLN 630 m—under the agreement with EIB,
- PLN 300 m—under the agreement with EBRD,
- PLN 100 m—under the agreement with NIB.

b) In 2011:

- PLN 420 m—under the agreement with EIB (full use of the funding),
- PLN 350 m—under the agreement with EBRD (the last tranche equal to PLN 150.0 m was drawn on 21 February 2012),
- PLN 100 m—under the agreement with NIB (full use of the funding).

c) In 2012:

- PLN 150 m—under the agreement with EBRD (full use of the funding).

Currently, the Group holds talks with EBRD and EIB concerning a long-term financing for its investments in the redevelopment and modernisation of the distribution networks, including Smart Grid, carried out by ENERGA—OPERATOR SA in the years 2012-2015. The Company’s defined investment program amounts to PLN 5.2 bn. Arrangements with the banks are based on the assumption that PLN 800 m would be contracted from EBRD and PLN 1,000 m from EIB.

On 26 February 2013 the Management Committee of EIB approved a loan proposal for ENERGA SA based on the following assumptions:

- Borrower: ENERGA SA

---

<sup>1</sup> Originally the investment period was supposed to include the years 2009-2011. As it was impossible to reach the budgeted level of capital expenditures within the structure and in the period initially fixed a part of the capital expenditures was shifted to 2012.

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

## ENERGA SA Capital Group

Consolidated financial statements for the years 2010 - 2012 ended 31 December

(in PLN)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 42. Other information significantly affecting the assessment of assets, financial position and the financial result of the Group (Continued)

- Final Beneficiary / Joint Borrower: ENERGA-OPERATOR SA
- Amount: up to PLN 1,000 m
- Term: up to 15 years

Thanks to the decision of the Management Committee the final approval of the loan by the Board of Directors may be possibly obtained on 14 March 2013.

The Group expects respective agreements with the aforementioned institutions to be signed in the first half of 2013.

#### Loans in NORDEA Bank Polska SA

In the years 2010-2011 ENERGA SA entered into the following loan agreements with NORDEA Bank Polska SA:

1. investment loan agreement of 8 September 2010 for PLN 100 m for the purchase of bonds issued by ENERGA Hydro Sp. z o.o. in connection with the investments carried out in the modernisation of the pumped-storage power plant in Żydowo. The final repayment date was set at 7 September 2015. As at 31 December 2012, the loan was utilised in full.
2. investment loan agreement for PLN 160 m of 17 December 2010 for the purchase of bonds issued by ENERGA Kogeneracja Sp. z o.o. in connection with the investments carried out in the modernisation of the boiler including the implementation of the biomass joint combustion option, in the construction of a straw-based palette production unit and in the construction of a new power unit. The final repayment date was set at 16 December 2015. The aggregate use of the loan as at 31 December 2012 reached PLN 134.7 m.
3. agreement for arranging loans for ENERGA Group's companies of 24 June 2010 with the total limit of up to PLN 75 m. Under the agreement ENERGA SA as well as ENERGA Group's companies are authorised to contract working capital overdraft loans and renewable loans with maturities up to 12 months and investment loans with maturities going beyond the validity of the credit limit, i.e. 29 June 2015. As at 31 December 2012 financing for PLN 45.1 m was committed of which PLN 12.7 m was actually used.
4. master agreement for bank guarantees for ENERGA Group's companies of 8 September 2010 with the total limit of up to PLN 5 m. As at 31 December 2012 the limit was used in the amount of PLN 4.2 m.
5. agreement for arranging loans for ENERGA SA of 12 October 2011 with the total limit of up to PLN 300 m. Funds available under the agreement may be used to finance current operations or for capital investments. The credit limit expires on 11 October 2016. In 2012 the current account financing was drawn for the amount of PLN 150 m and financing in the form of a revolving working capital loan for another PLN 150 m. As at 31 December 2012 the loans were not used.

All the above mentioned agreements are secured by financial covenants and for master agreements by a joint and several liability of ENERGA SA for liabilities of ENERGA Group's companies established through the accession to debt.

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

## ENERGA SA Capital Group

Consolidated financial statements for the years 2010 - 2012 ended 31 December

(in PLN)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 42. Other information significantly affecting the assessment of assets, financial position and the financial result of the Group (Continued)

#### Loans in PKO Bank Polski SA

In the years 2011-2012, ENERGA SA concluded the following loan agreements with PKO Bank Polski SA:

1. a master agreement to extend an overdraft limit to ENERGA SA and its subsidiaries, of 30 August 2011 with the total limit up to PLN 150 m. Under the agreement ENERGA SA as well as ENERGA Group's companies are authorised to contract working capital overdraft loans, renewable and non-renewable ones with maturities up to 36 months, investment loans with maturities up to 15 years and bank guarantees for up to 60 months. The loan agreement is unsecured. Repayment of the obligations of the subsidiaries is subject to joint and several liability of ENERGA SA established on the basis of accession to debt. As at 31 December 2012 the financing limit for PLN 149.2 m was committed of which PLN 26.8 m was actually used;
2. a master agreement to extend an overdraft limit to ENERGA SA and its subsidiaries, of 20 September 2012 with the total limit up to PLN 200 m. Under the agreement ENERGA SA as well as ENERGA Group's companies are authorised to contract working capital overdraft loans, renewable and with maturities up to 12 months, investment loans with maturities up to 15 years and bank guarantees for up to 60 months. The agreement is secured with financial covenants. Repayment of the obligations of the subsidiaries is subject to joint and several liability of ENERGA SA established on the basis of accession to debt. As at 31 December 2012 the financing limit was committed for the total amount of PLN 10 m.

#### Loans in Pekao SA

In the years 2011-2012, ENERGA SA concluded the following loan agreements with Pekao SA:

1. loan agreement of 13 October 2011, with the total limit up to PLN 200 m designated for financing current operations or capital investments. The overdraft limit is effective until 12 October 2016. The agreement is secured with financial covenants. As at 31 December 2012 the loan was used in the amount of PLN 123.6 m;
2. loan agreement of 30 May 2012, in the amount of PLN 85 m to be used to acquire bonds issued by ENERGA Elektrownie Ostrołęka SA in connection with the implementation of the investment program of the company (see above). The final maturity date of the loan agreement is 29 May 2022. The agreement is secured with financial covenants. ENERGA SA used the first tranche of the loan as part of the financing committed in the amount of PLN 33 m on 9 July 2012.

#### Domestic bond issue

On 21 September 2012 ENERGA SA entered with the banks Pekao SA and BRE Bank SA into the issue agreement establishing the domestic bond issue program for up to PLN 4 bn. The first bond issue under the program for PLN 1,000 m was made on 19 October 2012 with the maturity date of 18 October 2019. The issue was addressed to Polish institutional investors. The issue structure with respect to the investor base is as follows: open-ended pension funds 82%, insurance companies 6% and investment fund companies 12%. On 19 November 2012 the issued bonds were introduced into trading on one of Catalyst markets—Alternatywny System Obrotu (ASO) platform operated by BondSpot SA.

#### Eurobond issue process

On 15 November 2012 the EMTN medium-term Eurobond issue program for the maximum amount of EUR 1,000 m was established. As part of the EMTN Bond Program the special purpose vehicle Energa Finance AB (publ) registered under the laws of Sweden and operating as the 100% subsidiary of

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.



## ENERGA SA Capital Group

Consolidated financial statements for the years 2010 - 2012 ended 31 December

(in PLN)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 42. Other information significantly affecting the assessment of assets, financial position and the financial result of the Group (Continued)

ENERGA SA is authorised to issue Eurobonds with maturities ranging from one year to ten years based on the following agreements of 15 November 2012:

- agency agreement entered into by and between Energa Finance AB (publ) as the issuer, ENERGA SA as the guarantor and BNP Paribas Securities Services, branch in Luxembourg, as the payment agent and the transfer agent,
- dealer agreement entered into by and between Energa Finance AB (publ) as the issuer, ENERGA SA as the guarantor and BNP Paribas, HSBC Bank Plc and Merrill Lynch International as the arrangers and dealers,
- surety agreement under which ENERGA SA undertook to unconditionally and irrevocably provide a surety for the liabilities of Energa Finance AB (publ) arising from the Eurobonds up to EUR 1,250 m valid until and including 31 December 2024; and
- payment agreement under which Energa Finance AB (publ) as the issuer and ENERGA SA as the guarantor undertook to satisfy certain liabilities under the bonds directly to their holders.

The above agreements and bonds issued under the EMTN Bond Program are governed by the laws of England. The bonds issued under the EMTN Bond Program may be introduced into trading on the regulated market in Luxembourg based on a prospectus approved by the Polish Financial Supervision Authority in Luxembourg on 15 November 2012.

As at 31 December 2012, no notes were issued under the EMTN Programme.

#### 42.2. Suspension of the project Ostrołęka C

Due to material changes on the Polish energy market, deterioration of the environment for financing investments and cancelling the sale of a block of shares of ENERGA SA concluded between the State Treasury and PGE S.A., the Management Board of ENERGA SA revised the Group's strategic investment plan. In line with the strategy, the ENERGA Group has set the following goals for the project:

1. keeping the investment risk low (net debt/EBITDA not greater than 2.5, and expenditures on a single project not exceeding the annual EBITDA of the Group),
2. realise the rate of return on invested capital above the weighted average cost of capital,
3. cover more than 50 percent of the portfolio with own energy output,
4. reduction in the average unit CO emission rate<sub>2</sub> below 0.4 Mg/MWh,
5. diversify the investment portfolio (focus on mid-size projects and high-efficiency, low-emission power generation technologies).

Therefore, the Management Board of ENERGA SA resolved to suspend preparations for the construction of a coal unit in Ostrołęka. The reasons for withholding the project are among others difficulties in obtaining funding under the Project Finance formula and adverse conditions on the market of construction companies. Currently, the Group is looking for a partner interested in a joint implementation of the project or in a purchase thereof.

ENERGA SA estimated that the suspension of the project might constitute an indication for its impairment. Therefore, as at 31 December 2012 tests were carried out for the impairment of assets associated with the implementation of the project (see description in Note 14).

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

## ENERGA SA Capital Group

Consolidated financial statements for the years 2010 - 2012 ended 31 December

(in PLN)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 42. Other information significantly affecting the assessment of assets, financial position and the financial result of the Group (Continued)

#### 42.3. Capital Group restructuring

##### Distribution segment

In the years 2011 - 2012 a number of steps were taken in connection with the restructuring and reorganisation of the distribution segment at the Distribution System Operator (DSO)—subsidiary ENERGA—OPERATOR SA and the companies supporting the DSO activities.

In 2011:

1. at ENERGA—OPERATOR SA new Organisational Regulations were put in place, including the consolidated organisational structure of branches and divisions on the basis of common business processes and organisational solutions. The key objective of such implementation was to make sure that DSO tasks, stipulated in the Energy Law and in the single license granted to the entire company, are carried out on a consistent and comparable basis in line with the best company's and industry practice. The most important organisational changes associated with the new organisational structure include:
  - organisational separation of the network asset management from operations on such assets (use, works of electric installation teams);
  - vertical organisation of implementation (electric installation) services on the level of the Company's branches—that means that maintenance tasks will be carried out by the “branch structure”, however as the rule employees of such services will not change a physical location where their work is delivered;
  - vertical organisation of medium-voltage and low-voltage traffic management at the level of Branches—organisational preparation to launch Regional Power Dispatch Centres which will ultimately take over medium-voltage and low-voltage traffic management duties in the entire Branch;
  - transfer of a part of the functions from the branches to the headquarters on the assumption that persons performing these tasks will not change their place of work:
    - tasks directly associated with security and defense,
    - tasks directly associated with audit and control,
    - internal communication-related tasks;
  - transfer of the function for management of technical services for customers to the level of the Branch, employees carrying out those duties so far in the Distribution Areas will not change a physical place of their work;
  - transfer of all support functions from the Distribution Areas to Branches assuming that the hitherto existing places where employees work are unchanged;
2. in connection with the restructuring activities on the level of DSO supporting companies the following activities were conducted:
  - ENERGA—OPERATOR SA took over the activities of the companies Zakład Energetyczny Płock—Dystrybucja Wschód Sp. z o.o. (currently ENERGA—OPERATOR Eksploatacja i Inwestycje Płock Sp. z o.o.) and Zakład Energetyczny Płock—Dystrybucja Zachód Sp. z o.o. in the area of the management of grid connection processes, grid maintenance, investments and registers of grid assets,

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

## ENERGA SA Capital Group

Consolidated financial statements for the years 2010 - 2012 ended 31 December

(in PLN)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 42. Other information significantly affecting the assessment of assets, financial position and the financial result of the Group (Continued)

- rights and obligations arising from agreements entered into by the companies Zakład Energetyczny Płock—Dystrybucja Wschód Sp. z o.o. (currently ENERGA OPERATOR Eksploatacja i Inwestycje Płock Sp. z o.o.) and Zakład Energetyczny Płock—Dystrybucja Zachód Sp. z o.o. in the area of lighting operations were transferred to ENERGA Oświetlenie Sp. z o.o.,
- execution activities carried out by ZET Energohandel Sp. z o.o. were transferred to Energetyka Kaliska—Usługi Techniczne Sp. z o.o.
- designing activities carried out by the companies Multiserwis Sp. z o.o., Energo—Konsulting Sp. z o.o. (currently ENERGA—OPERATOR Techniczna Obsługa Odbiorców Sp. z o.o.) and ZET Energohandel Sp. z o.o. were transferred to ZEP-INPRO Sp. z o.o. (currently ENERGA—OPERATOR Projektowanie Sp. z o.o.),
- production activities carried out by the subsidiary Zakład Budownictwa Energetycznego Sp. z o.o. were transferred to the subsidiary Energetyka Kaliska Liczniki i Instalacje Sp. z o.o. (currently ENERGA—OPERATOR Produkcja Sp. z o.o.).
- Zakład Energetyczny Płock—Dystrybucja Wschód Sp. z o.o. (currently ENERGA OPERATOR Eksploatacja i Inwestycje Płock Sp. z o.o.) acquired the business of Zakład Energetyczny Płock—Dystrybucja Zachód Sp. z o.o. thus taking over its operations.
- ENERGA—OPERATOR Techniczna Obsługa Odbiorców Sp. z o.o. took over from ENERGA—OPERATOR SA, Zakład Energetyczny Płock—Dystrybucja Wschód Sp. z o.o. (currently ENERGA OPERATOR Eksploatacja i Inwestycje Płock Sp. z o.o.) and Zakład Energetyczny Płock—Dystrybucja Zachód Sp. z o.o. the processes of technical services for customers (including installation and maintenance of metering systems, meter readouts) together with a part of the employees.

In 2012:

1. employees and assets connected with the grid and investment services carried out in the regions of Gdańsk, Elbląg—Olsztyn, Słupsk—Koszalin, Kalisz and Toruń were transferred to grid operating companies, established in December 2011:
  - ENERGA—OPERATOR Eksploatacja i Inwestycje Gdańsk Sp. z o.o.,
  - ENERGA—OPERATOR Eksploatacja i Inwestycje Elbląg Sp. z o.o.,
  - ENERGA—OPERATOR Eksploatacja i Inwestycje Słupsk Sp. z o.o.,
  - ENERGA—OPERATOR Eksploatacja i Inwestycje Kalisz Sp. z o.o.,
  - ENERGA—OPERATOR Eksploatacja i Inwestycje Toruń Sp. z o.o.;
2. in ENERGA Informatyka i Technologie Sp. z o.o. assets associated with power activities were separated together with the employees supporting such functions and transferred to ENERGA—OPERATOR Eksploatacja i Inwestycje Płock Sp. z o.o.;
3. ENERGA—OPERATOR SA transferred its processes, assets and employees from the maintenance and investment areas to newly founded companies ENERGA—OPERATOR Eksploatacja i Inwestycje Elbląg Sp. z o.o., ENERGA—OPERATOR Eksploatacja i Inwestycje Gdańsk Sp. z o.o., ENERGA—OPERATOR Eksploatacja i Inwestycje Kalisz Sp. z o.o., ENERGA—OPERATOR Eksploatacja i Inwestycje Słupsk Sp. z o.o., ENERGA—OPERATOR Eksploatacja i Inwestycje Toruń Sp. z o.o. and ENERGA—OPERATOR Eksploatacja i Inwestycje Płock Sp. z o.o.;

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

**ENERGA SA Capital Group**  
**Consolidated financial statements for the years 2010 - 2012 ended 31 December**  
**(in PLN)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**42. Other information significantly affecting the assessment of assets, financial position and the financial result of the Group (Continued)**

4. Management Boards of the subsidiaries of ENERGA—OPERATOR SA, namely:

- ENERGA—OPERATOR Projektowanie Sp. z o.o.,
- Przedsiębiorstwo Budownictwa Elektroenergetycznego ENBUD Słupsk Sp. z o.o.
- Zakład Budownictwa Energetycznego Sp. z o.o.
- ENERGA—OPERATOR Produkcja Sp. z o.o.
- Przedsiębiorstwo Wielobranżowe Energetyki ELEKTROINSTAL Sp. z o.o.

initiated works on the development of the strategy for sale of shares in those companies. The resulting recommendations are expected to be presented by the end of the first quarter 2013.

Model for sales and services in ENERGA Capital Group

On 25 February 2011 the project titled “Implementation of an effective model for sales and services in ENERGA Capital Group” was initiated; its objective is to fully use the revenue potential of the Group in the area of customer sales and services, to comprehensively manage the level of total satisfaction of the Group’s customers and to improve cost efficiency in the area of sales activities.

Following the implementation of tasks defined under the project ENERGA Obsługa i Sprzedaż Sp. z o.o.:

- transferred to ENERGA—OPERATOR SA activities and resources associated with the handling of connection processes, illegal consumption and non-power services,
- transferred to ENERGA—OBRÓT SA activities and resources associated with the handling of sales processes to business customers as well as of management and sales support processes.

In December 2011 the share capital of the subsidiary ENERGA—OBRÓT SA was raised by PLN 33.1 m. The increased share capital was subscribed for by ENERGA SA and covered in full by shares in ENERGA Obsługa i Sprzedaż Sp. z o.o. After the transaction ENERGA—OBRÓT SA became the only shareholder of ENERGA Obsługa i Sprzedaż Sp. z o.o.

Following the foregoing transformations ENERGA Obsługa i Sprzedaż Sp. z o.o. pursues strategic objectives of ENERGA—OBRÓT SA in the area of mass customer services and is currently focused on:

- efficient and effective implementation of the key optimisation objective, i.e. reduction of service costs, and in particular costs of handling contacts and settlements with individual customers, assuring a smooth implementation and maintenance of the customer service standards which would guarantee rising levels of customer satisfaction from the services.

Model for investments in ENERGA Capital Group

Pursuant to the resolution of the Management Board of ENERGA SA of 29 February 2012 the subsidiary ENERGA Invest SA was appointed to play the role of the Substitute Investor in ENERGA Group. The company, being an entity specialised in the preparation and implementation of investment projects in the area of generation (construction of gas and water plants, co-generation plants, wind farms, photovoltaic installations) employs services carrying out new investment projects and makes early research into and preparation of investment initiatives.

Currently, the company continues preparations for the construction of two gas power plants in Grudziądz and Gdańsk as well as works over Wisła project and plays the role of the Contract Engineer in Żychlin where a pilot co-generation system is supposed to be developed.

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

## ENERGA SA Capital Group

### Consolidated financial statements for the years 2010 - 2012 ended 31 December (in PLN)

#### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### **42. Other information significantly affecting the assessment of assets, financial position and the financial result of the Group (Continued)**

##### Consolidation of the operations in the segment of energy generation from renewable sources

The company consolidating the operations in the area of energy generation from renewable sources is ENERGA Hydro Sp. z o.o. (previously ENERGA Elektrownie Straszyn Sp. z o.o.).

In the years 2010 - 2012 the following activities aimed at the consolidation of the operations in that segment took place:

- 2010 acquisition by ENERGA Hydro Sp. z o.o. of organised parts of the businesses, including energy generation in small hydro power plants, from ENERGA Kogeneracja Sp. z o.o. and ENERGA Wind Sp. z o.o. (previously ENERGA Elektrownie Wiatrowe Sp. z o.o. / ENERGA Elektrownie Słupsk Sp. z o.o.);
- 2010 acquisition of the business of Elektrownia Wodna we Włocławku Sp. z o.o. by ENERGA Hydro Sp. z o.o. (purchase agreement actually closed in January 2011).
- business combinations in the years 2011 and 2012 (see description in Note 30);

##### Consolidation of CHP segment operations

The company consolidating CHP segment operations is ENERGA Kogeneracja Sp. z o.o.

In 2012 the following activities aimed at the consolidation of the operations in that segment took place:

- ENERGA SA transferred as a contribution in kind the shares in ENERGA Elektrociepłownia Kalisz S.A. to ENERGA Kogeneracja Sp. z o.o.;
- ENERGA SA and ENERGA Elektrownie Ostrołęka SA transferred as a contribution in kind the shares in ENERGA OPEC Sp. z o.o. to ENERGA Kogeneracja Sp. z o.o.;
- ENERGA Kogeneracja Sp. z o.o. acquired shares in Zakład Energetyki Ciepłej w Żychlinie Sp. z o.o. (see description in Note 2).

##### Consolidation of the lighting operations

The company consolidating the lighting operations is ENERGA Oświetlenie Sp. z o.o.

In the years 2010 - 2012 the following activities aimed at the consolidation of the lighting operations took place:

- business combinations in 2010 (see description in Note 30);
- 2010 contribution in kind by ENERGA—OPERATOR SA to ENERGA Oświetlenie Sp. z o.o. in the form of an organised part of the business, including lighting operations.

##### Consolidation of IT area operations

The company consolidating IT area operations is, since its foundation in 2011, ENERGA Informatyka i Technologie Sp. z o.o. (see description in Note 2).

In the years 2010 - 2012 the following activities aimed at the consolidation of IT area operations took place:

- business combinations in the years 2010 and 2011 (see description in Note 30);
- contribution in kind agreement entered into in December 2011 by and between ENERGA SA and ENERGA Informatyka i Technologie Sp. z o.o. under which the share capital of ENERGA Informatyka i Technologie Sp. z o.o. was increased by PLN 19.1 m. Non-cash contribution in the form of

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.



## ENERGA SA Capital Group

Consolidated financial statements for the years 2010 - 2012 ended 31 December

(in PLN)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 42. Other information significantly affecting the assessment of assets, financial position and the financial result of the Group (Continued)

ENERGA SA assets including computer equipment, computer software and computer IT documentation and computer carriers was made to the company and registered in the National Court Register in February 2012;

- 2012 transfer from the subsidiary ENERGA—OPERATOR SA of selected IT processes together with employees handling such processes to ENERGA Informatyka i Technologie Sp. z o.o. ENERGA—OPERATOR SA kept technological systems support processes, while ENERGA Informatyka i Technologie Sp. z o.o. took over local user support processes and the entirety of support processes for central systems used by the Group's companies.

#### Consolidation of maintenance and overhaul services

The company consolidating operations in the area of maintenance and overhaul services for the segment of system power plants and CHP in the Group is ENERGA Serwis Sp. z o.o. established in 2011.

As part of the consolidation of maintenance and overhaul services in ENERGA Serwis Sp. z o.o. the company's share capital was raised by PLN 7.1 m. New shares were subscribed for in their entirety by the subsidiary ENERGA Elektrownie Ostrołęka SA in exchange for a cash and non-cash contribution. The capital increase in the company was registered in the National Court Register on 13 June 2012.

#### Reorganisation of the shareholding structure in ENERGA Group

In the years 2010 - 2012 a number of actions were taken to appropriately organise the shareholding structure in the Group.

In 2010 there were activities taking place in order to simplify the Capital Group's structure, including the acquisition by ENERGA SA of minority shareholdings in ENERGA Group's companies held by other companies from the Group.

In 2011:

- ENERGA SA acquired from the State Treasury minority stakes in ENERGA—OPERATOR SA and ENERGA Elektrownie Ostrołęka SA for the total consideration of PLN 585.6 m. In addition, the program for involuntary repurchase of shares from the shareholders of ENERGA—OPERATOR SA was pursued. Following such transactions the share of ENERGA SA in the capital of ENERGA—OPERATOR SA and ENERGA Elektrownie Ostrołęka SA as at 31 December 2011 rose respectively to 99.74% and 89.38% as compared to 85.06% and 85.00% as at 31 December 2010;
- ENERGA SA made purchases of minority blocks of shares in ENERGA Group's companies held by other companies from the Group;
- ENERGA SA acquired from ENERGA—OPERATOR SA and Zakład Budownictwa Energetycznego Sp. z o. o. their shares in ENERGA Oświetlenie Sp. z o.o. thus becoming the only shareholder in the company.

In 2012:

- the program for involuntary repurchase of shares from the shareholders of ENERGA—OPERATOR SA was pursued. As a result of those transactions the share of ENERGA SA in the capital of ENERGA—OPERATOR SA as at 31 December 2012 equalled respectively 99.75% as compared to 99.74% as at 31 December 2011; ENERGA SA sold to ENERGA—OPERATOR SA its shares in the companies: Zakład Energetyczny Płock—Centrum Handlowe Sp. z o. o. and Zakład Energetyczny Toruń "ENERGOHANDEL" Sp. z o. o.;

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.



## ENERGA SA Capital Group

Consolidated financial statements for the years 2010 - 2012 ended 31 December

(in PLN)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 42. Other information significantly affecting the assessment of assets, financial position and the financial result of the Group (Continued)

- ENERGA Elektrownie Ostrołęka SA sold shares in Ekologiczne Materiały Grzewcze Sp. z o. o. to ENERGA SA;
- ENERGA SA transferred as a contribution in kind to ENERGA—OBRÓT SA, in exchange for a corresponding share capital increase and subscription for newly created shares, shares in ENERGA Oświetlenie Sp. z o. o.;
- on 24 January 2012 the share capital increase in the subsidiary ENERGA Innowacje Sp. z o. o. by PLN 2.5 m was registered. The newly created shares were subscribed for by ENERGA—OPERATOR SA which thus reached the 50% share in the capital of ENERGA Innowacje Sp. z o. o. ;
- as part of the consolidation of OZE Segment in ENERGA Capital Group in September 2012 ENERGA Wind Sp. z o.o. acquired from ENERGA Invest its shares in AEGIR 1 Sp. z o.o., AEGIR 2 Sp. z o. o., AEGIR 3 Sp. z o. o., AEGIR 4 Sp. z o. o. and AEGIR 5 Sp. z o. o.

Other changes in ENERGA Group were described in Note 2 “Composition of the Group” and Note 30 “Business combinations” in these consolidated financial statements.

#### Reorganisation of the structure of ENERGA SA

In 2012 ENERGA SA started actions aimed at the reorganisation of the company’s operations by improving its management efficiency and specialisation in the purely business area guaranteeing at the same time that expectations of its stakeholders are satisfied.

Analyses covered especially the processes supporting business areas and were concluded by indications showing that they might be carried out by dedicated service companies. Such processes as: legal services, HR, organisational services, procurement services, real estate management, IT process support services, were transferred to other companies from the Group.

The implementation of the changes resulted in the reduction in the number of organisational units and simplification of the management levels in ENERGA SA.

#### 42.4. Privatisation process

On 17 July 2009 the Ministry of Treasury made the decision on privatisation of ENERGA Group. A public invitation to negotiations was announced in April 2010. In the period from June to September due diligence process were carried out during which prospective investors had the opportunity to review selected documents, visit selected facilities of the Group, have meetings with the Management Board and operating meetings with Q&A sessions.

On 29 September 2010 the Ministry of Treasury (“MST”) and Polska Grupa Energetyczna S.A. (“PGE”) signed the agreement for sale of 84.19% of shares in ENERGA SA.

On 13 January 2011 the President of the Office for Competition and Consumer Protection (“OCCP”) issued the decision prohibiting PGE to take over control of ENERGA SA. Following that decision the State Treasury and PGE signed an annex to the agreement for sale of shares in ENERGA SA. MST and PGE mutually agreed on the term of the agreement equal to 12 months and agreed to suspend the course of the term until when court proceedings for the appeal against the decision of OCCP are finally closed.

On 28 January 2011 PGE appealed against the decision of OCCP to the Regional Court in Warsaw—Court for Competition and Consumer Protection (“CCCP”).

On 14 May 2012 there was a hearing before CCCP closed with a judgment dismissing the appeal of PGE against the decision of the President of OCCP prohibiting the concentration, including the take-over of

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

## ENERGA SA Capital Group

Consolidated financial statements for the years 2010 - 2012 ended 31 December

(in PLN)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 42. Other information significantly affecting the assessment of assets, financial position and the financial result of the Group (Continued)

control over ENERGA SA by PGE. According to the notice published in the current report of 5 June 2012 the management board of PGE decided not to appeal against the judgment of CCCP which thus became final on 12 June 2012.

Therefore the agreement for sale of shares in ENERGA SA entered into on 29 September 2010 by and between PGE and the State Treasury was terminated.

In January 2013 the process for privatisation of ENERGA SA was resumed. The Minister of Treasury (the "MST") resolved to relaunch the privatisation of ENERGA SA. The intention of MST is to sell a minority stake in ENERGA SA on the Warsaw Stock Exchange ("WSE") under an IPO-type transaction (Initial Public Offering). ENERGA SA floating on WSE is expected by the end of the first half this year.

#### 42.5. Project titled "Environment Management System and Sustained Development Mechanisms"

The project titled "Environment Management System and Sustained Development Mechanisms" was launched in September 2011 in order to implement conditions required by EMAS regulation in the most important companies of ENERGA Group.

Project works include environment audits in the companies, training for members of management boards, officers and internal auditors and the preparation of common system procedures (in accordance with ISO14001 requirements).

As part of the sustained development initiatives in October 2012 the Group released the first Responsible Business Report for 2011. The report concerns aspects of the Group's operations associated with social & employee, business and environment issues. Meets the framework Global Reporting Initiative guidelines recognised worldwide and used by organisations of all sizes, sectors and locations. In preparing the report, the policies on defining both the contents and the quality of the report were taken into account. To ensure that the report covers key issues for the company and the industry, it was based on the strategy and values of the ENERGA Group. When defining its contents, analyses covered global, industry sustained development reports as well as other publications and reports describing challenges for sustained development essential for the power sector.

The implementation of the project "Environment Management System and Sustained Development Mechanisms" creates the possibility to use investment funding sources offered by international institutions and at the same time marks compliance with provisions and covenants regulated in the agreements with EIB, EBRD and NIB.

#### 42.6. Construction of gas—steam power plants in Grudziądz and Gdańsk

On 19 April 2011 ENERGA Invest SA and Electricity Supply Board International Investments B.V. (ESBI) founded the subsidiary Elektrownia Grudziądz sp. z o.o. in organisation with the registered office in Grudziądz and the share capital of PLN 12 m. Each of the shareholders was supposed to subscribe for 50% of shares in the capital covering the same by a cash contribution.

However due to differences of opinion as to the methods for implementing the project ENERGA Invest SA unilaterally terminated the shareholders' agreement. On 20 November 2012 the parties signed the agreement for settlement of their mutual cooperation thus terminating collaboration under which ENERGA Invest SA took over all rights to the project and received the other shareholder's authorisation to liquidate the special purpose vehicle in organisation established for joint implementation of the project.

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

## ENERGA SA Capital Group

Consolidated financial statements for the years 2010 - 2012 ended 31 December

(in PLN)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 42. Other information significantly affecting the assessment of assets, financial position and the financial result of the Group (Continued)

ENERGA Group will continue investments in Grudziądz without participation of the business partner. The investments will be carried out by a special purpose vehicle Elektrownia CCGT Grudziądz Sp. z o.o. established in 2012. The power plant is expected to have the capacity of ca. 900-1,200 MWe.

On 2 October 2012 the agreement was entered into with PSE Operator SA to connect to the power transmission grid. Currently tender proceedings are in progress in order to select the General Designer and the General Contractor for the first stage of the power plant including one gas—steam unit with the capacity of 420-600 MWe. The tender for selection of the contractor for the construction of the unit is expected to be completed in 2014. Funding for the project will be searched for on subsequent stages of its implementation. For the moment it is assumed that the project will be carried out based on balance sheet financing organised by ENERGA SA. Funds will be transferred from ENERGA SA to a special purpose vehicle through a bond issue program.

Besides investments in Grudziądz, it is also planned to start a gas—steam power plant in the area of Gdańsk with the total planned capacity of 400-600 MWe. For purposes of this venture the special purpose vehicle Elektrownia CCGT Gdańsk Sp. z o.o. was established in December 2012 by ENERGA SA. The investments in Gdańsk are expected to be completed in 2020.

#### 42.7. Consortium of ENERGA SA Group and Kopalnia Adamów

On 7 January 2010 the consortium agreement was signed between PAK KWB Adamów SA (previously Kopalnia Węgla Brunatnego “Adamów”) and ENERGA SA Group for the construction and commissioning of the complex of wind power plants in the post-mining areas belonging to PAK KWB Adamów SA and located in Przykona commune. Under the project, carried out by a special purpose vehicle, a wind farm with the capacity of up to 40 MW is going to be built.

Currently works are in progress to establish the special purpose vehicle and to obtain all the corporate authorisations in PAK KWB Adamów SA. Concurrently there were works carried out on the project documentation concerning technical and environment areas. The project gained approval from the President of OCCP for the business concentration. The investments are expected to be completed in 2016.

#### 42.8. ENERGA Wisła Programme

The goal of the Wisła Programme, carried out by the ENERGA Group, is to build a weir together with a hydroelectric plant on the Vistula river south of Włocławek. Preliminary assumptions indicate that the proposed plant capacity may range from 60 to 100 MW, and its average output would amount to more than 500,000 MWh per year. The term of the investment is estimated at around 7 years (it is likely to be launched in 2017), and its value at about PLN 2.5 bn.

On 9 March 2010 ENERGA SA and Ove Arup&Partners International Limited Sp. z o.o. entered into the agreement for development of the “Documentation necessary for the construction of a dam and power plant on Vistula downstream from Włocławek”.

The key objective of the agreement is to provide complete documents necessary to start construction of the dam and power plant on Vistula, required to obtain an environmental decision for the investment issued by the Regional Directorate for Environmental Protection and a favourable opinion of the European Commission (if necessary).

Work is under way on drafting a Location Study, Feasibility Study and Environmental Impact Assessment. This will help determine detailed technical and location data for the project and apply for an environmental permit enabling implementation of the project in areas protected under Natura 2000.

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

## ENERGA SA Capital Group

Consolidated financial statements for the years 2010 - 2012 ended 31 December

(in PLN)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 42. Other information significantly affecting the assessment of assets, financial position and the financial result of the Group (Continued)

#### 42.9. Social contracts executed in the course of the consolidation and restructuring processes

On 19 July 2007 the Social Contract No. 1/1—GK ENERGA/2007 securing employees' rights and interests in the process of consolidation and restructuring of ENERGA Capital Group was signed. The agreement was entered into pursuant to Article 9 of the Labour Code, Art. 26 of the Act of 23 May 1991 on trade unions and constitutes an extension and clarification of provisions of the agreement on rights of social partners in the process of vertical consolidation and terms and conditions of cooperation in the process of restructuring concluded on 7 March 2007 and the agreement G8 3/1—Consolidation and restructuring—G8/2004.

The Social Contract became effective on 1 August 2007.

The provisions of the agreement concern obligations towards employees with respect to:

- employee guarantees in the case of restructuring activities,
- related bonus in connection with the consolidation for distribution companies and subsidiaries,
- employment guarantees,
- pay guarantees,
- social and health protection guarantees,
- ensuring their right to employee shares.

The term of the employment guarantee for employees of ENERGA SA Capital Group was fixed at 120 months from the effective date of the social contract.

Liabilities from social guarantees are the continuation of the hitherto existing liabilities to employees, their families and former employees (pension and disability pension), taking into account annual contribution to the social fund by applying a double contribution rate stipulated in the Act on Social Fund in 2007. Since 2009 the contribution has been three times as much as the statutory contribution.

In addition, on 1 August 2007 the Social Contract was signed between Zespół Elektrowni Ostrołęka S.A. (currently ENERGA Elektrownie Ostrołęka SA) and trade union organisations to secure rights of employees of Zespół Elektrowni Ostrołęka S.A. in the process of consolidation and privatisation of the power sector. Under the Contract the employer agreed to give employment guarantees for the period of 10 years from the date of the Contract and to guarantee individual posts and pays on the level at least as favourable as the ones at the date of the Contract.

#### 42.10. Power facilities located on private lands

As a result of system changes in the nineties of the last century in the current legal and economic reality there are serious problems with transmission devices built under the previous legal system on private properties without obtaining any legal title thereto.

As at 31 December 2012 the value of resulting disputes reaches PLN 159 m and is based on the estimates taking into account the most probable amount of potential claims (of which PLN 61.9 m is reported under provisions and PLN 97.1 m under contingent liabilities—see Notes 32 and 37).

#### 42.11. Claims of Państwowe Gospodarstwo Leśne Lasy Państwowe

To finally regulate the legal status of properties developed with power facilities on properties of the State Treasury being under the management of Państwowe Gospodarstwo Leśne Lasy Państwowe (“LP”) is one

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

## ENERGA SA Capital Group

Consolidated financial statements for the years 2010 - 2012 ended 31 December

(in PLN)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 42. Other information significantly affecting the assessment of assets, financial position and the financial result of the Group (Continued)

of the most important issues associated with the regulation of the legal status of power facilities erected on third party's properties. The task is supervised and managed directly by the Management Board of the Company. It was completed in two stages.

#### Stage 1

On 25 October 2010 ENERGA—OPERATOR SA entered into the cooperation agreement with Lasy Państwowe ("LP"). Under this agreement:

- power lines in the area of all the forest districts were recorded and counted;
- ENERGA—OPERATOR SA obtained the right to use the properties developed with power facilities and to access or enter the lands together with any necessary equipment, to remove failures of power lines, to carry out power line maintenance or modernisation activities, the right to cut trees or bushes or trim them to the extent required to maintain power lines in a proper condition on recorded strips of the land;
- ENERGA—OPERATOR SA comprehensively settled all the arrears, i.e. paid for non-contractual use of the properties retroactively for 10 years. The consideration paid for that period was determined by the parties at the amount of taxes for the years 2006 - 2009, while for the year 2010 at the amount of taxes and additional charges and payments for cable lines;
- the issue of charges for any future use of properties developed with power facilities was regulated;
- LP undertook not to hinder investment processes of ENERGA—OPERATOR running through LP areas;
- LP withdrew all the court actions against ENERGA—OPERATOR;
- LP granted, free of charge, authorisations to ENERGA—OPERATOR to cut and trim trees and bushes under the amount of the general consideration;
- LP agreed to start talks aimed at a permanent regulation through establishing easements of transmission, as defined in Article 3052 §1 of the Civil Code, after amendments to appropriate provisions of the Act on Forests.

#### Stage 2

In March 2011 the legislator introduced Article 39a to the Act on Forests of 28 September 1991 (consolidated text Journal of Laws of 2011 No. 12, item 59, as amended). Under such article forest district managers, with the consent of the regional management of Lasy Państwowe, obtained the rights to establish, against payment, easements of transmission. That was the statutory provision the lack of which previously prevented establishing of the easements of transmission on LP properties as Lasy defended themselves explaining that there was no statutory authorisation to encumber properties of the State Treasury with easements of transmission in favour of transmission companies.

Therefore on 5 December 2011 ENERGA—OPERATOR SA and the State Treasury—Państwowe Gospodarstwo Leśne Lasy Państwowe signed the Agreement on terms and conditions for establishing easements of transmission.

It should be noted that on the basis of the currently effective regulations it is the first agreement in Poland between DSO and Lasy Państwowe, being a breakthrough leading to the so called permanent regulation of the legal status of properties developed with power facilities, i.e. through establishing limited rights in rem

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.



## ENERGA SA Capital Group

Consolidated financial statements for the years 2010 - 2012 ended 31 December

(in PLN)

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 42. Other information significantly affecting the assessment of assets, financial position and the financial result of the Group (Continued)

in the form of easements of transmission under notarial deeds and with the registration of respective rights of the transmission companies in the land and mortgage registers:

- the agreement was signed with 10 Regional Districts of Lasy Państwowe in the area of ENERGA—OPERATOR SA operations;
- the agreement covers 113 forest districts;
- representatives of Lasy Państwowe (forest district managers) enter into transmission easement agreements;
- as at 31 December 2012 the agreements which in 93.34% regulate the status of power facilities on properties of Państwowe Gospodarstwo Leśne Lasy Państwowe were executed;
- in performance of the Agreement easements of transmission were established on over 13,000 plots of land covered by over 3,600 land and mortgage registers;
- over 1,000 notarial deeds were delivered.

#### 42.12. Dispute with PSE SA and PKN ORLEN SA

In July 2003 PSE SA (previously PSE—Operator SA, hereinafter referred to as “PSE”) filed in the Regional Court in Warsaw action against Zakład Energetyczny Płock SA (hereinafter referred to as “ZEP SA”, currently ENERGA—OPERATOR SA, hereinafter referred to as “EOP”) for the payment of PLN 62.5 m, constituting the shortage in the transmission charges paid for its benefit. When responding to the action ZEP SA sued PKN ORLEN SA too. Nonetheless, earlier, with the letter of 26 September 2003 ZEP SA called PKN ORLEN SA to attempt to reach an amicable agreement before the District Court in Płock as to its compensation claims resulting from non-performance by PKN ORLEN SA of the energy sales agreement by refusal to provide information on the volume of energy generated in its own sources.

As PKN ORLEN SA refused to take part in such mediation proceedings, on 30 June 2004 ZEP SA filed in the Regional Court in Warsaw an action against that company for the payment of PLN 46.2 m as the system fee attributable to the auto-producer pursuant to § 36 of the Ordinance of 14 December 2000, using for purposes of its calculation, data on the plan of electricity production previously received from PKN ORLEN SA. On the hearing on 2 June 2005 the Court withheld the proceedings ex officio until the settlement of the action instituted by PSE acknowledging that the settlement in the case depended on the outcome of the dispute with PSE. In both cases there is the issue of consistency of provisions of the aforementioned Ordinance with the Constitution of the Republic of Poland which is expressed in motions filed by ZEP SA and PKN ORLEN SA requesting the Court to apply with a respective legal question to the Constitutional Tribunal.

In the judgment of 25 October 2006 the Constitutional Tribunal (CT) decided that Article 46 of the Act—Energy Law, referred to in the decision of the Court, was consistent with the Constitution, while to the extent concerning § 36 of the foregoing Ordinance discontinued the proceeds due to inadmissibility of adjudication. In the justification to the judgment CT indicated that § 36 is a dispositive, and not a mandatory provision of law which means that its application in relations between the distribution system operator and the autoproducer depends on the intentions of the parties.

Because of that judgment the Court of Appeal in Warsaw in its decision of 19 December 2007, after examining the complaint of PKN ORLEN SA, decided to resume the suspended proceedings based on the action of ZEP SA against PKN ORLEN SA considering that the interpretation of CT allowed to continue the proceedings without the need to await the outcome of the action filed by PSE against EOP. On 25 June 2008 the judgment dismissing the action of EOP was pronounced. The Court decided that on the basis of

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.



**ENERGA SA Capital Group**

**Consolidated financial statements for the years 2010 - 2012 ended 31 December**

**(in PLN)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**42. Other information significantly affecting the assessment of assets, financial position and the financial result of the Group (Continued)**

evidence collected it was not possible to determine the volume of electricity used in the contentious period by PKN ORLEN SA, which did not in turn permit to calculate the consideration for EOP.

On 2 September 2008 EOP appealed against the judgment to the Court of Appeal in Warsaw. On 10 September 2009 the Court of Appeal in the judgment, ref. No. I ACa 1062/08, modified the appealed judgment so that the amount of PLN 46.2 m was awarded from PKN ORLEN SA to EOP together with statutory interest accrued from 30 June 2004 and awarded the reimbursement of the costs of proceedings in the amount of PLN 254,000. On 30 September 2009 PKN ORLEN SA paid the entire awarded amount including interest, i.e. PLN 75.6 m and reimbursed the costs of proceedings. However against that judgment PKN ORLEN SA filed a cassation appeal to the Supreme Court ("SC").

On 28 January 2011 there was a hearing before SC under the cassation appeal filed by PKN ORLEN SA w the action filed by EOP against PKN ORLEN SA for the compensation due to the system charges. The Court repealed the judgment of the Court of Appeal of 10 September 2009 and returned the case to that court for re-examination. A reason for repealing the judgment, as reflected in the oral justification thereof, is the need, according to SC, to juridically structure the judgment.

However SC resolved the preclusion issue raised by PKN ORLEN SA indicating in the justification that in that case there was no preclusion so all the evidence used so far in the case would be appropriately considered, including G.10.3 reports.

To recapitulate it should be noted that the hitherto existing amount of the awarded claim does not necessarily have to be maintained as the Court of Appeal may conclude that capitalised interest should not be a part of the damage. In EOP books a provision in the amount of PLN 34.9 m was created as at 31 December 2010.

In March 2011 EOP paid PLN 30.1 m to PKN ORLEN SA and used the provision created for that purpose.

After re-examining the case the Court of Appeal in the judgment of 4 August 2011 repealed the judgment of the Regional Court dismissing the action of EOP and returned the case to that court for re-examination. As part of such re-examination on 30 April 2012 there was the first hearing before the Regional Court in Warsaw. The Court admitted evidence motions of EOP and allowed evidence from the expert's opinion concerning correctness of calculations of the damage by the plaintiff.

The hearing fixed at 1 October 2012 did not take place because of the expert's request for an extension of the term for preparation of the opinion due to the complex facts of the case. Finally the expert presented the opinion on 15 October 2012. The hearing was held on 28 November 2012. As a result the expert was obliged by the Court to provide a supplementary opinion in which the volumes of electric energy being the basis for the calculation of the amount of EOP's claim and reflected on the invoices attached to files of the case should be produced. These volumes are consistent with those shown by PKN ORLEN SA in G.10.3 reports but the Court decided to check them. A subsequent date of the hearing in this case will be determined by the Court ex officio after the expert provides the supplementary opinion.

Following the judgment of the Court of Appeal of 4 August 2011 on 25 August 2011 EOP received the call for payment from PKN ORLEN SA for PLN 45.5 m (principal amount) and PLN 254,000 (costs of proceedings in the first and second instance) including interest accrued from 18 February 2011 until the date of payment as a reimbursement of the amount awarded by the repealed judgment of the Court of Appeal of 10 September 2009 which PKN ORLEN SA paid to EOP. The liability was settled by the company on 28 November 2011, while the amount of interest was disclosed as the provision for PLN 144,700.

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

## ENERGA SA Capital Group

### Consolidated financial statements for the years 2010 - 2012 ended 31 December (in PLN)

#### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### **42. Other information significantly affecting the assessment of assets, financial position and the financial result of the Group (Continued)**

In the action filed by PSE against EOP after the judgment of CT the Regional Court in Warsaw resumed the proceedings withheld for the time of the proceedings before CT and by the judgment of 25 March 2008 awarded from EOP to PSE the amount of PLN 62.5 m together with due interest.

The judgment was appealed against by EOP but the appeal was dismissed by the Court of Appeal in the judgment of 19 March 2009. Against that judgment on 30 July 2009 EOP filed a cassation appeal to SC. Following its examination on 25 March 2010 SC in the judgment of 26 March 2010 repealed the appealed judgment of the Court of Appeal and returned the case for re-examination. On 21 September 2011 the Court of Appeal, after re-examining the case and considering guidelines of SC, changed the judgment of the Regional Court of 25 March 2008 and dismissed the action of PSE in its entirety.

The foregoing judgment of the Court of Appeal of 21 September 2011 was appealed against by cassation appeals filed by both parties. The appeal of EOP (filed on 27 March 2012) refers only to the lack of resolution in the judgment of the Court of Appeal of interest from when EOP satisfied the liability awarded by the preceding judgment of the Court of Appeal until the date of the current judgment of the Court of Appeal though a motion to that respect was included in the restitutive clause in the cassation appeal, reiterated in the proceedings before the Court of Appeal.

On the same date (27 March 2012) its cassation appeal against the judgment of the Court of Appeal was filed by PSE too. In general, charges raised in the appeal refer to breaches of process rules, and in particular Article 381 of the Code of Administrative Procedure. The concept of the process, since the very beginning of the proceedings, adopted by PSE was based on the recognition that the parties were bound by the transmission agreement entered into on 9 August 2001 also to the extent of the so called substitute values, based on the forecast of energy production by the autoproducer, i.e. PKN ORLEN. EOP challenged such approach arguing that such values were not actually agreed and thus there were no bases to calculate the system fees on the basis of such values. As result of the cassation appeal of EOP SC shared that view and therefore repealed the first verdict of the Court of Appeal returning the case for re-examination. During the re-examination of the case before that court, the plaintiff, after realising that its hitherto existing concept was not shared by the court, requested for admitting evidence showing the actual volumes of electric energy produced by PKN ORLEN SA which were in files of the case instituted by EOP against PKN ORLEN SA arguing that they were new facts in the case, previously unknown to the plaintiff. The Court of Appeal did not accept such statements acknowledging that the aforementioned circumstances and requested evidence were no novelty and changed the judgment of the Regional Court dismissing the action by PSE.

As stated above, EOP after the judgment of the Court of Appeal of 19 March 2009 paid to PSE the entire awarded sum including interest in the aggregate amount of PLN 123 m. Then the repealing of the judgment by SC and then dismissing the action of PSE by the Court of Appeal in the judgment of 21 September 2011 resulted in the reimbursement of that entire amount to EOP by the plaintiff. The reimbursement was made without due interest for the period when the basis for such payment to PSE was challenged. That is the subject of the cassation appeal by EOP.

In the case of both cassation appeal, after their filing to the Court, the parties drafted a couple of process letters, including mainly responses to the appeal and replies to the position represented by the opponent. By the decision of 22 November 2012 the Supreme Court accepted both the appeals for examination.

On 11 January 2013 there was a hearing before the Supreme Court when the Court examined the appeals. As a result of the hearing the Supreme Court:

- dismissed the appeal by EOP,

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

ENERGA SA Capital Group

Consolidated financial statements for the years 2010 - 2012 ended 31 December

(in PLN)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**42. Other information significantly affecting the assessment of assets, financial position and the financial result of the Group (Continued)**

- admitted the appeal by PSE and repealed the judgment of the Court of Appeal of 21 September 2011 and returned the case to that court for re-examination. The primary reason why the judgment of the Court of Appeal was repealed, in the opinion of the Supreme Court, was a breach by the Court of Appeal of Article 381 of the Code of Administrative Procedure by not admitting new evidence requested by PSE.

The judgment of the Supreme Court returned the case to its status after the judgment in the first instance of 25 March 2008 and the appeal filed by EOP against that judgment. Following the re-examination the Court of Appeal may:

- dismiss the appeal by EOP which will lead to the judgment of the Regional Court in Warsaw of 25 March 2008 becoming final and the need to comply again with the judgment,
- admit the appeal by EOP and dismiss the action by PSE as it was the case in the judgment of 21 September 2011,
- change the appealed judgment as to its essence and award to PSE any amount other than the one covered by the action.

Considering the oral justification for the judgment of the Supreme Court of 11 January 2013 it might be accepted that on the side of EOP there is a risk of adverse judgment of the Court of Appeal. As previously noted, the claim of PSE was based on substitute values which had been, by the previous judgment of the Supreme Court, considered not agreed upon. That was the reason for dismissing the action of PSE by the repealed judgment of the Court of Appeal of 11 September 2011. The Court of Appeal acknowledged at the same time that evidence submitted by PSE in the appeal proceedings as to actual data were late in the light of provisions of Article 381 of the Code of Administrative Procedure. But the Supreme Court stated that there was no delay so the respective provisions were breached. The Court of Appeal, when re-examining the case, is bound by the guidelines of the Supreme Court, so the foregoing evidence will be admitted for examination by the court in those proceedings. The examination of such evidence makes probable to a significant extent a judgment of the Court of Appeal not favourable for ENERGA—OPERATOR SA. That would mean dismissing the appeal by EOP which would result in the judgment of the Regional Court in Warsaw of 25 March 2008 becoming final and the need to comply with the judgment by the payment to PSE of the amount of PLN 62.5 m including due interest accrued from payment dates stated on the invoices which as at the date of the agreement on 5 May 2009 added up to PLN 123 m.

Director of the Consolidated  
Reporting Department

*Marek Pertkiewicz*

(date and signature)

Director of the Finance  
Management Center

*Aleksandra Gajda—Gryber*

(date and signature)

President of the Management  
Board

*Mirosław Bieliński*

(date and signature)

Vice-President of the  
Management Board  
Chief Financial Officer

*Roman Szyszko*

(date and signature)

Vice-President of the  
Management Board  
Strategy and Investments

*Wojciech Topolnicki*

(date and signature)

---

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

**APPENDICES**

The input document is an extract from the Polish National Court Register, drawn up on 11 numbered pages  
the following header appears on each page of the document:

Printout identifier: RP/271591/51/20131105114934

CENTRAL INFORMATION OFFICE OF THE NATIONAL COURT REGISTER

THE NATIONAL COURT REGISTER

Status as at 5 November 2013 11:49:34 hours

Number KRS: **0000271591**

**Information corresponding to the current extract from  
THE REGISTER OF ENTREPRENEURS  
downloaded pursuant to Article 4 Section 4aa of the Act of August 20, 1997 on the  
National Court Register (Dz.U. from 2007, No. 168, item 1186, as amended)**

Date of registration with the National Court Register:	8 January 2007		
Last entry:	Number of entry: 51	Date of entry:	9 September 2013
	File No.	GD.VII NS-REJ.KRS/18936/13/863	
	Name of court	DISTRICT COURT FOR GDAŃSK-PÓŁNOC IN GDAŃSK, VII BUSINESS DIVISION OF THE NATIONAL COURT REGISTER	

**Section 1**

Column 1—Data about the entity

- |   |                                      |
|---|--------------------------------------|
| 1. Legal form:  | SPÓŁKA AKCYJNA (JOINT-STOCK COMPANY) |
| 2. Statistical Identification Number (REGON)/Tax identification number (NIP)                                      | REGON: 220353024; NIP: 9570957722    |
| 3. Corporate Name   | ENERGA SPÓŁKA AKCYJNA                |
| 4. Previous registrations   | -----                                |
| 5. Does the entrepreneur engage in business activity with other entities under a civil law partnership agreement? | NO                                   |
| 6. Does the entity have the status of a public benefit organization?  | NO                                   |

Column 2—Registered office and address of the entity

- |                       |   |
|-----------------------|---|
| 1. Registered Office: | Country: POLAND, Province: POMORSKIE, District: M. GDAŃSK, Commune: GDAŃSK, Location: GDAŃSK              |
| 2. Address            | ul. GRUNDWALDZKA No. 472, unit—, Location: GDAŃSK, Postcode: 80-309, Post office: GDAŃSK, Country: POLAND |
| 3. E-mail address     | -----   |
| 4. Website            | -----   |

Column 3—Branches

No entries

Column 4—Articles of Association

Data on adoption/amendments  
to the Articles of Association

1. 06.12.2006, NOTARY PAWEŁ BŁASZCZAK, NOTARIAL OFFICE IN WARSAW, UL. DŁUGA 31, REPERTORIUM A No. 20821/2006
2. 17.05.2007, REPERTORIUM A NO. 7606/2007, NOTARY PAWEŁ BŁASZCZAK, NOTARIAL OFFICE IN WARSAW, UL. DŁUGA 31  
AMENDMENT TO § 7 OF THE ARTICLES OF ASSOCIATION
3. 12.10.2007, REPERTORIUM A NO. 19546/2007 NOTARY PAWEŁ BŁASZCZAK, NOTARIAL OFFICE IN WARSAW, UL. DŁUGA 31, AMENDMENT TO § 7, § 19 SECTION 2 POINT 6, § 20 SECTION 2, § 21 SECTION 1, § 22 SECTION 1, § 25 SECTION 1 POINTS 5, 7, 8, 9, § 25 SECTION 2 POINTS 1, 2, 3, 4, 7 AND § 42 SECTION 3 POINTS 2 AND 3 OF THE ARTICLES OF ASSOCIATION.  
POINT 2A WAS ADDED IN § 25 SECTION 2 AND POINT 3A WAS ADDED IN § 42 SECTION 3 OF THE ARTICLES OF ASSOCIATION.
4. NOTARIAL DEED OF 21 MAY 2008, REPERTORIUM A NO. 13469/2008, DRAWN UP BY NOTARY PAWEŁ BŁASZCZAK AT THE NOTARIAL OFFICE OF PAWEŁ BŁASZCZAK NOTARY, ROBERT BŁASZCZAK NOTARY SPÓŁKA CYWILNA IN WARSAW.  
AMENDMENT TO § 7 SECTION 1, § 7 SECTION 4, §20 SECTION 1;  
IN § 25 SECTION 2 POINTS 5 AND 6 WERE MERGED INTO POINT 5, AND THE EXISTING POINT 7 WAS RENUMBERED AS 6.
5. NOTARIAL DEED OF 29 MAY 2009, REPERTORIUM A NO. 13534/2009, THE NOTARIAL OFFICE OF PAWEŁ BŁASZCZAK NOTARY, ROBERT BŁASZCZAK NOTARY SPÓŁKA CYWILNA, 00-283 WARSAW, UL. DŁUGA 31;
  1. POINT 7 WAS ADDED IN § 25 SECTION 2 OF THE ARTICLES OF ASSOCIATION;
  2. SECTION 5 WAS ADDED IN § 49 OF THE ARTICLES OF ASSOCIATION;
  3. SECTION 3 WAS DELETED FROM § 50 OF THE ARTICLES OF ASSOCIATION;
  4. SECTION 4 WAS RENUMBERED AS 3 AND SECTION 5 AS 4 IN § 50.
6. NOTARIAL DEED OF 21 DECEMBER 2009, REPERTORIUM A 7998/2009, NOTARIAL OFFICE OF ZBIGNIEW KUNDO AND GRAŻYNA WOJTOWICZ SPÓŁKA CYWILNA, 80-244 GDAŃSK, UL. GRUNWALDZKA 102.
  1. THE WORDING OF §§ 1 THROUGH 31 WAS DELETED AND REPLACED WITH AMENDED WORDING.
  2. §§ 32 THROUGH 51 WERE DELETED.



3. ALL THE EXISTING CHAPTER HEADINGS WERE DELETED.
- 7
- NOTARIAL DEED OF 15 MARCH 2011, REPERTORIUM A 1641/2011, NOTARIAL OFFICE OF ZBIGNIEW KUNDO AND GRAŻYNA WOJTOWICZ SPÓŁKA CYWILNA, 80-244 GDAŃSK, UL. GRUNWALDZKA 102.
1. ADDING A NEW POINT 35 IN § 5;
  2. AMENDMENT TO § 7 POINT 2;
  3. AMENDMENT TO § 14 SECTION 2;
  4. AMENDMENT TO §14 SECTION 3 LETTER D.
  5. DELETION OF §14 SECTION 3 POINT 13;
  6. CHANGE OF THE NUMBERING § 14 SECTION 3: POINTS 14 THROUGH 18 WERE RENUMBERED TO POINTS 13 TO 17;
  7. REMOVAL OF SECTION NUMBERING IN § 17 BY DELETING NUMBER 1;
  8. AMENDMENT TO §17 POINT 19;
  9. AMENDMENT § 26 POINT 1;
  10. ADDING A NEW CHAPTER VII § 32
- 8
- NOTARIAL DEED OF 22 AUGUST 2012, REPERTORIUM A 5243/2012, NOTARIAL OFFICE OF ZBIGNIEW KUNDO AND GRAŻYNA WOJTOWICZ SPÓŁKA CYWILNA, 80-244 GDAŃSK, UL. GRUNWALDZKA 102, NOTARY ZBIGNIEW KUDNO.
1. AMENDMENT TO § 8;
  2. AMENDMENT TO § 10;
  3. DELETION OF SECTION 2 IN § 13;
  4. AMENDMENT TO THE SECOND SENTENCE OF § 14 SECTION 2;
  5. AMENDMENT TO § 14 SECTION 3, IN PRINCIPIO;
  6. AMENDMENT TO § 14 SECTION 3 POINT 2 LETTER A);
  7. AMENDMENT TO § 14 SECTION 3 POINT 17;
  8. ADDITION OF SECTIONS 5 AND 6 IN § 14;
  9. AMENDMENT TO § 16 SECTION 2;
  10. AMENDMENT TO § 16 SECTION 3;
  11. AMENDMENT TO § 16 SECTION 4;
  12. AMENDMENT TO § 17 POINT 1;
  13. AMENDMENT TO § 17 POINT 3;
  14. AMENDMENT TO § 17 POINT 4;
  15. ADDITION OF POINTS 5 AND 6 IN § 17.
  16. AMENDMENT TO § 17 POINT 13 LETTERS A AND B;
  17. AMENDMENT TO § 17 POINT 13 LETTER C;
  18. AMENDMENT TO § 17 POINT 13 LETTER H;
  19. ADDITION OF POINT 13 LETTER I IN § 17;
  20. AMENDMENT TO § 17 POINT 14;
  21. AMENDMENT TO § 17 POINT 15;
  22. AMENDMENT TO § 17 POINT 19;
  23. CHANGE IN THE NUMBERING OF POINTS IN § 17.
  24. AMENDMENT TO § 18 SECTION 1;
  25. ADDITION OF NEW SECTIONS 2 AND 3 IN § 18;
  26. CHANGE IN THE NUMBERING OF SECTIONS IN § 18;

- 27. AMENDMENT TO THE EXISTING SECTION 4 IN § 18 AND RENUMBERING SECTION 4 AS SECTION 6.
- 28. AMENDMENT TO §20 SECTION 2;
- 29. DELECTION OF § 21 SECTION 3;
- 30. AMENDMENT TO § 22;
- 31. ADDITION OF SECTION 2 IN § 23;
- 32. AMENDMENT TO § 23 SECTION 3;
- 33. ADDITION OF SECTION 5 IN § 23;
- 34. CHANGE IN THE NUMBERING OF § 23;
- 35. ADDITION OF §23a;
- 36. ADDITION OF SECTION 2 IN § 24;
- 37. AMENDMENT TO § 25;
- 38. AMENDMENT TO SECTION 1 IN § 26;
- 39. AMENDMENT TO § 27.

9 03.09.2013, REPERTORIUM A 5239/2013, NOTARY ZBIGNIEW KUNDO, NOTARIAL OFFICE IN GDAŃSK, UL. GRUNDWALDZKA 102;  
 AMENDMENTS TO §§: 7, 8, 10, 12, 14, 15, 16, 17, 18, 19, 20, 21, 23A, 27, 29, 31, 32;  
 ADDITION OF §§: 23B, 31A, 33.

Column 5

- 1. Life of the Company UNLIMITED
- 2. Name of an official journal in which the Company shall place its announcements other than *Monitor Sądowy i Gospodarczy* -----
- 4. Do the Articles of Association confer to any specified shareholders special powers or participation titles in the Company's income or assets that are not attaching to shares? NO
- 5. Are bond holders entitled to a share in profits? NO

Column 6—Information on the Method of Incorporating the Company

No entries

Column 7—Information on sole shareholder

No entries

Column 8—Share Capital

1.	Amount of the share capital	PLN 4,521,612,884.88
2.	Amount of authorized capital	-----
3.	Number of shares of all issues	414067114
4.	Nominal value per share	PLN 10.92
5.	Amount of paid in capital	PLN 4,521,612,884.88
6.	Nominal value of conditional increase in share capital	-----

Sub-Column 1  
Contributions in-kind

1.	Value of shares acquired in return for contributions in-kind	PLN 4,845,611,133.00
		PLN 122,939,235.00

Column 9—Issue of Shares

1	1.	Name of share series	AA
	2.	Number of shares in a given series	269139114
	3.	Type of preference and the number of preferred shares or information that shares are not preferred	THE SHARES ARE NOT PREFERRED
2	1.	Name of share series	BB
	2.	Number of shares in a given series	144928000
	3.	Type of preference and the number of preferred shares or information that shares are not preferred	144928000 SHARES ARE PREFERRED AS TO THE VOTING RIGHTS AT THE GENERAL MEETING; ONE PREFERRED SHARE CARRIES THE RIGHT TO 2 (TWO) VOTES AT THE GENERAL MEETING.

Column 10—Mention of adoption of resolution on the issuance of convertible bonds

No entries

Column 11

1.	Are the management or the supervisory boards authorized to issue subscription warrants?	NO
----	---	----

## Section 2

### Column 1—Corporate Body Authorized to Represent the Company

1. Body authorized to represent the entity                   MANAGEMENT BOARD
2. Manner of representation           TWO MANAGEMENT BOARD MEMBERS OR ONE MEMBER OF THE MANAGEMENT BOARD ACTING JOINTLY WITH A REGISTERED PROXY ARE AUTHORIZED TO MAKE DECLARATIONS ON BEHALF OF THE COMPANY. IF THE MANAGEMENT BOARD IS COMPOSED OF ONE MEMBER, THE SOLE MEMBER IS AUTHORIZED TO MAKE DECLARATIONS ON BEHALF OF THE COMPANY.

### Sub-Column 1

#### Details of corporate body members

- |   |   |  |
|---|---|--|
| 1 | 1. Surname/Business Name                            | BIELIŃSKI  |
|   | 2. Names  | MIROSŁAW KAZIMIERZ   |
|   | 3. Statistical Identification Number (PESEL, REGON) | 62100503115  |
|   | 4. National Court Register number:                  | ****   |
|   | 5. Position held in the corporate body              | PRESIDENT OF THE MANAGEMENT BOARD                            |
|   | 6. Has the person been suspended from duties?       | NO   |
|   | 7. Suspended from duties until:                     | —  |
| 2 | 1. Surname/Business Name                            | SZYSZKO  |
|   | 2. Names  | ROMAN  |
|   | 3. Statistical Identification Number (PESEL, REGON) | 65040804850  |
|   | 4. National Court Register number:                  | ****   |
|   | 5. Position held in the corporate body              | VICE PRESIDENT OF THE MANAGEMENT BOARD, FINANCE              |
|   | 6. Has the person been suspended from duties?       | NO   |
|   | 7. Suspended from duties until:                     | —  |
| 3 | 1. Surname/Business Name                            | TOPOLNICKI   |
|   | 2. Names  | WOJCIECH   |
|   | 3. Statistical Identification Number (PESEL, REGON) | 75012700532  |
|   | 4. National Court Register number:                  | ****   |
|   | 5. Position held in the corporate body              | VICE PRESIDENT OF THE MANAGEMENT BOARD, DEVELOPMENT STRATEGY |
|   | 6. Has the person been suspended from duties?       | NO   |
|   | 7. Suspended from duties until:                     | —  |

Column 2  
Supervisory body

1. Name of body SUPERVISORY BOARD

Sub-column 1  
Details of corporate body members

1.	1. Surname 2. Names 3. Statistical Identification Number (PESEL)	SZREDER MIROŚLAW 57122607952
2.	1. Surname 2. Names 3. Statistical Identification Number (PESEL)	GAWRYLCZUK MARIAN 65090809553
3.	1. Surname 2. Names 3. Statistical Identification Number (PESEL)	KUCZKOWSKI ROMAN JACEK 41080901999
4.	1. Surname 2. Names 3. Statistical Identification Number (PESEL)	POLOCZEK AGNIESZKA 74121510089
5.	1. Surname 2. Names 3. Statistical Identification Number (PESEL)	WTULICH ZBIGNIEW 58022500013
6.	1. Surname 2. Names 3. Statistical Identification Number (PESEL)	ZATORSKA PAŃTAK IWONA 76060912788

Column 3—Information on Registered Proxies

1.	1. Surname 2. Names 3. Statistical Identification Number (PESEL) 4. Type of power of proxy	DEMBSKA IWONA KATARZYNA 75041114425 JOINT POWER OF PROXY WITH A MANAGEMENT BOARD MEMBER
2.	1. Surname 2. Names 3. Statistical Identification Number (PESEL) 4. Type of power of proxy	GAJDA GRYBER ALEKSANDRA 73081701988 JOINT POWER OF PROXY WITH A MANAGEMENT BOARD MEMBER
3.	1. Surname 2. Names 3. Statistical Identification Number (PESEL) 4. Type of power of proxy	CHMURA ARTUR 70051502318 JOINT POWER OF PROXY WITH A MANAGEMENT BOARD MEMBER
4.	1. Surname 2. Names 3. Statistical Identification Number (PESEL) 4. Type of power of proxy	CZAPIEWSKI MIROŚLAW MAREK 63040700534 JOINT POWER OF PROXY WITH A MANAGEMENT BOARD MEMBER
5.	1. Surname 2. Names 3. Statistical Identification Number (PESEL) 4. Type of power of proxy	SZPAK MARCIN JÓZEF 72031806971 JOINT POWER OF PROXY WITH A MANAGEMENT BOARD MEMBER

- |    |   |   |
|----|---|---|
| 6. | <ol style="list-style-type: none"> <li>1. Surname</li> <li>2. Names</li> <li>3. Statistical Identification Number (PESEL)</li> <li>4. Type of power of proxy</li> </ol> | <p>SZYDŁOWSKA<br/> JOLANTA MARIA<br/> 63061506681<br/> JOINT POWER OF PROXY WITH A<br/> MANAGEMENT BOARD MEMBER</p> |
| 7. | <ol style="list-style-type: none"> <li>1. Surname</li> <li>2. Names</li> <li>3. Statistical Identification Number (PESEL)</li> <li>4. Type of power of proxy</li> </ol> | <p>DUDZIK<br/> ROMAN<br/> 77090706631<br/> JOINT POWER OF PROXY WITH A<br/> MANAGEMENT BOARD MEMBER</p>             |
| 8. | <ol style="list-style-type: none"> <li>1. Surname</li> <li>2. Names</li> <li>3. Statistical Identification Number (PESEL)</li> <li>4. Type of power of proxy</li> </ol> | <p>KOWALSKA<br/> KATARZYNA ANNA<br/> 80062403960<br/> JOINT POWER OF PROXY WITH A<br/> MANAGEMENT BOARD MEMBER</p>  |
| 9. | <ol style="list-style-type: none"> <li>1. Surname</li> <li>2. Names</li> <li>3. Statistical Identification Number (PESEL)</li> <li>4. Type of power of proxy</li> </ol> | <p>ORZECH<br/> WOJCIECH PIOTR<br/> 70092004370<br/> JOINT POWER OF PROXY WITH A<br/> MANAGEMENT BOARD MEMBER</p>    |



### Section 3

#### Column 1—Scope of business activity

- |    |  |     |  |
|----|--|-----|--|
| 1. | Scope of business activity of the entrepreneur | 1.  | 64, 20, Z, Activities of financial holdings  |
|    |  | 2.  | 70, , , Activities of head offices; management consulting  |
|    |  | 3.  | 27, 11, , Manufacture of electric motors, generators and transformers, electricity distribution and control devices, |
|    |  | 4.  | 27, 3 , Manufacture of insulated wiring and cabling and installation devices   |
|    |  | 5.  | 27, 40, Z, Manufacture of electrical lighting equipment  |
|    |  | 6.  | 27, 90, Z, Manufacture of other electrical equipment   |
|    |  | 7.  | 35, 1 , Generation, transmission, distribution and trading in electricity  |
|    |  | 8.  | 35, 30, Z, Generation and supply of steam, hot water and air for air conditioning systems                            |
|    |  | 9.  | 42, 91, Z, Construction of water projects  |
|    |  | 10. | 46, 5, , Wholesale of IT and communications tools  |
|    |  | 11. | 46, 66, Z, Wholesale of other office machinery and equipment   |
|    |  | 12. | 46, 69, Z, Wholesale of other machinery and equipment  |
|    |  | 13. | 55, , , Accommodation  |
|    |  | 14. | 56, , , Food service activities  |
|    |  | 15. | 61, , , Telecommunications   |
|    |  | 16. | 62, 0, , Computer programming, IT consulting and related activities  |
|    |  | 17. | 63, 1 Data processing, hosting and related activities; web portals   |
|    |  | 18. | 63, 99, Z, Other services relating to information, not classified elsewhere  |
|    |  | 19. | 64, 30, Z, Activities of trusts, funds and similar financial institutions  |
|    |  | 20. | 64, 9 Other financial services, excluding insurance and pension funds  |
|    |  | 21. | 66, 1, Activities auxiliary to financial services, excluding insurance and pension funds                             |
|    |  | 22. | 68, , , Real estate activities   |
|    |  | 23. | 69, 20, Z, Accounting, bookkeeping and auditing activities; tax consultancy  |
|    |  | 24. | 71,12, Z Engineering activities and related technical consultancy  |
|    |  | 25. | 73, 11, Z, Advertising agencies  |
|    |  | 26. | 74, 90, Z, Other professional, scientific and technical activities not classified elsewhere                          |
|    |  | 27. | 77, 21, Z Renting and leasing of recreational and sports goods   |
|    |  | 28. | 77, 40, Z Leasing of intellectual property and similar products, except for copyrighted work                         |
|    |  | 29. | 78, 10, Z Activities of employment placement agencies  |
|    |  | 30. | 78, 30, Z Other activities relating to providing human resources   |
|    |  | 31. | 93, 13, Z Fitness facilities   |
|    |  | 32. | 93, 29, Z Other entertainment and recreation activities  |
|    |  | 33. | 95, 11, Z, Repair of computers and peripheral equipment  |
|    |  | 34. | 96, 04, Z Services relating to fitness activities  |
|    |  | 35. | 58, 1, , Publishing of books, periodicals and other publishing activities, other than programming                    |

Column 2—Mention of submitted documents

<u>Document type</u>	<u>Consecutive document in the document group</u>	<u>Date of submission</u>	<u>Period covered</u>
1. Annotation about submitting annual financial statements	1	16.07.2006	06.12.2006–31.12.2006
	2	01.01.2008	01.01.2007–31.12.2007
	3	---	01.01.2008–31.12.2008
	4	22.06.2010	01.01.2009–31.12.2009
	5	06.05.2011	01.01.2010–31.12.2010
	6	08.06.2012	01.01.2011–31.12.2011
	7	29.04.2013	01.01.2012–31.12.2012
2. Annotation about submitting the opinion of certified auditor	1	*****	01.01.2007–31.12.2007
	2	*****	01.01.2008–31.12.2008
	3	*****	01.01.2009–31.12.2009
	4	*****	01.01.2010–31.12.2010
	5	*****	01.01.2011–31.12.2011
	6	*****	01.01.2012–31.12.2012
3. Annotation about submitting resolution or decision regarding the approval of the financial statements	1	****	01.01.2007–31.12.2007
	2	****	06.12.2006–31.12.2006
	3	****	01.01.2008–31.12.2008
	4	****	01.01.2009–31.12.2009
	5	****	01.01.2010–31.12.2010
	6	****	01.01.2011–31.12.2011
	7	****	01.01.2012–31.12.2012
4. Annotation about submitting a report on the activities of the entity	1	****	06.12.2006–31.12.2006
	2	****	01.01.2007–31.12.2007
	3	****	01.01.2008–31.12.2008
	4	****	01.01.2009–31.12.2009
	5	****	01.01.2010–31.12.2010
	6	****	01.01.2011–31.12.2011
	7	****	01.01.2012–31.12.2012

Column 3—Reports of capital group

<u>Document type</u>	<u>Consecutive document in the document group</u>	<u>Date of submission</u>	<u>Period covered</u>
Document type	Consecutive document in the given group	Date of submission	Period covered
1. Consolidated Annual Financial Statements	1	29.08.2008	01.01.2007–31.12.2007
	2	–	01.01.2008–31.12.2008
	3	22.06.2010	01.01.2009–31.12.2009
	4	04.07.2011	01.01.2010–31.12.2010
	5	08.06.2012	01.01.2011–31.12.2011
	6	29.04.2013	01.01.2012–31.12.2012
2. Certified auditor’s opinion	1	****	01.01.2007–31.12.2007
	2	****	01.01.2008–31.12.2008
	3	****	01.01.2009–31.12.2009
	4	****	01.01.2010–31.12.2010
	5	****	01.01.2011–31.12.2011
	6	****	01.01.2012–31.12.2012
3. Resolution approving annual consolidated financial statements	1	****	01.01.2007–31.12.2007
	2	****	01.01.2008–31.12.2008
	3	****	01.01.2009–31.12.2009
	4	****	01.01.2010–31.12.2010
	5	****	01.01.2011–31.12.2011
	6	****	01.01.2012–31.12.2012
4. Report on activities of parent company	1	****	01.01.2007–31.12.2007
	2	****	01.01.2008–31.12.2008
	3	****	01.01.2009–31.12.2009
	4	****	01.01.2010–31.12.2010
	5	****	01.01.2011–31.12.2011
	6	****	01.01.2012–31.12.2012

Column 4—Scope of statutory activities of a public benefit organization

No entries

**Section 4**

Column 1—Arrears

No entries

Column 2—Receivables

No entries

Column 3—Information on injunction relief against a debtor’s assets in bankruptcy proceedings, on the dismissal of a motion for the declaration of bankruptcy due to the fact that the insolvent debtor’s assets are insufficient to satisfy the cost of the proceedings

No entries

Column 4—Information on discontinuation of enforcement proceedings against the entity due to the fact that the enforcement will not yield an amount exceeding the costs of enforcement

No entries

**Section 5**

Column 1—Custodian

No entries

## Section 6

Column 1—Liquidation  
No entries

Column 2—Information on termination or invalidation of the company  
No entries

Column 3—Commissioned administration  
No entries

Column 4—Information on merger, division or transformation

1	1. Circumstances	TAKEOVER OF PART OF THE ASSETS OF ANOTHER COMPANY FOLLOWING A DIVISION
	2. Description of manner of merger, division or transformation	DIVISION OF THE COMPANY THROUGH CARVE OUT PURSUANT TO ARTICLE 529 § 1 ITEM 4 OF CCC RESOLUTION NO. 1 OF EXTRAORDINARY SHAREHOLDERS MEETING OF ENERGA SA OF 21 MAY 2008, AS CORRECTED BY RESOLUTION NO. 13 OF EXTRAORDINARY SHAREHOLDERS MEETING OF ENERGA SA OF 9 JUNE 2010, REPERTORIUM A NO. 3123/2010, NOTARY ZBIGNIEW KUNDO, NOTARIAL OFFICE IN GDAŃSK.

Sub-column 1

Information on entities established as a result of merger, division or transformation or information on entities taking over the company's property entirely or partly  
No entries

Sub-column 2

Information on entities whose property is taken over entirely or partly as a result of merger or division

1	1. Name or company	ENERGA-OPERATOR SPÓŁKA AKCYJNA
	2. Register in which the entity is entered	NATIONAL COURT REGISTER
	3. Number in register	0000033455
	4. Name of court keeping the register	*****
	5. REGON	190275904

Column 5—Bankruptcy proceedings  
No entries

Column 6—Information on composition proceedings  
No entries

Column 7—Rehabilitation proceedings  
No entries

Column 8—Information on suspension of business activity  
No entries

Date printout produced: 05.11.2013 Address of website where information from the register is available:  
<https://ems.ms.gov.pl>

**Consolidated version of the Articles of Association of ENERGA SA  
as amended by the Extraordinary Shareholder Meeting of ENERGA SA in Resolutions adopted on  
3 September 2013, entered in the National Court Register on 9 September 2013**

**ARTICLES OF ASSOCIATION**

**I. GENERAL**

**§ 1**

1. The name of the Company is ENERGA Spółka Akcyjna.
2. The Company may use the abbreviated business name of ENERGA SA and a graphic mark to distinguish it.

**§ 2**

The Company's registered office is Gdańsk.

**§ 3**

1. The Company conducts its business in the Republic of Poland and abroad.
2. The Company may establish and operate branches, establishments, offices, representative offices and other units and may participate in other companies and enterprises in the territory of the Republic of Poland and abroad.
3. The Company may be a member of domestic or foreign associations.

**§ 4**

The Company is established for an unlimited duration.

**II. COMPANY'S LINE OF BUSINESS**

**§ 5**

The Company's line of business (according to the Polish Classification of Business Activity) is:

- 1) Financial holding activity (64.20.Z),
- 2) Activity of head offices; management consulting (70),
- 3) Production of electric motors, generators, transformers, switchgear and control equipment for the supply of electricity (27.1),
- 4) Production of insulated wires and cables and installation equipment (27.3),
- 5) Production of electrical lighting equipment (27.40.Z),
- 6) Production of other electrical equipment (27.90.Z),
- 7) Generation, transmission, distribution of, and trade in, electricity (35.1),
- 8) Production and supply of steam, hot water and air for ventilation systems (35.30.Z),
- 9) Construction of water projects (42.91.Z),
- 10) Wholesale sale of information and communication technology tools (46.5),
- 11) Wholesale sale of other office machinery and equipment (46.66.Z),
- 12) Wholesale sale of other machinery and equipment (46.69.Z),
- 13) Accommodation (55),
- 14) Service activity associated with alimentation (56),
- 15) Telecommunications (61),

**Consolidated version of the Articles of Association of ENERGA SA  
as amended by the Extraordinary Shareholder Meeting of ENERGA SA in Resolutions adopted on  
3 September 2013, entered in the National Court Register on 9 September 2013**

- 16) Activity related to software and consulting regarding information technology, and related activity (62.0),
- 17) Data processing; website hosting and similar activity; activity of web portals (63.1),
- 18) Other service activity related to information, not classified elsewhere (63.99.Z),
- 19) Activity of trusts, funds and similar financial institutions (64.30.Z),
- 20) Other financial services activity, excluding insurance and pension funds (64.9),
- 21) Activity supporting financial services, excluding insurance and pension funds (66.1),
- 22) Activity associated with catering to the real estate market (68),
- 23) Accounting and bookkeeping activity, tax advisory services (69.20.Z),
- 24) Activity in the area of engineering and related technical consulting (71.1.Z),
- 25) Activity of advertising agencies (73.11.Z),
- 26) Other professional, scientific and technical activity not classified elsewhere (74.90.Z),
- 27) Lease and rental of recreation and sports equipment (77.21.Z),
- 28) Lease of intellectual property and similar products, excluding copyright-protected works (77.40.Z),
- 29) Activity related to job search and employee recruitment (78.10.Z),
- 30) Other activity related to leasing employees (78.30.Z),
- 31) Activity of facilities designed for improvement of physical well-being (93.13.Z),
- 32) Other entertainment and recreational activity (93.29.Z),
- 33) Repair and maintenance of computers and peripherals (95.11.Z),
- 34) Service activity related to improvement of physical well-being (96.04.Z),
- 35) Publishing of books and periodicals and other publishing activity, excluding software-related activity (58.1).

### **III. CAPITAL**

#### **§ 6**

1. The Company's share capital in the amount specified in the Articles of Association adopted at incorporation (PLN 500,000.00) has been fully paid up in cash prior to the Company's registration.
2. The Company was founded by the following entities:
  - 1) The State Treasury, which subscribed for 255,000 (two hundred fifty-five thousand) registered shares with a total par value of PLN 255,000 (two hundred fifty-five thousand Polish zloty), specifically series A shares numbered **from A000000001 to A 000255000**,
  - 2) The company operating under the business name of Koncern Energetyczny ENERGA SA, which subscribed for 160,000 (one hundred sixty thousand) registered shares with a total par value of PLN 160,000.00 (one hundred sixty thousand Polish zloty), specifically series A shares numbered **from A 000255001 to A 000415000**,
  - 3) The company operating under the business name of Zespół Elektrowni Ostrołęka S.A., which subscribed for 85,000 (eighty-five thousand) registered shares with a total par value of PLN 85,000.00 (eighty-five thousand Polish zloty), specifically series A shares numbered **from A 000415001 to A 000500000**.



**Consolidated version of the Articles of Association of ENERGA SA**  
**as amended by the Extraordinary Shareholder Meeting of ENERGA SA in Resolutions adopted on**  
**3 September 2013, entered in the National Court Register on 9 September 2013**

**§ 7**

The Company's share capital is PLN 4,521,612,884.88 (four billion five hundred twenty-one million six hundred twelve thousand eight hundred eighty-four Polish zloty and eighty-eight grosz) and is divided into 414,067,114 (four hundred fourteen million sixty-seven thousand one hundred fourteen) shares with a par value of PLN 10.92 (ten Polish zloty and ninety-two grosz) each, consisting of the following registered shares:

- 1) 269,139,114 (two hundred sixty-nine million one hundred thirty-nine thousand one hundred fourteen) ordinary series AA shares numbered from AA 00000001 to AA 269139114, and
- 2) 144,928,000 (one hundred forty-four million nine hundred twenty-eight thousand) series BB shares numbered from BB 00000001 to BB 144928000, which are preferred shares in terms of voting at the Shareholder Meeting with each preferred share conferring the right to 2 (two) votes at the Shareholder Meeting.

**§ 8**

1. The shares may be registered or bearer shares.
2. Registered shares to be dematerialized pursuant to the Act of 29 July 2005 on Trading in Financial Instruments shall become bearer shares upon such dematerialization.
3. The conversion of bearer shares into registered shares shall not be permitted.
4. Shares may be deposited with the Company or with an entity keeping a deposit account on behalf of the Company.

**§ 9**

Shares may be retired with the shareholder's consent by way of their acquisition by the Company (voluntary retirement).

**IV. SHAREHOLDER'S RIGHTS AND OBLIGATIONS**

**§ 10**

1. As a shareholder, the State Treasury represented by the State Treasury Minister is entitled to rights stemming from the Articles of Association and other regulations.
2. During the period when the State Treasury is a shareholder in the Company, the State Treasury is entitled to the following rights in particular:
  - 1) the right to receive information regarding the Company in the form of a quarterly report in accordance with the guidelines issued by the State Treasury Minister,
  - 2) the right to receive information on all material changes to the Company's financial or legal standing,
  - 3) the right to receive notifications of convening the Shareholder Meeting by registered letter with return receipt requested or courier even if the Shareholder Meeting is convened by way of an announcement in the *Monitor Sądowy i Gospodarczy*,
  - 4) the right to receive copies of all resolutions adopted by the Supervisory Board and minutes of Supervisory Board meetings at which:
    - a) the Company's annual activity is evaluated following the end of a financial year,
    - b) resolutions are adopted to appoint, dismiss or suspend members of the Management Board,
    - c) resolutions are adopted to delegate members of the Supervisory Board to perform temporarily the duties of Management Board members,
    - d) dissenting opinions to the adopted resolutions were filed,

**Consolidated version of the Articles of Association of ENERGA SA**  
**as amended by the Extraordinary Shareholder Meeting of ENERGA SA in Resolutions adopted on**  
**3 September 2013, entered in the National Court Register on 9 September 2013**

- 5) the right to receive copies of information provided to the minister in charge of public finance about any sureties or guarantees granted, pursuant to Article 34 of the Act of 8 May 1997 on Sureties and Guarantees Granted by the State Treasury and Certain Legal Persons (consolidated version: Journal of Laws of 2003 No. 174 Item 1689, as amended),
  - 6) the right to receive reports of the Supervisory Board prepared in connection with the exercise of supervision over the performance of investments by the Management Board and supervision over the correct and effective spending of cash on investments, including in particular on the acquisition of non-current assets,
  - 7) the right to receive, at least once per year, together with a report of the Supervisory Board on the results of assessment of the annual financial statements (consolidated financial statements of the capital group), an opinion of the Supervisory Board on the economic viability of the Company's capital exposure to other commercial companies,
  - 8) the right to receive copies of announcements subject to the duty of publication in the *Monitor Sądowy i Gospodarczy*,
  - 9) the right to receive complete sets of documents forming, pursuant to Article 395 § 2 of the Commercial Companies Code, the subject matter of the Ordinary Shareholder Meeting, i.e.:
    - a) the financial statements (consolidated financial statements of the capital group),
    - b) the Management Board report on the Company's activity (Management Board report on the activity of the capital group) for the previous financial year,
    - c) the auditor's opinion and report on the audit of the Company's financial statements (consolidated financial statements of the capital group),
    - d) the Supervisory Board report,
    - e) the Management Board's motion on the distribution of profit or the coverage of loss,
  - 10) the right to receive a consolidated version of the Articles of Association within four weeks from the date of entry of amendments to the Articles of Association in the register of commercial entities.
3. As of the date of admission of the Company's shares to trading on a regulated market, section 2 shall be repealed.
4. As of the date of admission of the Company's shares to trading on a regulated market, the following powers shall be vested in the shareholder in possession of the largest stake in the Company's share capital as at the date of adoption of the Shareholder Meeting resolution granting such powers:
- 1) the right to receive information regarding the Company and the Company's capital group in the form of a quarterly report in accordance with the guidelines issued by the State Treasury Minister [subject to the pertinent regulations governing the disclosure of confidential information],
  - 2) the right to receive copies of announcements subject to the duty of publication in the *Monitor Sądowy i Gospodarczy*,
  - 3) the right to receive complete sets of documents forming, pursuant to Article 395 § 2 of the Commercial Companies Code, the subject matter of the Ordinary Shareholder Meeting, i.e.:
    - a) the financial statements (consolidated financial statements of the capital group),
    - b) the Management Board report on the Company's activity (Management Board report on the activity of the capital group) for the previous financial year,
    - c) the auditor's opinion and report on the audit of the Company's financial statements (consolidated financial statements of the capital group),
    - d) the Supervisory Board report,

**Consolidated version of the Articles of Association of ENERGA SA**  
**as amended by the Extraordinary Shareholder Meeting of ENERGA SA in Resolutions adopted on**  
**3 September 2013, entered in the National Court Register on 9 September 2013**

- e) the Management Board's motion on the distribution of profit or the coverage of loss,
- 4) the right to receive a consolidated version of the Articles of Association within four weeks from the date of entry of amendments to the Articles of Association in the register of commercial entities.

**V. COMPANY'S CORPORATE BODIES**

**§ 11**

The Company's corporate bodies are as follows:

- 1) the Management Board,
- 2) the Supervisory Board,
- 3) the Shareholder Meeting.

**A. COMPANY'S MANAGEMENT BOARD**

**§ 12**

Subject to applicable laws and the provisions of these Articles of Association, the Management Board runs the Company's affairs and represents the Company.

**§ 13**

- 1. Two Management Board members acting jointly or one Management Board member acting jointly with a commercial proxy are authorized to make binding representations on behalf of the Company.

**§ 14**

- 1. Each Management Board member has the right and obligation to conduct the Company's matters.
- 2. Without prejudice to section 3 below, any member of the Management Board may run the Company's affairs within the scope of his or her powers, as specified in the Management Board bylaws, without a prior resolution of the Management Board. If, however, before handling such matter, at least one of the remaining Management Board members objects to the handling thereof, a Management Board resolution shall be required.
- 3. A Management Board resolution shall always be required for:
  - 1) matters involving:
    - a) the granting of a guarantee or a surety or the issuance of a promissory note,
    - b) the granting of a donation, interest forgiveness or debt relief,
    - c) the purchase, the establishment of a limited right in rem or the disposal of a real property or a right of perpetual usufruct or of a share in a real property or in a right of perpetual usufruct,
    - d) taking a loan or cash advance,
  - 2) other matters involving the disposal of a right or the incurring of a liability in excess of PLN 1,000,000, not covered elsewhere in this section,
  - 3) adopting the Management Board bylaws,
  - 4) adopting the organizational bylaws for the Company's enterprise,
  - 5) establishing and liquidating branches,
  - 6) granting a general power of attorney,

**Consolidated version of the Articles of Association of ENERGA SA**  
**as amended by the Extraordinary Shareholder Meeting of ENERGA SA in Resolutions adopted on**  
**3 September 2013, entered in the National Court Register on 9 September 2013**

- 7) adopting the Company's annual or long-term material and financial plan or other long-term plan or strategy for the Company or its capital group,
  - 8) establishing the rules for conducting the Company's sponsoring activity,
  - 9) matters referred by the Management Board to the Supervisory Board or the Shareholder Meeting,
  - 10) specifying voting instructions for the shareholder meeting of companies in which the Company holds shares or exercises rights attached to shares,
  - 11) convening the Shareholder Meeting and accepting its agenda,
  - 12) accepting the Management Board's reports on the Company's activity and the activity of the capital group as well as the financial statements and the consolidated financial statements of the capital group for the previous financial year,
  - 13) adopting the bylaws of a fund or capital account existing in the Company,
  - 14) the Company's subscribing for or acquiring shares in another company in return for the Company's receivables as part of composition or settlement proceedings and their subsequent disposal,
  - 15) staffing management positions in the Company's organizational structure,
  - 16) invalidating share certificates.
4. Management Board resolutions shall be adopted by an absolute majority of votes. If an equal number of votes are cast, the vote cast by the President of the Management Board shall prevail.
  5. The organization and manner of operation of the Management Board, including a detailed procedure for adopting resolutions, shall be defined by the Management Board bylaws approved by the Supervisory Board.
  6. The President of the Management Board directs the work of the Management Board. The rights of the President of the Management Board in this area shall be defined by the Management Board bylaws.

**§ 15**

1. The Management Board consists of 1 to 5 persons, including the President of the Management Board and one or several Vice-Presidents of the Management Board.
2. Management Board members are appointed for a joint three-year term of office.

**§ 16**

1. Management Board members are appointed and dismissed by the Supervisory Board.
2. The Supervisory Board shall appoint Management Board members following the completion of a qualification procedure held pursuant to the Council of Minister's Regulation of 18 March 2003 on Qualification Procedures for Management Board Members in Certain Commercial Companies (Journal of Laws No. 55 Item 476, as amended).
3. The provisions of section 2 shall remain in force as long as half the shares in the Company are held by the State Treasury.
4. As long as more than 50 percent of the Company's share capital or 50 percent of the shares in the Company are held by the State Treasury or other state-owned legal persons, the rules for remunerating Management Board members and the amounts of their remuneration shall be established in consideration of the provisions of the Act of 3 March 2000 on Remunerating Persons Managing Certain Legal Entities (Journal of Laws of 2013 Item 254, consolidated version).

**Consolidated version of the Articles of Association of ENERGA SA**  
**as amended by the Extraordinary Shareholder Meeting of ENERGA SA in Resolutions adopted on**  
**3 September 2013, entered in the National Court Register on 9 September 2013**

5. Once the State Treasury holds half or less of the shares in the Company, a Management Board Member may be:
  - 1) *dismissed or suspended also by the Shareholder Meeting,*
  - 2) *suspended for important reasons by the Supervisory Board.*
6. One of the Management Board members shall be appointed by the Supervisory Board to the position of President of the Management Board and one or several others to the position of Vice-President of the Management Board. The provisions of this section shall remain in force regardless of the number of shares in the Company held by the State Treasury.
7. A Management Board member shall submit his or her resignation to the Supervisory Board. The notice of resignation should be submitted in writing.

**B. SUPERVISORY BOARD**

**§ 17**

1. In addition to the matters laid down in separate provisions of law and the provisions of these Articles of Association, the specific powers of the Supervisory Board include:
  - 1) assessment of the Management Board's report on the Company's activity and the activity of the capital group as well as the financial statements for the previous financial year and the consolidated financial statements of the capital group in terms of their compliance with the accounting ledgers and documents as well as with the actual state of affairs, and assessment of the Management Board's motion on the distribution of profit or the coverage of loss,
  - 2) submission of a written report to the Shareholder Meeting on the results of the activities referred to in item 1,
  - 3) preparation of reports in connection with the exercise of supervision over the performance of investments by the Management Board and supervision over the correct and effective spending of cash on investments,
  - 4) preparation, at least once per year, together with a report on the results of the assessment of the annual financial statements and the consolidated financial statements of the capital group, of an opinion of the Supervisory Board on the economic viability of the Company's capital exposure to other commercial companies effected in the relevant financial year,
  - 5) preparation and presentation, once per year, to the Ordinary Shareholder Meeting of a brief assessment of the Company's standing, including an evaluation of the internal control system and the system for managing risks of significant importance to the Company,
  - 6) review and presentation of opinions on issues forming the subject matter of resolutions to be adopted by the Shareholder Meeting,
  - 7) selection of an auditor to audit of the Company's financial statements,
  - 8) specification of the scope and deadlines for submission of annual/long-term material and financial plans, other long-term plans and strategies for the Company and its capital group by the Management Board,
  - 9) approval of strategies for the Company and its capital group,
  - 10) approval of annual/long-term material and financial plans and investment plans for the Company and its capital group,
  - 11) adoption of bylaws defining in detail the procedure of operation of the Supervisory Board,
  - 12) approval of the Management Board bylaws,
  - 13) approval of the organizational bylaws for the Company's enterprise,

**Consolidated version of the Articles of Association of ENERGA SA**  
**as amended by the Extraordinary Shareholder Meeting of ENERGA SA in Resolutions adopted on**  
**3 September 2013, entered in the National Court Register on 9 September 2013**

- 14) approval of the rules for conducting the Company's sponsoring activity,
- 15) granting consent to the Management Board for the following transactions:
- a) the purchase of non-current assets, including in particular the purchase of a real property, a right of perpetual usufruct or a share in a real property or in a right of perpetual usufruct with a value in excess of PLN 5,000,000 but not greater than PLN 20,000,000,
  - b) the disposal of a non-current asset, including in particular the disposal of a real property, a right of perpetual usufruct or a share in a real property or in a right of perpetual usufruct with a value in excess of PLN 5,000,000 but not greater than PLN 20,000,000,
  - c) the Company's execution of a material agreement with a related party (within the meaning of the Regulation issued by the Finance Minister on 19 February 2009 on the Current and Periodic Information Transmitted by Securities Issuers and the Conditions for Recognizing the Information Required by the Regulations of a Non-Member State as Equivalent), except for standard agreements entered into on an arm's length basis as part of the Company's operating activity with a subsidiary in which the Company holds a majority stake,
  - d) the contracting of contingent liabilities, including the granting by the Company of financial guarantees and sureties the value of which exceeds PLN 5,000,000, except for contingent liabilities pertaining to subsidiaries,
  - e) issuing promissory notes with a value in excess of PLN 5,000,000,
  - f) the Company's execution of an agreement with a value in excess of the Polish zloty equivalent of EUR 5,000 aimed at granting a donation or releasing the counterparty from debt or any other agreement unrelated to the Company's line of business specified in the Articles of Association. The equivalent of the amount referred to above shall be calculated according to the exchange rate announced by the National Bank of Poland on the date of the agreement,
  - g) disbursement of interim dividends,
  - h) subscribing for or acquiring shares in other companies with a total par value in excess of PLN 20,000,000, except where such subscription is effected in exchange for the Company's receivables as part of composition or settlement proceedings or where such shares are acquired on a regulated market,
  - i) disposing shares in other companies with a total par value in excess of PLN 20,000,000 and setting forth the conditions and procedures for such disposal, except for:
    - disposing shares traded on a regulated market,
    - disposing shares in cases of exposures where the Company's stake does not exceed 10% of the respective companies' share capital,
    - disposing shares subscribed for in exchange for the Company's receivables as part of composition or settlement proceedings,
- 16) setting the rules and amounts of remuneration for the President of the Management Board and Management Board members, subject to the mandatory provisions of law,
- 17) delegating members of the Supervisory Board to perform temporarily the duties of Management Board members who are at the time unable to perform their duties and setting their remuneration, provided that the total remuneration received by the delegated person for his or her performance of the function of a Supervisory Board member and his or her temporary performance of the duties of a Management Board member does not exceed the salary set in respect of the Management Board member being filled in for by the delegated member of the Supervisory Board,
- 18) granting consent for the establishment of the Company's branches abroad,



**Consolidated version of the Articles of Association of ENERGA SA**  
**as amended by the Extraordinary Shareholder Meeting of ENERGA SA in Resolutions adopted on**  
**3 September 2013, entered in the National Court Register on 9 September 2013**

- 19) authorizing Management Board members to assume positions in corporate bodies of other companies and collecting resulting remuneration,
  - 20) specifying the voting instructions for the Company's representative to the shareholder meetings of companies involved in generation, transmission or distribution of electricity in the following matters
    - the incurring of contingent liabilities by such companies,
    - the contracting of loan agreements,
    - the establishment of collateral by such companies, including the establishment of security interests on their assets,
    - the contracting of other agreements or the adoption of shareholder meeting resolutions pertaining or related to generation units, cogeneration units with a value in excess of EUR 50,000,000 or a distribution grid within the meaning of the Energy Law with a value in excess of EUR of 5,000,000,
  - 21) specifying the Company's voting instructions for the shareholder meetings of companies in which the Company holds shares with a total par value in excess of PLN 20,000,000 and which at the same time represent more than 50% of the share capital of such companies or the Company's subsidiaries within the meaning of the provisions of the Commercial Companies Code, in the following matters:
    - a) the incurring of a liability, the establishment of a limited right in rem or the disposal of a right, including in particular the purchase of a real property, a right of perpetual usufruct or a share in a real property or in a right of perpetual usufruct with a value in excess of PLN 5,000,000,
    - b) the granting by the company of financial guarantees and sureties the value of which exceeds PLN 5,000,000,
    - c) amending the company's articles of association or articles of partnership,
    - d) increasing or reducing the share capital,
    - e) a merger, split-up or transformation of the company,
    - f) the establishment by such company of another company or the subscription for, purchase or disposal by such company of shares in another company,
    - g) the disposal or lease of the company's enterprise or an organized part thereof or the establishment of a limited right in rem thereon if their value is in excess of PLN 20,000,000,
    - h) issuing bonds,
    - i) dissolution or liquidation of the company,
    - j) pertaining to generation units, cogeneration units with a value in excess of EUR 50,000,000 or distribution grids within the meaning of the Energy Law with a value in excess of EUR of 5,000,000.
2. The Company's Management Board shall:
- 1) provide the Supervisory Board with quarterly information on the investment projects referred to in section 1 item 15 (i), regardless of the progress of the relevant project,
  - 2) provide the Supervisory Board with information on the course of and decisions made at the shareholder meeting in the matters referred to in section 1 item 20 and item 21 (j),
  - 3) provide the Supervisory Board, within two months of the adjournment of the shareholder meeting of companies in which the Company holds shares approving the financial statements and the activity reports or the consolidated financial statements of capital groups and the activity

**Consolidated version of the Articles of Association of ENERGA SA**  
**as amended by the Extraordinary Shareholder Meeting of ENERGA SA in Resolutions adopted on**  
**3 September 2013, entered in the National Court Register on 9 September 2013**

reports of capital groups, with annual information on the execution of investment projects pertaining or related to a generation unit or a cogeneration unit with a value in excess of EUR 50,000,000 or a distribution grid with a value in excess of EUR 5,000,000.

**§ 18**

1. The Supervisory Board consists of 5 to 12 members.
2. Without prejudice to Section 3, Supervisory Board members are appointed and dismissed by the Shareholder Meeting. The number of Supervisory Board shall be specified by the Shareholder Meeting.
3. The shareholder referred to in § 33 has the personal power to appoint or dismiss Supervisory Board Members in accordance with the following rules:
  - 1) if the Shareholder Meeting specifies that the Supervisory Board must be composed of an even number of members—the empowered shareholder shall appoint half the Supervisory Board members plus one member;
  - 2) if the Shareholder Meeting specifies that the Supervisory Board must be composed of an odd number of members—the empowered shareholder shall appoint the number of Supervisory Board members resulting from (a) dividing the odd number of Supervisory Board members by two, and then (b) rounding up such quotient to the nearest integer so that the empowered shareholder has the absolute majority of votes in such Supervisory Board,
  - 3) appointing and dismissing Supervisory Board members shall be effected by way of a written statement submitted to the Management Board by the shareholder referred to in § 33. Such statement shall be considered submitted at the time of its delivery.
4. Supervisory Board members are appointed for a joint three-year term of office.
5. In the period during which the State Treasury is a shareholder in the Company, only persons who have passed the examination referred to in Article 12 Section 2 of the Commercialization and Privatization Act of 30 August 2013 (consolidated version: Journal of Laws of 2013 Item 216) may be appointed to serve as Supervisory Board members representing the State Treasury).
6. In the period during which the Company is a public company, at least 2 Supervisory Board members appointed by the Shareholder Meeting, other than the Supervisory Board members designated by the State Treasury or the shareholder referred to in § 33, should meet the independence criteria assumed for independent Supervisory Board members as defined in § 23b section 2.
7. A Supervisory Board member shall submit his or her resignation to the Company's Management Board. The notice of resignation should be submitted in writing.

**§ 19**

1. The shareholder referred to in § 33 has the personal power to select, from among the Supervisory Board members appointed in accordance with § 18 section 3 of the Articles of Association, a Supervisory Board member to discharge the function of Chairman of the Supervisory Board. This power shall also apply also if the Supervisory Board has been elected by way of voting in separate groups in accordance with the procedure prescribed by Article 385 of the Commercial Companies Code. The selection of the Chairman of the Supervisory Board shall be effected by way of a written statement submitted to the Management Board. Such statement shall be considered submitted at the time of its delivery.
2. The Supervisory Board shall appoint or dismiss from among its members the Deputy Chairperson and the Secretary of the Supervisory Board. The Deputy Chairperson and the Secretary of the Supervisory Board should be elected at the first meeting of the Supervisory Board of the new term of office.
3. Supervisory Board meetings shall be presided over by the Chairperson of the Supervisory Board or, in his or her absence, by the Deputy Chairperson of the Supervisory Board.

**Consolidated version of the Articles of Association of ENERGA SA**  
**as amended by the Extraordinary Shareholder Meeting of ENERGA SA in Resolutions adopted on**  
**3 September 2013, entered in the National Court Register on 9 September 2013**

4. Representations addressed to the Supervisory Board shall be submitted to the Chairperson of the Supervisory Board or, if this is impossible or significantly hindered, to the Deputy Chairperson or the Secretary of the Supervisory Board.

**§ 20**

1. The Supervisory Board shall hold its meetings no less frequently than once per 2 months.
2. Supervisory Board meetings shall be convened by the Chairperson or other authorized Supervisory Board member together with the presentation of a detailed agenda.
3. A Supervisory Board meeting should be convened at the request of any Supervisory Board member or at the motion of the Management Board.
4. The first meeting of the Supervisory Board of a new term of office shall be convened by the Management Board. Such first meeting should be held within 30 days of the date of appointment of the Supervisory Board of a new term of office.

**§ 21**

1. To convene a Supervisory Board meeting, it is required to invite all Supervisory Board members at least 7 days before the date of the Supervisory Board meeting. For important reasons, the Chairperson of the Supervisory Board may shorten this period to 2 days while ensuring that the Supervisory Board members are informed of the of the accelerated date of the meeting via appropriate means of communication.
2. Such invitation to the Supervisory Board meeting shall specify the date, venue and agenda of the meeting.

**§ 22**

1. The Supervisory Board may adopt resolutions if at least one half of its members are present and if all the Supervisory Board members have been invited to the meeting.
2. The Supervisory Board adopts resolutions in matters covered by the agenda. The agenda may be amended if all Supervisory Board members are present at the meeting and none of them objects to such amendment.
3. The Supervisory Board adopts its resolutions by an absolute majority of votes. In the event of a tie vote, the vote cast by the Chairperson of the Supervisory Board shall prevail.
4. The Supervisory Board adopts resolutions in an open ballot.
5. A secret ballot shall be ordered at the request of any Supervisory Board member and in personal matters. In the event of a secret ballot, the provisions of section 6 shall not apply.
6. The Supervisory Board may adopt resolutions by following a written procedure or via remote means of direct communication, including via e-mail. A resolution is valid if all members of the Supervisory Board have been notified of the wording of the draft resolution.
7. Resolutions adopted pursuant to the procedure set forth in section 6 shall be presented at the next Supervisory Board meeting together with the outcome of the vote.

**§ 23**

1. Supervisory Board members exercise their rights and perform their obligations in person.
2. Participation in Supervisory Board meetings is a duty of every member of the Supervisory Board. Justification of the absence of a member of the Supervisory Board requires the adoption of a resolution by the Supervisory Board.

**Consolidated version of the Articles of Association of ENERGA SA**  
**as amended by the Extraordinary Shareholder Meeting of ENERGA SA in Resolutions adopted on**  
**3 September 2013, entered in the National Court Register on 9 September 2013**

3. Supervisory Board members are entitled to monthly remuneration in the amount set by the Shareholder Meeting.
4. The Company shall cover the costs incurred in connection with the performance of the functions entrusted to Supervisory Board members, in particular the costs of transportation to Supervisory Board meetings, the costs of exercise of personal oversight and the costs of accommodation and food.
5. Every Supervisory Board member is required to provide the Company's Management Board with information on any ties linking him or her with a shareholder in possession of a stake representing at least 5% of all votes at the Shareholder Meeting. This obligation concerns financial, family or other ties, which may affect the position of the relevant Supervisory Board member on issues to be decided on by the Supervisory Board.
6. The Company, pursuant to a resolution adopted by the Shareholder Meeting, may insure members of the Supervisory Board against third party liability.

**§ 23a**

1. During the period when the Company's shares are traded on a regulated market of Giełda Papierów Wartościowych w Warszawie SA (the Warsaw Stock Exchange), the Supervisory Board shall elect an Audit Committee from among its members.
2. The Audit Committee shall be composed of at least 3 members, including at least 1 member fulfilling the independence criteria prescribed by law, in consideration of the regulations referred to in § 23b section 2, and holding accounting or financial audit qualifications.
3. If the Supervisory Board consists of no more than 5 members, the tasks of the Audit Committee shall be performed by members of the Supervisory Board.
4. The tasks of the Audit Committee include the following in particular:
  - 1) monitoring the financial reporting process,
  - 2) monitoring the effective operation of internal control, internal audit and risk management systems,
  - 3) monitoring the performance of financial audit activities,
  - 4) monitoring the independence of the auditor and the entity licensed to audit financial statements, including in the event of provision of the services referred to in Article 48 Section 2 of the Act of 7 May 2009 on Statutory Auditors and Their Self-Regulatory Body, Entities Licensed to Audit Financial Statements and Public Oversight (Journal of Laws No. 77 Item 649, as amended).
5. The Audit Committee shall recommend to the Supervisory Board an entity licensed to audit financial statements to conduct financial audit activities in the Company.

**§ 23b**

1. Supervisory Board members may not perform activities which would collide with their duties or could arouse suspicion that they may be biased or self-interested.
2. During the period when the Company's shares are traded on a regulated market of Giełda Papierów Wartościowych w Warszawie SA (the Warsaw Stock Exchange), at least two Supervisory Board members should meet the independence criteria assumed for independent supervisory board members within the meaning of the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board (2005/162/EC) in consideration of the requirements set forth by the Best Practices of WSE Listed Companies (independent members of the Supervisory Board).
3. A candidate to be an independent member of the Supervisory Board shall submit to the Company, before his or her appointment to the Supervisory Board, a written representation on satisfying the independence criteria. In the event of the occurrence of circumstances causing failure to satisfy the

**Consolidated version of the Articles of Association of ENERGA SA**  
**as amended by the Extraordinary Shareholder Meeting of ENERGA SA in Resolutions adopted on**  
**3 September 2013, entered in the National Court Register on 9 September 2013**

prerequisites for independence, the relevant Supervisory Board member shall promptly inform the Company of such fact. Information about the then current number of independent Supervisory Board members shall be made public by the Company.

4. Without prejudice to § 18 section 3 above, in the event that, as a result of the expiration of the mandate of a Supervisory Board member, or in a situation in which at least 2 members of the Supervisory Board fail to meet the requirements set forth in section 2, the number of Supervisory Board members decreases, the Management Board shall immediately convene a Shareholder Meeting and place in its agenda an item concerning additions or changes to the composition of the Supervisory Board. Until changes are made to the composition of the Supervisory Board resulting in adjusting the number of independent members to the requirements set forth in the Articles of Association, the Supervisory Board and its members shall act in their then current composition and shall retain the capacity to hold meetings, adopt resolutions and perform all other legal and factual actions.

**C. SHAREHOLDER MEETING**

**§ 24**

1. Shareholder Meetings are held at the Company's registered office or in Warsaw.
2. The Shareholder Meeting shall be convened by the Company's Management Board:
  - 1) at its own initiative,
  - 2) at the written request of the Supervisory Board,
  - 3) at the written request of a shareholder or shareholders representing at least one twentieth of the share capital,
  - 4) at the written request of the State Treasury as long as the State Treasury remains a shareholder in the Company.

**§ 25**

The Shareholder Meeting is entitled to adopt the Bylaws of the Shareholder Meeting setting forth the detailed rules for the operation of this corporate body.

**§ 26**

1. The following matters, beyond the matters specified in separate provisions of law and these Articles of Association, require the adoption of a resolution by the Shareholder Meeting:
  - 1) the purchase of a real property, a right of perpetual usufruct or a share in a real property or in a right of perpetual usufruct with a value in excess of PLN 20,000,000,
  - 2) the purchase of non-current assets, excluding the purchase of a real property or a right of perpetual usufruct or the acquisition of and subscription for shares in other companies, with a value in excess of PLN 20,000,000,
  - 3) the disposal of non-current assets, including the disposal of a real property, a right of perpetual usufruct or a share in a real property or in a right of perpetual usufruct, excluding shares in other companies, with a value in excess of PLN 20,000,000,
  - 4) the Company's execution of a loan, advance or surety agreement or another similar agreement with a member of the Management Board, a member of the Supervisory Board, a commercial proxy or a liquidator or in favor of any such person,
  - 5) the Company's acquisition of its treasury stock in the situation referred to in Article 362 § 1 Item 2 of the Commercial Companies Code,
  - 6) the establishment, use or dissolution of the capital accounts or funds referred to in § 30 section 1 item 5 and section 2, created by way of a Shareholder Meeting resolution,

**Consolidated version of the Articles of Association of ENERGA SA**  
**as amended by the Extraordinary Shareholder Meeting of ENERGA SA in Resolutions adopted on**  
**3 September 2013, entered in the National Court Register on 9 September 2013**

- 7) shifting of the dividend record date, indication of the dividend payable date or splitting of the dividend payment into installments subject to the deadline specified in § 31 section 2 of the Articles of Association.
2. In the matters referred to in section 1, the Management Board should present to the Shareholder Meeting a written explanation of its position together with a written opinion of the Supervisory Board on each of such matters.

**§ 27**

1. Subject to section 6, the voting right of shareholders in possession, including as a usufructuary or a pledgee, of shares is hereby restricted in such manner that no such shareholder may exercise, at the Company's Shareholder Meeting, more than 10% of the total number of votes existing in the Company as at the day of the Shareholder Meeting.
2. The provisions of sections 1 and 3 are without prejudice to the requirements pertaining to the acquisition of significant blocks of shares in accordance with the provisions of the Act of 29 July 2005 on Public Offering and the Terms and Conditions for Introducing Financial Instruments to an Organized Trading System and on Public Companies. In a situation of determining the obligations of entities acquiring or intending to acquire significant blocks of shares, the provisions of section 1 and section 3 do not apply.
3. For the purposes of restricting the voting right, the votes of shareholders interconnected by a parent or subsidiary relationship within the meaning of:
  - 1) the provisions of the Commercial Companies Code, or
  - 2) the provisions of the Act of 16 February 2007 on the Protection of Competition and Consumers, or
  - 3) the provisions of the Accounting Act of 29 September 1994, or
  - 4) the provisions of the Act of 22 September 2006 on Transparency of Financial Relations between Public Authorities and Public Commercial Entities and Financial Transparency of Certain Commercial Entities,are treated cumulatively in such manner that the votes of such shareholders are totaled.
4. If, as a result of such cumulative treatment, a reduction in votes is required in accordance with the provisions of section 1 above, it shall be effected by a pro rata reduction in the number of votes of all the shareholders involved in the relationship referred to in section 3 by rounding down or up the fractional votes of the shareholder in possession of the largest stake. If such rounding is impossible due to the fact that two or more shareholders have the same number of votes, then the shareholder in respect of whom such operation is to be effected shall be selected by the Management Board on a random basis. Such reduction may not lead to any shareholder being entirely stripped of its voting right.
5. Each shareholder concerned shall notify the Management Board or the Chairperson of the Shareholder Meeting of the existence of the grounds referred to in sections 1 and 3 if such shareholder intends to participate in the Shareholder Meeting.
6. The provisions of sections 1-5 do not apply to shareholders who, on the date of adoption of the Shareholder Meeting resolution introducing the restrictions referred to in the foregoing sections (also if such restrictions are amended), i.e. on 22 August 2012, were entitled under shares representing more than 10% of the total number of votes at the Shareholder Meeting or shareholders acting in concert with them under agreements relating to the joint exercise of voting rights.
7. A person who has failed to exercise or has improperly executed the reporting duty referred to in section 5 above may, until the performance of such reporting duty, exercise the voting right only on one share; exercise of the voting right by such person on the remaining shares shall be ineffective.



**Consolidated version of the Articles of Association of ENERGA SA**  
**as amended by the Extraordinary Shareholder Meeting of ENERGA SA in Resolutions adopted on**  
**3 September 2013, entered in the National Court Register on 9 September 2013**

8. Resolutions of the Shareholder Meeting in the following matters:
- 1) introducing shares of different types, creating shares of a new type,
  - 2) changing the preference attached to shares,
  - 3) merging the Company by the formation of a new company or through acquisition by another company,
  - 4) splitting up the Company, except for splitting up by way of a spin-off,
  - 5) dissolving the Company or transferring its registered office or main establishment abroad,
  - 6) transforming the Company,
  - 7) decreasing the share capital by way of retirement of part of the shares unless such decrease takes place together with a simultaneous increase,
- shall require a majority of four fifths of votes cast.
9. A resolution on a significant change in the Company's line of business may be adopted without buying back the shares held by shareholders opposing such change.

**VI. COMPANY'S FINANCIAL MANAGEMENT**

**§ 28**

The Company's financial year is the calendar year.

**§ 29**

The Company keeps its ledgers in accordance with International Accounting Standards and the applicable provisions of law.

**§ 30**

1. The Company creates the following capital accounts and funds:
  - 1) share capital,
  - 2) reserve capital,
  - 3) revaluation reserve capital,
  - 4) additional reserve capital,
  - 5) other funds established by virtue of resolutions adopted by the Shareholder Meeting.
2. The Company may establish or dissolve, by virtue of a Shareholder Meeting resolution, other capital accounts to cover specific losses or expenditures, at the beginning of, or during, the financial year.

**§ 31**

1. Profit may be earmarked by the Shareholder Meeting for payment of a dividend or for the Company's capital accounts, funds or other purposes in accordance with the rules set forth by the Shareholder Meeting.
2. The Company's Management Board is authorized to adopt a resolution on the distribution of an interim dividend to the shareholders if the Company has enough funds to make such disbursement. The disbursement of such interim dividend shall require the consent of the Supervisory Board.

**§ 31a**

The Company may issue bonds, including convertible bonds or bonds with a pre-emptive right.

**Consolidated version of the Articles of Association of ENERGA SA  
as amended by the Extraordinary Shareholder Meeting of ENERGA SA in Resolutions adopted on  
3 September 2013, entered in the National Court Register on 9 September 2013**

**VII. MISCELLANEOUS**

**§ 32**

1. Whenever these Articles of Association refer to an amount denominated in Polish zloty, such amount should be construed as a net amount.
2. If the Company intends to execute a transaction denominated in a currency other than the Polish zloty, then in order to determine whether the execution of such transaction requires obtaining corporate approvals, the Management Board shall use the equivalent of such amount in Polish zloty converted at the average exchange rate of such currency to the Polish currency announced by the National Bank of Poland on the day preceding the request for approval of such transaction or on the day when the Management Board determines that such transaction does not require corporate approvals due to its value.

**§ 33**

1. The personal powers referred to in § 18 and § 19 of these Articles of Association shall be vested in the shareholder in possession of the largest stake in the Company's share capital as at the date of adoption of the Shareholder Meeting resolution granting such powers.
2. The personal powers referred to in § 18 and § 19 of these Articles of Association shall expire on the date on which the stake held by such empowered shareholder falls below 10%.

**THE COMPANY**

**ENERGA S.A.**

al. Grunwaldzka 472  
80-309 Gdańsk, Poland

**SELLING SHAREHOLDER**

**State Treasury of Poland**

ul. Krucza 36 / ul. Wspólna 6  
00-522 Warsaw, Poland

**MANAGERS**

**Joint Global Coordinators and Joint Bookrunners**

**J.P. Morgan Securities plc**

25 Bank Street  
London EC14 5JP, UK

**UBS Limited**

1 Finsbury Avenue  
London EC2M 2PP, UK

**Joint Bookrunners**

**Merrill Lynch International**

2 King Edward Street  
London EC1A 1HQ, UK

**Citigroup Global Markets  
Limited**

Citigroup Centre  
33 Canada Square  
Canary Wharf  
London E14 5LB, UK

**Dom Maklerski Banku  
Handlowego S.A.**

ul. Senatorska 16  
00-923 Warsaw, Poland

**UniCredit CAIB Poland S.A.**

ul. Emilii Plater 53  
00-113 Warsaw, Poland

**Powszechna Kasa Oszczędności Bank Polski S.A.  
Oddział—Dom Maklerski PKO Banku Polskiego**

**w Warszawie**  
ul. Puławska 15  
02-515 Warsaw, Poland

*(acting also as the Offering Agent)*

**UniCredit Bank AG, London Branch**

Moor House  
120 London Wall  
London EC2Y 5ET, UK

**Banco Espírito Santo de Investimento, S.A.  
Spółka Akcyjna Oddział w Polsce**

ul. Złota 59  
00-120 Warsaw, Poland

**UniCredit Bank Austria AG**

Schottengasse 6-8  
1010 Vienna, Austria

*(acting exclusively as the Underwriter)*

**Other Managers**

**Biuro Maklerskie Alior Bank S.A.**

ul. Łopuszańska 38D  
02-232 Warsaw, Poland

**Dom Maklerski Banku Ochrony Środowiska S.A.**

ul. Marszałkowska 78/80  
00-517 Warsaw, Poland

**Dom Maklerski mBanku S.A.**

ul. Wspólna 47/49  
00-684 Warsaw, Poland

**IPOPEMA Securities S.A.**

ul. Próżna 9  
00-107 Warsaw, Poland

**LEGAL ADVISORS OF THE COMPANY**

*as regards English law*

**Greenberg Traurig Maher LLP**

200 Gray's Inn Road  
London, WC1X 8HF, UK

*as regards Polish law*

**Greenberg Traurig  
Grzesiak sp.k.**

ul. Książęca 4  
00-498 Warsaw, Poland

*as regards American law*

**Greenberg Traurig, LLP**

MetLife Building  
200 Park Avenue  
New York, NY 10166, USA

**LEGAL ADVISORS OF THE MANAGERS**

*as regards Polish law*

**Allen & Overy, A. Pędzich sp.k.**  
Rondo ONZ 1  
00-124 Warsaw, Poland

*as regards English and American law*

**Allen & Overy LLP**  
One Bishops Square  
London E1 6AD, UK

**LEGAL ADVISOR OF THE SELLING SHAREHOLDER**

**Linklaters C. Wiśniewski i Wspólnicy sp.k.**  
ul. Sienna 39  
00-121 Warsaw, Poland

**AUDITOR**

**KPMG Audyt spółka z ograniczoną odpowiedzialnością sp.k.**  
ul. Chłodna 51  
00-867 Warsaw, Poland

