

Representation on the application of Corporate governance principles



6. REPRESENTATION ON THE APPLICATION OF CORPORATE GOVERNANCE PRINCIPLES

In 2017, the Company and its authorities are subject to corporate governance rules, which are described in the set adopted by Resolution No. 26/1413/2015 of the Supervisory Board of the Warsaw Stock Exchange on 13 October 2015 as “Code of Best Practice for WSE Listed Companies 2016” (“Best Practice”, “DPSN”) and were posted on the Warsaw Stock Exchange's website and the Company's website in the "Investor Relations" tab.

6.1. Corporate governance principles not applied in the Company

On 7 June 2017, Energa SA published information through the EBI system that the Company does not apply certain principles set out in the Best Practice, that is:

- Principle III.Z.3 – the Company does not meet the requirement of standard 1110-1 only in respect to the organizational independence, that is appointment and dismissal of an Internal Audit Head and approval and changes of his/her remuneration.

The standard mentioned above is defined in the International Standards for the Professional Practice of Internal Auditing by the Institute of Internal Auditors.

Additionally the Internal Audit Head is not functionally subordinated to the Supervisory Board.

- Principle V.Z.6 – The Company has implemented a Code of Ethics which lays down a number of rules that define the behaviors which the Company intends to follow in its relations with the external environment and within the Energa SA Group. The Company is of the position that issues related to the identification, prevention and resolution of conflicts of interest should also be addressed in its internal regulations. Accordingly, the Company will take steps to ensure that such provisions are included in its corporate documents.

Since no decision on the publication of projections has been made, in light of the Finance Minister's regulation on current and periodic information of 19 February 2009, detailed principle I.Z.1.10 was also not be applied.

6.2. Major shareholders

Information on the shareholding structure is presented in chapter 5.1. *Energa SA's shareholding structure* of these financial statements.

6.3. Holders of securities giving special rights of control and description of these rights

According to the information presented in the previous sub-clause, the State Treasury is the holder of the majority block of shares and votes at the General Meeting. It held 144,928,000 series BB registered shares preferred in terms of voting at the General Meeting in such manner that one series BB share entitles the holder to two votes at the General Meeting.

In addition, the State Treasury has the personal right to appoint and dismiss some members of the Company's Supervisory Board, and name the Supervisory Board Chairman, on the terms and conditions set forth in the Company's Articles of Association. Detailed information in that regard is included in the sub-section entitled Rules for appointing and dismissing Supervisory Board members.

At the same time, according to the Company's Articles of Association, the State Treasury has the right to receive:

- 1) information on the Company and its Group in the form of a quarterly report in accordance with the current guidelines, subject to relevant provisions on disclosure of confidential information,
- 2) copies of announcements, which must be published in the Court and Economic Monitor,

- 3) set of documents, which are to be examined at the Annual General Meeting pursuant to Article 395 § 2 of the Commercial Company Code ("CCC"), i.e. financial statements (consolidated financial statements of the Group), Management Board's report on the Company's activity (Management Board's report on the activity of the Group) for the previous financial year, statutory auditor's opinion and report from the audit of the financial statements (consolidated financial statements of the Group), Supervisory Board's report, and the Management Board's motion on distribution of profit and coverage of loss,
- 4) consolidated version of the Articles of Association, within four weeks from the date of entering the amendments to the Articles of Association in the business register.

6.4. Restrictions regarding the exercise of voting rights

Provisions of § 27 of the Company's Articles of Association contain restrictions on the voting rights by shareholders, users and pledgees holding shares giving more than 10% of total number of votes at the General Meeting, as at the date of holding the General Meeting.

For the purposes of restricting the voting right, the votes of the shareholders connected by a parent or subsidiary relationship within the meaning of the following provisions are also accumulated by adding the votes held by those shareholders.

If as a result of accumulation it becomes necessary to restrict the voting rights, this will be done by pro rata reduction of the votes of all shareholders connected by a parent or subsidiary relationship, and the votes of the shareholder with the largest bundle of shares will be rounded up or down. If it is not possible to round up or down because two or more shareholders hold the same number of votes, the Management Board will randomly select a shareholder, whose votes will be rounded up or down. The reduction cannot lead to depriving the shareholder of the voting rights in their entirety.

The provisions governing the restriction on the voting rights do not apply to the State Treasury, which, pursuant to the Articles of Association, on the date of the restriction had entitlement under shares corresponding to more than 10% of the overall number of votes in the Company.

Moreover, the foregoing restrictions do not contravene the requirements concerning the purchase of significant blocks of shares according to the Act on Public Offerings and the Terms and Conditions for Introducing Financial Instruments into an Organized Trading System and on Public Companies of 29 July 2005 (i.e. Journal of Laws of 2013, item 1382) (hereinafter referred to as the "Act on Public Offering"). In a similar fashion, these provisions do not apply to the determination of obligations of the entities, which are purchasing or are to purchase significant blocks of shares.

In addition to the foregoing mechanism and those described in the generally applicable provisions of law, including the Commercial Company Code, there are no additional mechanisms that would specifically restrict the exercise of voting rights.

6.5. Restrictions on the transfer of ownership title to securities

As at the date of preparation of this Report, there are no restrictions on the transfer of title to Company's securities.

6.6. Rules for amending the Company's Articles of Association

The Company's Articles of Association are amended as set forth in the Commercial Company Code; in particular: Articles of Association are amended by way of a resolution adopted by the General Meeting by the majority of three quarters of the votes and then must be entered in the business register. The Company's General Meeting may authorize the Supervisory Board to agree upon the consolidated version of the Company's amended Articles of Association or introduce such other editorial changes as may be specified in a resolution of the General Meeting.

Pursuant to § 27 section 8 and 9 of the Company's Articles of Association:

- 1) resolutions adopted by the General Meeting (which also require amendments to the Articles of Association) on the following subjects:
 - a) introduction of shares of various types, establishment of shares of a new type,
 - b) change of the preference of shares,
 - c) split-up of the Company, except for split-up through spinning-off,
 - d) moving of the Company's registered office,
 - e) transformation of the Company,
- 2) reduction of share capital through redemption of part of shares unless the reduction takes place simultaneously with increase of share capital, require the majority of four fifth of the votes cast.
a General Meeting resolution on a significant change of the Company's line of business may be adopted without buying up shares held by shareholders who oppose such change.

On 26 June 2017, the Annual General Meeting of Energa SA among others amended the wording of the Company's Articles of Association, which remains in effect up to this date.

6.7. Company's corporate bodies

General Meeting

Rules of operation of the Company's General Meeting are regulated by the Commercial Company Code and the Company's Articles of Association. Additional issues related to the course of a General Meeting are defined in the General Meeting Bylaws (available on the Company's corporate website).

The Company's shareholders also have rights related to the General Meeting, which arise from the applicable provisions of law.

Manner of convening the General Meeting

The General Meeting is convened through announcement made on the Company's website and in the manner specified for publication of current information according to the Act on Public Offering, i.e. in the form of current reports. The announcement should be made at least twenty six days before the date of the General Meeting, according to the regulations set forth in the Commercial Company Code.

The Management Board convenes the General Meeting according to the Articles of Association.

- 1) at its own initiative,
- 2) at the written request the Supervisory Board, at the written request of a shareholder or shareholders representing at least one twentieth of the share capital or
- 3) at the written request of the State Treasury as long as the State Treasury remains a shareholder in the Company.

By principle, the properly convened General Meeting is valid irrespective of the number of shares represented thereat.

The General Meeting may be held in the Company's registered office (in Gdańsk) or in Warsaw.

Course of the General Meeting

The Supervisory Board Chairman or Deputy Chairman and if absent - the President of the Management Board or a person appointed by the Management Board opens the General Meeting. Then the Chairperson of the General Meeting is elected from among the persons authorized to participate in the General Meeting, in accordance with the provisions of the General Meeting Bylaws.

A resolution in matters not included in the agenda of the General Meeting may not be adopted, unless the Company's entire share capital is represented at the General Meeting and none of the persons present raises an objection to adopt a resolution.

Votes shall be cast in an open ballot. Secret ballot will be ordered during elections and when voting on motions to dismiss members of the Company's authorities or liquidators to hold them liable as well as

in the case of personal matters. Furthermore, a secret ballot should be ordered at the request of at least one shareholder from among those present or represented at the General Meeting.

Pursuant to the Company's Articles of Association, the voting rights of the shareholders and the voting rights of the users and pledgees of shares is subject to restrictions described in detail in item Restrictions regarding the exercise of voting rights.

Resolutions of the General Meeting are adopted with the absolute majority of votes cast, unless the Commercial Company Code or the Articles of Association provide otherwise.

The General Meeting may request an adjournment in the meeting (by a two-thirds majority of votes) which may not last more than thirty days in aggregate.

Powers of the General Meeting

The most important powers of the General Meeting defined by the Commercial Company Code and the Articles of Association include:

- 1) reviewing and approving the Management Board report on the Company's activity and the financial statements for the completed financial year;
- 2) granting a discharge to members of the Company's corporate bodies on the performance of their duties,
- 3) distributing profit or covering a loss,
- 4) changing the Company's line of business,
- 5) amending the Company's Articles of Association,
- 6) increasing or decreasing the Company's share capital,
- 7) merging, splitting up or transforming the Company,
- 8) dissolving or liquidating the Company,
- 9) issuing convertible bonds or bonds with a pre-emptive right, and on issuing subscription warrants,
- 10) selling or leasing an enterprise or an organized part thereof and establishing a limited right in rem thereon,
- 11) creating, using and liquidating the Company's capitals and funds,
- 12) appointing or dismissing Supervisory Board members and setting their compensation levels,
- 13) depriving current Company shareholders of their pre-emptive rights, in whole or in part,
- 14) allowing the Company to purchase its treasury stock and authorizing the Management Board to purchase treasury stock for retirement,
- 15) allowing the Company to enter into a credit facility, loan, surety agreement or some other similar agreement with a Management Board Member, a Supervisory Board member, a general proxy or a liquidator or in favor of any such person,
- 16) purchasing real property, perpetual usufruct or share in real property or in perpetual usufruct, worth more than PLN 20 m,
- 17) purchasing non-current assets, except for real estate or right of perpetual usufruct, and except for purchasing and subscribing for shares in other companies, worth more than PLN 20 m,
- 18) disposing of non-current assets, including real estate, right of perpetual usufruct, or share in real estate or right of perpetual usufruct, except for shares in other companies, worth more than PLN 20 m;
- 19) changing the record date, wetting the dividend date or spreading the payment of dividend into installments.

One General Meeting of the Company was held in 2017, i.e. Annual General Meeting held on 26 June 2017. The wording of resolutions adopted during that Meeting was published in the Current Report No. 30/2017 of 27 June 2017.

Supervisory Board

Composition

In the 2017 financial year and until the date of this Report the Energa SA Supervisory Board operated in the following composition:

- 1) in the period from 1 January 2017 to 10 February 2017:
 - a) Paula Ziemiecka-Księżak – Supervisory Board Chairwoman,
 - b) Zbigniew Wtulich – Supervisory Board Deputy Chairman,
 - c) Agnieszka Terlikowska-Kulesza – Supervisory Board Secretary,
 - d) Andrzej Powałowski – Supervisory Board Member,
 - e) Marek Szczepaniec – Supervisory Board Member,
 - f) Maciej Żółtkiewicz – Supervisory Board Member,
 - g) Jacek Kościelniak – Supervisory Board Member,
- 2) in the period from 10 February 2017 to 26 June 2017:
 - a) Paula Ziemiecka-Księżak – Supervisory Board Chairwoman,
 - b) Zbigniew Wtulich – Supervisory Board Deputy Chairman,
 - c) Agnieszka Terlikowska-Kulesza – Supervisory Board Secretary,
 - d) Andrzej Powałowski – Supervisory Board Member,
 - e) Marek Szczepaniec – Supervisory Board Member,
 - f) Maciej Żółtkiewicz – Supervisory Board Member,
- 3) in the period from 26 June 2017 to 22 August 2017:
 - a) Paula Ziemiecka-Księżak – Supervisory Board Chairwoman,
 - b) Zbigniew Wtulich – Supervisory Board Member,
 - c) Agnieszka Terlikowska-Kulesza – Supervisory Board Member,
 - d) Andrzej Powałowski – Supervisory Board Member,
 - e) Marek Szczepaniec – Supervisory Board Member,
 - f) Maciej Żółtkiewicz – Supervisory Board Member,
- 4) in the period from 22 August 2017 till the date of preparing this Report:
 - a) Paula Ziemiecka-Księżak – Supervisory Board Chairwoman,
 - b) Zbigniew Wtulich – Supervisory Board Deputy Chairman,
 - c) Agnieszka Terlikowska-Kulesza – Supervisory Board Secretary,
 - d) Andrzej Powałowski – Supervisory Board Member,
 - e) Marek Szczepaniec – Supervisory Board member,
 - f) Maciej Żółtkiewicz – Supervisory Board Member.

On 17 January 2017, Mr. Jacek Kościelniak was delegated by the Company's Supervisory Board to act temporarily in the capacity of a Management Board Member responsible for managing the Company for a period of up to three months from the date of delegation. Then, in connection with his appointment to the Company's Management Board, Mr. Jacek Kościelniak tendered his resignation from membership in the Supervisory Board as of 10 February 2017.

In connection with the end of the Supervisory Board's 4th Term of Office, on 26 June 2017 the Annual General Meeting of Energa SA set the number of Supervisory Board Members and appointed three Supervisory Board members for the 5th Term of Office: Andrzej Powałowski, Marek Szczepaniec and Maciej Żółtkiewicz.

By the representation from the Energy Minister made by the power of its personal rights, the following were appointed to the Supervisory Board on 26 June 2017: Paula Ziemiecka-Księżak (as Supervisory Board Chairwoman), Zbigniew Wtulich and Agnieszka Terlikowska-Kulesza.

Mr. Marek Szczepaniec and Mr. Andrzej Powałowski satisfy the criteria envisaged for independent supervisory board members within the meaning of the Commission Recommendation of 15 February 2005 on the role of executive or supervisory directors of listed companies and on the committees of the (supervisory) board, taking into account the requirements following from the Code of Best Practice for

WSE Listed Companies, and also for independent Audit Committee members within the meaning of the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (Journal of Laws No. 2017, Item 1089).

The current term of the Company's Supervisory Board ends on 26 June 2020.

Paula Ziemecka-Księżak graduated from the Leon Koźmiński Entrepreneurship and Management College. In 1996 employed in the Ministry of the State Treasury. She has worked in the oversight departments for State Treasury-owned companies. She supervised companies from the road transportation, marine shipping and power sectors. She currently is a sub-department head in the Department of Supervision and Owner Policy at the Ministry of Energy. Her scope of duties comprises supervision of overall economic and legal issues associated with the activity of State Treasury-owned companies from, among others, the black coal mining and power sector. In addition, she gathered experience associated with corporate governance since 2002 discharging functions in the supervisory bodies of such companies as SIP-MOT SA in Zamość, PKS Ostrołęka SA and Opakomet SA with its registered office in Kraków and PERN SA with its registered office in Płock. She has been acting in the capacity of the Energa SA Supervisory Board Chairperson since 12 November 2015.

Agnieszka Terlikowska-Kulesza is a graduate of the Agricultural Faculty of the Warsaw University of Life Sciences and post-graduate studies in finance and European economic and legal relations at Warsaw School of Economics. In February 1997 she joined the team of the State Treasury Ministry at the Commercialization and direct Privatization Department, the Tender Privatization Team. From September 1997 to June 2002 she worked for the Privatization Agency in the Tender Team as chief specialist and then as Section Manager. During that period, she participated in the organization of tenders for the selection of entities performing pre-privatization analyses of companies with State Treasury holdings, she oversaw and executed privatization projects, conducted mainly through the invitation to tender procedure, she verified economic and financial analyses and valuations of companies with State Treasury holdings slated for privatization. From July 2002 to June 2016, she was chief specialist in State Treasury corporate supervision departments at the State Treasury Ministry. She supervised companies from the ceramic, construction and motorized transportation industries. In 2009-2016 she supervised chemical sector companies. Since July 2016, she has been chief specialist at the Department of Supervision and Owner Policy at the Energy Ministry, where she is overseeing mining sector companies. She gathered additional experience by serving from 2001 to 2016 on the supervisory bodies of companies with State Treasury holdings, such as: "Chłodnia Szczecińska" Sp. z o.o., Zakłady Ceramiczne "Bolesławiec" w Bolesławcu Sp. z o.o., Przedsiębiorstwo Komunikacji Samochodowej w Białymstoku S.A., Przedsiębiorstwo Robót Drogowych Sp. o.o. in Mielec, Przedsiębiorstwo Elektryfikacji i Robót Instalacyjnych "ELTOR-Warszawa" Sp. z o.o. in Wołomin.

Zbigniew Wtulich graduated from the Faculty of Drainage and Water Engineering at the Warsaw University of Life Sciences. He started his professional career in 1984 as a Designer Assistant in the Water Drainage Design Department. Then he became a construction engineer in the Regional Drainage Projects Enterprise (in October 1984). He held this position until April 1988. From 1988 to 1991 he worked as an engineer in an international company doing business as "Amak" (construction industry) and from 1993 to 1997 he was employed by the State Treasury Agricultural Property Agency. Before appointment to the Company's Supervisory Board, Zbigniew Wtulich served as a chief specialist at the State Treasury Department of Assets Records at the State Treasury Ministry (1997-1998), a chief specialist - team coordinator at the State Treasury Restitution and Compensation Department at the State Treasury Ministry (1998-2001), sub-department head in the Restitution and Equity Allocation Department at the State Treasury Ministry (2002-2006), sub-department head in the Department of Records, Restitution, Compensation and Equity Allocation (2006-2010). In 2010-2017 he was a sub-department head in the Property Department at the State Treasury. He also served as a Supervisory Board member in Zakłady Tworzyw Sztucznych "GAMRAT" SA (2011) and in Przedsiębiorstwo Gospodarki Wodnej i Rekultywacji S.A. (2002-2009). Currently, the Minister's Advisor in the Department of Forestry in the Ministry of the Environment.

Maciej Żółtkiewicz graduated from the Electrical Department of the Częstochowa University of Technology and completed post-graduate studies at the European University of Law and Administration in Warsaw. He started his career in 1979 as a technical specialist in the Eastern Power Region in Radom. He occupied this position until 1988. In 1988 – 1999 he was employed in Elektrociepłownia “Radom” S.A. as an Automation and Measurement Specialist, Corporate Governance and Restructuring Department Manager, Chief Specialist on Organizational and Employee Matters and Management Board Member. In 1999-2000 he was a Management Board Member of Zakład Maszyn do Szycia “Łącznik” Sp. z o.o. in Radom. In 2001 – 2005 he discharged the following functions: Receiver of “Putis” in Milanówek, Privatization Proxy of “Transdreg” in Warsaw, Vice-President of the Management Board of P.W. “Mediainstal” Sp. z o.o. in Radom. In 2006 – 2008 he discharged the function of President of the Management Board of Fabryka Łączników “Radom” S.A. From 2009 he was involved in internal control and audit in RTBS “Administrator” Sp. z o.o. in Radom, and from 2013 in “Radpec” S.A. in Radom. He gained experience related to overseeing the operations of State Treasury-owned companies by sitting in the supervisory boards of companies such as: Elektrociepłownia “Radom” S.A., Elektrownia Wodna Żarnowiec S.A., Fabryka Łączników “Radom” S.A. In 2009 – 2015 he sat in the supervisory board of PPUH “Radkom” Sp. z o.o. in Radom.

Marek Szczepaniec graduated from the University of Gdańsk. Currently, he is a professor at the University of Gdańsk (from 2008) and professor at the Kazimierz Wielki University in Bydgoszcz (from 2014). In 1993-2001 he worked as a consultant at the Polish-American Small Business Advisory Foundation. In 1992-2006 he was a consultant of the B.P.S. Consultants Poland. From 2006 he has been a co-owner and vice-president of a research firm called Qualifact. He specializes in research on entrepreneurship, human capital, economic growth, behavioral finance and corporate marketing strategies. He is the author of over 150 research reports, scientific articles and other publications. The following companies from the banking sector, among others, used his reports and studies: PKO Bank Polski, BZ WBK, Credit Agricole, BNP Paribas, Pekao SA, ING, mBank; from the insurance sector: PZU, Warta, Compensa, Allianz, Aviva; from the fuel sector: LOTOS Group, PKN Orlen, BP, Total. He managed market research for Elektrociepłownia Wybrzeże and the Energa SA Group and is the author of a study entitled “Energy company customer service models. Global trends”.

Andrzej Powalowski studied from 1969 to 1973 at the Faculty of Law and Administration in the Nicolaus Copernicus University in Toruń. In 1973 he started to work as an assistant in the National Economy Management Law Section at the Faculty of Law and Administration in the University of Gdańsk. In 1980 he obtained the title of doctor of legal sciences and was employed at the position of assistant professor. From 1992 he worked on the position of senior lecturer at the Public Economic Law Faculty and from 1994 at the Public Economic Law and Environmental Protection Faculty. In 2009 he obtained the title of habilitated doctor of legal sciences in the area of public economic law. In 2010 he was nominated to the position of associate professor of Gdańsk University. At the Law and Administration Faculty in the University of Gdańsk he is currently the head of the Public Economic Law Section and head of the post-graduate study programs entitled “Legal conditions for conduct of economic activity” and “Public procurement law and system”. He is also a lecturer at the Off-Site Faculty of the Gdańsk School of Higher Education in Olsztyn. He was employed as an associate professor of the Baltic College of the Humanities and the Real Estate Management College. Author of numerous publications in the form of books and articles for scientific magazines; he is a member of the governing bodies of non-governmental organizations and scientific periodicals. He worked as a legal advisor and since 2010 he has been an advocate in his own law firm in Gdańsk. He discharges the function of arbitrator at the International Court of Arbitration at the Polish Chamber of Maritime Commerce.

None of the Company’s aforementioned Supervisory Board Members is engaged in any business competitive to that of Energa SA, participates in a competitive entity as a partner in a civil law company or partnership or as a member of a corporate authority of a joint stock or limited liability company and does not participate in any other competitive legal person as a member of its corporate authority, or is listed in the Register of Insolvent Debtors kept pursuant to the National Court Register Act.

Supervisory Board's powers

The Supervisory Board's powers include in particular:

- 1) evaluation of the Management Board's reports on the Company's activity and the Group's activity and the financial statements for the previous financial year and the Group's consolidated financial statements in terms of their compliance with the accounting ledgers and documents as well as the actual state of affairs, and the evaluation of the Management Board's motion on the distribution of retained earnings,
- 2) submitting written reports to the General Meeting on the results of the activities referred to in item 1,
- 3) submitting the reports in connection with exercising the supervision over the Management Board's execution of investments, and the supervision over the correctness and effectiveness of spending funds on the investments,
- 4) preparing, at least once a year, along with a report from assessment of the annual financial statements and the consolidated financial statements of the Group, the Supervisory Board's opinion on the issue of economic justification for the Company's capital exposure to other commercial companies, made in the given financial year,
- 5) once a year preparing and presenting to the Annual General Meeting a concise assessment of the Company's standing, including an evaluation of the internal audit system and the significant risk management system,
- 6) reviewing and opining the issues to be included in the resolutions of the General Meeting,
- 7) selecting a statutory auditor to audit the financial statements,
- 8) approving the strategy of the Company and its Group,
- 9) approving the annual/long-term material and financial plans and investing activity plans of the Company and its Group,
- 10) adopting bylaws defining in detail the Supervisory Board's functioning,
- 11) approving the Management Board bylaws,
- 12) approving the organizational bylaws of the Company's enterprise,
- 13) approving the rules for sponsorship activity conducted by the Company,
- 14) setting the rules and remuneration of the President and Members of the Management Board, subject to mandatory provisions of law,
- 15) delegating Supervisory Board members to temporarily perform the duties of Management Board Members who cannot perform their activities and setting their remuneration,
- 16) determining the manner in which the Company votes at general meetings of its subsidiaries.

A detailed description of the Supervisory Board's powers is included in the Company's Articles of Association posted on the corporate website.

Operation of the Supervisory Board

The Supervisory Board exercises permanent supervision over the Company's activity, in accordance with the Commercial Company Code and the Company's Articles of Association. The Supervisory Board Bylaws posted on the corporate website specify the detailed procedure for how it functions.

The Supervisory Board performs its activities as a collective body. Supervisory Board members participate in meetings, exercise their rights and perform their duties in person. Supervisory Board Members are obligated to maintain confidentiality of information related to the Company's activity, which they obtained when discharging their function or otherwise.

By principle, the Supervisory Board adopts resolutions at its meetings, which are held at least once every two months.

The Chairman or Deputy Chairman convenes Supervisory Board meetings presenting a detailed agenda. A meeting should also be convened at the request of any Supervisory Board member or at the request of the Management Board.

Supervisory Board meetings are chaired by the Supervisory Board Chairman, and during his/her absence by the Supervisory Board Deputy Chairman.

Supervisory Board members are allowed to participate in the meeting and vote on resolutions adopted during that meeting using remote means of direct communication, such as conference calls and video conference calls, with the reservation that there is at least one Supervisory Board member present at the location specified by the person convening the meeting and there is a technical possibility of ensuring a secure connection.

Pursuant to the Articles of Association, the Supervisory Board adopts resolutions in matters envisaged by the agenda if at least one-half of its members is in attendance at the meeting and all members have been invited to the meeting.

A change can be made to the proposed agenda if all Supervisory Board members are in attendance at the meeting and nobody raises an objection against the agenda. A matter not included in the agenda of the meeting, should be included in the agenda of the next meeting.

The Supervisory Board may adopt resolutions outside of meetings, by following a written procedure or via remote means of direct communication, including in particular via e-mail. Such a resolution will be valid if all Supervisory Board members have been notified of the content of the draft resolution.

Supervisory Board resolutions are adopted with the absolute majority of votes, and if the number of votes is equal, the vote cast by the Chairman will be decisive.

By principle, the Supervisory Board adopts resolutions in an open ballot, however a secret ballot will be ordered on the motion of a Supervisory Board member and in personal matters. If secret ballot is ordered, it will not be possible to adopt resolutions by following a written procedure or via remote means of direct communication.

The Supervisory Board may, for important reasons, delegate its specific members to perform specific oversight functions individually.

The Supervisory Board may delegate its members for a period no longer than three months, to perform temporarily the duties of Management Board Members, who were dismissed, resigned or who cannot perform their duties for any other reason;

A detailed description of the Supervisory Board's activity in the past financial year is provided in the Supervisory Board activity report submitted each year to the General Meeting and published on the Company's corporate website.

The Supervisory Board shall elect, from among its members, an Audit Committee and a Nomination and Compensation Committee.

In the period from 1 January to 31 December 2017, the Energa SA Supervisory Board held 14 meetings and adopted 124 resolutions. Four Supervisory Board meetings were held in 2017 with not all members in attendance.

In each case Supervisory Board Members made a decisions in the form of a resolution to justify absences on the basis of information provided by the Supervisory Board Members on the reasons for their absences.

The most important matters handled by the Supervisory Board in the 2017 financial year included, among others:

- 1) conducting executive recruitment procedures for Energa SA Management Board members and determining the rules for and amount of compensation for Energa SA Management Board members,
- 2) approving the "Organizational Bylaws of the Enterprise of Energa Spółka Akcyjna",
- 3) analyzing the current economic and financial position of the Company and the Group and the execution and return on the investments conducted in the Energa SA Group,

- 4) adopting the consolidated version of the Articles of Association of Energa SA,
- 5) conducting supervisory activities related to development and deployment of the Sales Support System encompassing the billing system and the CRM system in the Energa SA Group.

Additionally, in 2017, the Supervisory Board decided on how to vote during general meetings of subsidiaries in the scope resulting from the Company's Articles of Association, approved the physical and financial plans of Energa SA and the Energa SA Group, evaluated financial statements and consolidated financial statements for the 2016 financial year with the motion to distribute profit and it monitored the Management Board's execution of the sponsoring activity plan.

Audit Committee

The principles of the Audit Committee's operation are set forth in the Articles of Association of Energa SA and the Supervisory Board Bylaws are available on the Company's website.

The Audit Committee operates as a collective body and serves as an advisory and opining body of the Supervisory Board.

The tasks of the Audit Committee include in particular the following:

- 1) monitoring the financial reporting process,
- 2) monitoring the reliability of financial information presented by the Company,
- 3) monitoring the effective operation of internal control, internal audit and risk management systems in place in the Company,
- 4) monitoring the performance of financial audit activities,
- 5) monitoring whether the auditor and the entity authorized to audit financial statements are independent and objective, including if they provide services other than financial review,
- 6) recommending an entity authorized to audit financial statements and to conduct financial review activities to the Supervisory Board.

Tasks of the Audit Committee are performed by providing the Supervisory Board with its conclusions, recommendations, opinions and reports within its tasks, in the form of resolutions.

The Audit Committee is independent from the Company's Management Board, which cannot give the Committee any binding instructions relating to its tasks.

The Audit Committee is composed of at least three Supervisory Board members, including at least one member who satisfies the independence criteria specified by the legal regulations and holds accounting or financial audit qualifications within the meaning of the Act on Statutory Auditors. According to the Articles of Association, such a person should meet the requirements set forth for independent Supervisory Board Members within the meaning of the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board (2005/162/EC), taking into account the requirements following from the Code of Best Practice for WSE Listed Companies and also for independent Audit Committee members within the meaning of the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (Journal of Laws No. 2017, Item 1089).

In the 2017 financial year and to this date, the Audit Committee operated in the following composition:

- 1) in the period from 1 January 2017 to 26 June 2017:
 - a) Marek Szczepaniec – Committee Chairman,
 - b) Zbigniew Wtulich,
 - c) Andrzej Powalowski,
- 2) in the period from 22 August 2017 to 18 October 2017:
 - a) Paula Ziemiecka-Księżak,
 - b) Marek Szczepaniec,
 - c) Zbigniew Wtulich,
 - d) Andrzej Powalowski,

- 3) in the period from 18 October 2017 to 20 October 2017:
 - a) Marek Szczepaniec – Committee Chairman,
 - b) Paula Ziemiecka-Księżak,
 - c) Zbigniew Wtulich,
 - d) Andrzej Powałowski,
- 4) in the period from 20 October 2017 till the date of preparing this Report:
 - a) Marek Szczepaniec – Committee Chairman,
 - b) Zbigniew Wtulich,
 - c) Andrzej Powałowski.

In the period from 1 January 2017 to 26 June 2017, the function of the Audit Committee Chairman was discharged by Mr. Marek Szczepaniec.

In connection with the appointment of the Supervisory Board of the 5th term of office by the Annual General Meeting of Energa SA on 26 June 2017, the following Supervisory Board Members were appointed to the Audit Committee on 22 August 2017:

- 1) Ms. Paula Ziemiecka-Księżak,
- 2) Mr. Marek Szczepaniec,
- 3) Mr. Zbigniew Wtulich.

Subsequently, during the Supervisory Board meeting held on 18 October 2017, Mr. Andrzej Powałowski was also appointed to the Committee. On the same date, at the Audit Committee meeting, Mr. Marek Szczepaniec was appointed the Committee Chairman.

On 20 October 2017, Ms. Paula Ziemiecka-Księżak tendered her resignation from membership in the Committee.

A description of the Audit Committee's activity in the past financial year including a detailed description of the actions taken by the Committee is provided in the Audit Committee Activity Report attached to the Supervisory Board Activity Report submitted each year to the General Meeting and published on the Company's corporate website.

In 2017, the Audit Committee held 5 meetings with all members in attendance.

Nomination and Compensation Committee

The Energa SA Supervisory Board Nomination and Compensation Committee has been operating since 27 February 2015, when the Company's Supervisory Board made a decision to appoint it and approve the Energa SA's new Supervisory Board Bylaws in which it framed how it is to operate.

The scope of the Nomination and Compensation Committee's operation covers giving opinions and conducting analyses to support the Supervisory Board in the performance of its duties defined by the Articles of Association in respect of the overall compensation policy for Management Board members, the Company's upper level management and in the other companies in the Energa SA Group and to articulate recommendations on appointing Management Board members.

The following tasks in particular fall among the powers and duties of the Nomination and Compensation Committee:

- 1) conducting activities to recruit the Company's Management Board members to the extent designated by the Supervisory Board,
- 2) preparing draft versions of contracts and other model documents in connection with serving as the Company's Management Board members and overseeing the performance of the contractual obligations taken by the parties,
- 3) overseeing the implementation of the Management Board's compensation system, in particular preparing billing documents concerning variable and bonus elements of compensation for the purpose of submitting recommendations to the Supervisory Board;

- 4) monitoring and analyzing the compensation system for the Management Boards and management of companies in the Energa SA Group,
- 5) overseeing the correct execution of perks for the Company's Management Board stemming from contracts, among others: personal and medical insurance, usage of company cars, apartment and others.

In the 2017 financial year, the Nomination and Compensation Committee operated in the following composition:

- 1) in the period from 1 January 2017 to 26 June 2017:
 - a) Paula Ziemiecka-Księżak – Committee Chairwoman,
 - b) Agnieszka Terlikowska-Kulesza,
 - c) Zbigniew Wtulich,
- 2) in the period from 22 August 2017 till the date of preparing this Report:
 - a) Paula Ziemiecka-Księżak,
 - b) Agnieszka Terlikowska-Kulesza,
 - c) Zbigniew Wtulich.

Two Nomination and Compensation Committee meetings were held in 2017 – all of them with all members in attendance.

A description of the activity of the Nomination and Compensation Committee last year has been presented in the Activity Report of the Nomination and Compensation Committee forming an Attachment to the Supervisory Board Activity Report.

Management Board

Rules for appointing and dismissing Management Board Members

The Management Board may be composed of one to five members, including the President of the Management Board and one to a few Vice-Presidents of the Management Board. The term of office of the Management Board is a joint term of three years.

According to the Articles of Association, Management Board Members are appointed and dismissed by the Supervisory Board, which designates one of them as President of the Management Board and one or more of them as Executive Vice-President of the Management Board.

A Management Board Member may be also:

- 1) dismissed or suspended by the General Meeting,
- 2) suspended by the Supervisory Board for important reasons.

Pursuant to § 16 of the Articles of Association of Energa SA, the Supervisory Board appoints Management Board Members after conducting a recruitment procedure.

A Management Board Member shall submit his or her resignation to another Management Board Member or to the commercial proxy or, if this is impossible, to the Supervisory Board. The notice of resignation should be submitted in writing. The resigning Management Board Member shall inform the Supervisory Board Chairman of his/her resignation

Composition

In 2017 and up to the date of preparation of this Report, the Company's Management Board operated with the following composition:

- 1) in the period from 1 January 2017 to 17 January 2017:
 - a) Dariusz Kaśków – President of the Management Board,
 - b) Grzegorz Ksepko – Vice-President of the Management Board for Corporate Matters,

- c) Mariusz Rędaszka – Vice-President of the Management Board for Financial Matters,
 - d) Przemysław Piesiewicz – Vice-President of the Management Board for Development Strategy,
 - e) Mariola Anna Zmudzińska – Vice-President of the Management Board for Investor Relations,
- 2) in the period from 17 January 2017 to 10 February 2017:
- a) Jacek Kościelniak – Energa SA Supervisory Board member delegated to perform temporarily the duties of a Management Board member acting in the capacity of President of the Management Board,
 - b) Grzegorz Ksepko – Vice-President of the Management Board for Corporate Matters,
 - c) Mariola Anna Zmudzińska – Vice-President of the Management Board for Investor Relations,
- 3) in the period from 11 February 2017 to 16 February 2017:
- a) Jacek Kościelniak – Vice-President of the Management Board for Financial Matters,
 - b) Grzegorz Ksepko – Vice-President of the Management Board for Corporate Matters,
 - c) Mariola Anna Zmudzińska – Vice-President of the Management Board for Investor Relations,
- 4) in the period from 17 February 2017 to 1 March 2017:
- a) Jacek Kościelniak – Vice-President of the Management Board for Financial Matters,
 - b) Grzegorz Ksepko – Vice-President of the Management Board for Corporate Matters,
- 5) in the period from 1 March 2017 to 2 March 2017:
- a) Alicja Barbara Klimiuk – Vice-President of the Management Board for Operations,
 - b) Jacek Kościelniak – Vice-President of the Management Board for Financial Matters,
 - c) Grzegorz Ksepko – Vice-President of the Management Board for Corporate Matters,
- 6) in the period from 2 March 2017 to 5 February 2018:
- a) Daniel Obajtek – President of the Management Board
 - b) Alicja Barbara Klimiuk – Vice-President of the Management Board for Operations,
 - c) Jacek Kościelniak – Vice-President of the Management Board for Financial Matters,
 - d) Grzegorz Ksepko – Vice-President of the Management Board for Corporate Matters,

On 17 January 2017, the Supervisory Board dismissed Mr. Dariusz Kaśków from the position of the President of the Energa SA Management Board, Mr. Przemysław Piesiewicz from the position of the Vice-President for Development Strategy and Mr. Mariusz Rędaszka from the position of the Vice-President for Financial Matters.

On 17 January 2017, Mr. Jacek Kościelniak was delegated by the Company's Supervisory Board to act temporarily in the capacity of a Management Board Member responsible for managing the Company for a period of up to three months from the date of delegation.

Also on 17 January 2017, the Energa SA Supervisory Board launched an executive search to recruit the Company's Management Board members for its fifth term of office, i.e.:

- 1) President of the Management Board,
- 2) Vice-President of the Management Board for Financial Matters,
- 3) Vice-President of the Management Board for Operations.

As a result of the executive search procedure, the Energa SA Supervisory Board appointed the following to the position of:

- 1) President of the Management Board – Mr. Daniel Obajtek, appointing him to the Energa SA Management Board as of 2 March 2017,
- 2) Vice-President of the Management Board for Financial Matters – Mr. Jacek Kościelniak, appointing him to the Energa SA Management Board as of 11 February 2017,
- 3) Vice-President of the Management Board for Operations – Ms. Alicja Barbara Klimiuk, appointing her to the Energa SA Management Board as of 1 March 2017.

On 16 February 2017, the Company's Supervisory Board adopted a resolution to dismiss from the Company's Management Board Ms. Mariola Zmudzińska, who served as the Vice-President of the Energa SA Management Board for Investor Relations.

On 5 February 2018, Mr. Daniel Obajtek tendered his resignation from the function of the President of the Energa SA Management Board as of the end of that date.

The current fifth term of office of the Energa SA Management Board will elapse on 4 January 2019.

Alicja Barbara Klimiuk – acting President of the Management Board, Vice-President for Operations

She graduated from the Management Department of the University of Gdansk. She completed the Post-Graduate Course in Management at the Warsaw School of Economics and the Post-Graduate Course in Controlling in Corporate Management at the University of Gdańsk. She has many years of professional experience in commercial law companies with State Treasury holdings, including Energa SA as the President of the Management Board. In the period of consolidating the Energa SA Group with the Ostrołęka Power Plant Complex, she oversaw the process of separating the distribution system operator, establishing an electricity trading company and restructuring the Energa SA Group subsidiaries. In 2006-2007, she also served as a member of Supervisory Boards of companies such as: Towarowa Giełda Energii S.A. in Warsaw, Zespół Elektrowni Ostrołęka S.A. and Cergia Energetyka Toruńska S.A. In the period from 1992 to 1998, as the Vice-President of the city of Suwałki, she oversaw the areas of finance, infrastructure investments, geodesy, zoning management and public utility companies. From 1998 to 2006, she was the President and Vice-President of the Special Economic Zone in Suwałki responsible, among others, for overseeing infrastructure construction and development on the Special Economic Zone site and monitoring compliance of the businesses with their permits. In the period from 2008 to 2013, she ran her own business, providing investment advice and consulting on the reports on the environmental impact of investment projects. Since 2014, she has been the Director of the Technology Transfer Center at the Higher Vocational School of prof. Edward F. Szczepanik in Suwałki, where she executed projects co-funded by the EU focusing on the research and development work for businesses and the transfer of technology from academic centers to the economy.

Jacek Kościelniak – Vice-President of the Management Board for Financial Matters

He graduated from the Economic Academy (currently University of Economics) in Katowice, specializing in finance and accounting. In 1989 he began his professional career as an accountant, finance specialist and Chief Accountant in private limited liability companies. Then, from 1992 to 1998, he provided accounting, tax and legal and economic advisory services running his business activity. He conducted training workshops on the subject of taxes, accounting and mandatory prevention of the introduction of funds originating from illegal or undisclosed sources into financial circulation. He also worked as an auditor for the National Cooperative Savings and Loans Organization (Krajowa Spółdzielcza Kasa Oszczędnościowo-Kredytowa). From 1998 to 2002 he served as the Finance Department Director at the Silesian Voivodship Office. He was also the Supervisory Board chairman of the Upper Silesia Regional Development Agency and a supervisory board member of the Upper Silesia Restructuring Fund. He was elected as Member of the Parliament of the 5th Term and, during that period, he served

as a member of the Parliamentary Public Finance Committee. From January to November 2007 he was Secretary of the State in the Prime Minister's Office and Deputy Chairman of the Standing Committee of the Council of Ministers. From 2007 to 2011 he served as the Vice-President of the Supreme Audit Chamber. He acted as an expert in the twin cooperation project to strengthen the audit potential of the Audit Authority in Georgia and Albania.

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

Graduate of the Faculty of Law and Administration at the University of Gdansk (2001). In 2004 he completed his public prosecutor trainee program in the District Public Prosecution Office in Gdansk and he passed the public prosecutor examination. In November 2005 he was entered on the list of advocates. In July 2006 he became a partner (equity partner) in the law firm Kancelaria Radców Prawnych i Adwokatów Głuchowski Siemiątkowski Zwara i Partnerzy. In November 2010 he became a senior partner, thereby taking a senior management position. In his law practice he specialized above all in company law, business services, criminal law, criminal revenue law, civil law, administrative law and in issues related to the functioning of the oil and power sector. He also provided services to other businesses, including advisory services in the area of corporate governance. From 2003 to 2007 he sat in the Supervisory Board of Agencja Rozwoju Pomorza S.A. He was one of the principal authors of the vetting bill and the amendment of the Act on the Institute of National Remembrance drafted in 2006. He also participated in work on the consumer bankruptcy bill, the amendment of the State Treasury Solicitors' Office Act, the amendment of the Press Law, the amendment of the Weapons and Ammunition Act and the amendment of the Criminal Code and he prepared draft regulations for the Minister of Regional Development on public aid. In 1996 he completed the Fourth Annual Summer School for Young Social and Political Leaders under the Polish Robert Schuman Foundation and in 1997 the English language school at the University of California Los Angeles.

None of the Company's Management Board Members mentioned above engages in any business competitive to that of Energa SA, participates in a competitive entity as a partner in a civil law company or partnership or as a member of a corporate authority of a joint stock or limited liability company and does not participate in any other competitive legal person as a member of its corporate authority, or is listed in the Register of Insolvent Debtors kept pursuant to the National Court Register Act.

Management Board's powers

The Management Board operates in accordance with the Commercial Company Code and the Company's Articles of Association. The Management Board's organization and operation, including detailed method of adopting resolutions, are determined by the Management Board Bylaws approved by the Supervisory Board and published on the Company's corporate website.

The Management Board runs the Company's affairs and represents it. Two Management Board Members acting jointly or one Management Board Member acting jointly with a general proxy are authorized to submit representations of will and sign them on the Company's behalf.

The powers of the Management Board comprise all the Company's matters which are not reserved by the regulations of law or the Company's Articles of Association for the authorities. According to Articles of Association, without prejudice to exceptions indicated therein, each Management Board member may conduct the Company's matters in the scope of his/her powers set forth in the Management Board Bylaws without prior resolution of the Management Board. If, however, before handling such matter, at least one of the remaining Management Board Members objects to the handling thereof, a prior Management Board resolution will be required.

On the date of preparing this Report, the Management Board members have made a functional split of the specific areas of the Company's business for the purpose of individually handling the affairs in the range of their powers and have entrusted:

- 1) functional oversight over the following areas of the Company's business to the President of the Management Board:
 - a) press support,

- b) audit and control,
 - c) strategic risk management,
 - d) legal support,
 - e) security,
 - f) Group's personnel policy, including the hiring of members of corporate bodies of Energa SA Group Companies,
 - g) marketing and sponsoring activity,
 - h) management of an organization,
 - i) social dialogue,
- 2) functional oversight over the following areas of the Company's business to the Vice-President of the Management Board for Corporate Matters:
- a) institutional relations,
 - b) corporate and ownership governance in the Group,
 - c) management by objectives,
 - d) internal communication,
 - e) CSR and environmental policy,
 - f) management of the Group's organizational governance,
- 3) functional oversight over the following areas of the Company's business to the Vice-President of the Management Board for Financial Matters:
- a) financial planning and analyses,
 - b) financial reporting and consolidation,
 - c) financial policy,
 - d) management of the Group's financial risk,
 - e) business controlling,
 - f) investor relations,
 - g) stakeholder relations.
- 4) Functional oversight over the following areas of the Company's business to the Vice-President of the Management Board for Operations:
- a) Energa SA Group's Strategy, regulatory policy,
 - b) strategic asset management,
 - c) market analyses and the Group's development,
 - d) research and development and innovation,
 - e) mergers and acquisitions,
 - f) IT.

Moreover, in connection with the resignation of Mr. Daniel Obajtek as President of the Management Board, on 6 February 2018, pursuant to § 1 section 6 of edition IV of the Energa SA Management Board Bylaws, the Management Board entrusted Ms. Alicja Barbara Klimiuk, Vice-President of the Management Board for Operations to discharge the duties of the President of the Energa SA Management Board. This decision was approved by the Company's Supervisory Board. At the same time, the Management Board entrusted functional oversight over the following areas of the Company's business to Ms. Alicja Barbara Klimiuk, Vice-President of the Management Board for Operations currently also the acting President of the Energa SA Management Board:

- 1) press support,
- 2) audit and control,
- 3) strategic risk management,
- 4) legal support,
- 5) security,
- 6) Group's personnel policy, including the hiring of members of corporate bodies of Energa SA Group Companies,
- 7) marketing and sponsoring activity,
- 8) management of an organization,
- 9) social dialogue,

Manner of the Management Board's functioning

In principle, Management Board resolutions are adopted at its meetings. The meetings are held on the set date as needed, but no less frequently than once every two weeks.

Management Board meetings are convened by the President of the Management Board or a Management Board Member. Meetings held according to a fixed schedule adopted by a Management Board resolution do not require notifications. In addition, the Management Board meeting convened at the written request of a Management Board Member or Supervisory Board member should be convened within four days from the date of submitting the request to the President of the Management Board.

In principle, the President of the Management Board presides over Management Board meetings. Management Board meetings are held in the Company's registered office or at another location indicated by the person convening the Management Board meeting. The Management Board Bylaws admit the possibility of Management Board Members' participation in the meeting and voting on resolutions adopted during a meeting using remote means of direct communication, such as conference and video conference calls, with the reservation that there is at least one Management Board Member present at the location specified by the person convening the meeting and there is a technical possibility of ensuring a connection.

Management Board resolutions are adopted by an absolute majority of votes. If an equal number of votes is cast, the Management Board President's vote will prevail. In order for the resolutions to be valid, all the Management Board Members must be correctly notified about the meeting, and more than one-half of the members must be in attendance if the Management Board is composed of at least three persons. If the Management Board is composed of two persons, all the Management Board Members must be in attendance in order for the resolutions to be valid. Voting, in principle, is by open ballot but at the request of Management Board member, a secret ballot may be called.

In urgent situations it is permitted to adopt resolutions following the written procedure or by using remote means of direct communication such as fax or e-mail on the condition that all Management Board Members express their consent for it. The resolution will be valid if all Management Board Members have been notified of the content of the draft resolution following the written procedure or by using remote means of direct communication.

In 2017 the Energa SA Management Board held 58 meetings and adopted 504 resolutions.

The Management Board's most important actions and decisions were as follows:

- 1) actions aimed at stabilizing the implementation of the Sales Service System in the Energa SA Group,
- 2) issue of subordinated (hybrid) bonds,
- 3) implementation of the ISO/IEC 27001 "Information Security Management" standard in Energa SA,
- 4) launch of actions associated with entry into force of the General Data Protection Regulation,
- 5) actions aimed at implementation of an optimum structure of the Energa SA Group and standardization of procurement and logistic processes and streamlining of collections,
- 6) adoption of the "Organizational Bylaws of the Enterprise of Energa Spółka Akcyjna".

6.8. Compensation of persons in management and supervisory bodies

Management Board

On 15 December 2016, by the power of Resolution no. 27 adopted by the Extraordinary General Meeting, the rules for remunerating the Management Board Members to the provisions of the Act of 9 June 2016 on the Rules for Remunerating Persons Managing Certain Companies (Journal of Laws of 2016 Item 1202), As at the date of this report, the fixed part of compensation for work payable to the Members of the Energa SA Management Board was set within the range from 7 to 15 times the average

salary in the corporate segment without profit-sharing awards in the fourth quarter of the previous year, as announced by the President of the Main Statistical Office.

Based on the adopted rules of compensation, management service contracts are signed with the managers, which provide for:

- 1) the right to compensation for refraining from conducting competitive activity (no-compete) for a period up to 12 months after the contract termination date,
- 2) the right to severance pay in the amount of three times the basic monthly salary if the manager is dismissed from the function of a Management Board member.

The compensation paid individually to each of the Company's Management Board members in 2017 is presented in the table below.

Table 1: Compensation paid to the persons in the Energa SA Management Board in the period from 1 January to 31 December 2017 (PLN 000s)

Full name	In office	Compensation	Other benefits	Total*
Alicja Barbara Klimiuk	from 1 March to 31 December 2017	591	32	623
Jacek Kościelniak	from 11 February to 31 December 2017	658	51	709
Grzegorz Ksepko	from 1 January to 31 December 2017	701	28	729
Daniel Obajtek	from 2 March to 31 December 2017	632	57	689
Dariusz Kaśków	from 1 January to 17 January 2017	350	18	368
Mariusz Rędaszka	from 1 January to 17 January 2017	325	2	327
Przemysław Piesiewicz	from 1 January to 17 January 2017	325	24	349
Mariola Anna Zmudzińska	from 1 January to 16 February 2017	390	0	390
TOTAL		3,972	212	4,184

**the differences in sum are caused by rounding.*

In the previous year, the Management Board Members were also entitled to non-financial compensation elements, such as:

- 1) medical insurance for the Management Board member and his/her direct family and the right to select either life insurance or medical insurance,
- 2) company apartment in justified cases or a reimbursement of rental expenses,
- 3) covering or refinancing the costs of individual training related to the range of activities performed in favor of the Company,
- 4) benefiting from the Company's asset items.

The compensation system for members of the Energa SA Management Board members is based on the objective management system. The objectives are set on the basis of the existing Energa SA Group Strategy, Long-Term Plan of Strategic Investments and the challenges, both internal and external, that the Group is facing. Payment of variable elements of compensation of Energa SA Management Board members is related to the extent and level to which the objectives have been fulfilled. Additionally, the objectives of Management Boards who are Business Line Leading Entities and the Company's management are related to the objectives for the Energa SA Management Board and cascaded in accordance with the "from top to bottom" methodology. The accepted model provides an incentive function and integrates the executive and management personnel around the objectives and gives them the sense of shared accountability for achieving them.

A system designed in such a way combines focus on the activities that are important from the Group's point of view, with effective achievement of its intentions. It is also important for the Company's shareholders, since it allows to build a long-term boost in Energa's value and ensures the Company's stable operation.

Supervisory Board

According to the Articles of Association, Supervisory Board members are entitled to monthly compensation in the amount set by the General Meeting.

The Company will also cover the costs incurred in connection with performance of the functions entrusted to Supervisory Board members, in particular the costs of transport to the Supervisory Board meeting, costs of exercise of personal oversight, and costs of food and lodging.

The compensation will not be due for the month in which the Supervisory Board member did not attend any of the formally convened meetings and failed to provide any formal justification. The table below presents the compensation of Energa SA's Supervisory Board members in 2017.

Table 2: Compensation of persons sitting in the Energa SA Supervisory Board in the period from 1 January to 31 December 2017 (PLN 000s)

Full name	Period in office in 2017	Compensation	Other benefits	Total
Paula Ziemiecka-Książak	from 1 January to 31 December 2017	90	0	90
Zbigniew Wtulich	from 1 January to 31 December 2017	79	0	79
Marek Szczepaniec	from 1 January to 31 December 2017	79	0	79
Jacek Kościelniak	from 1 January to 10 February 2017	4	0	4
Maciej Żółtkiewicz	from 1 January to 31 December 2017	79	0	79

Full name	Period in office in 2017	Compensation	Other benefits	Total
Agnieszka Terlikowska – Kulesza	from 1 January to 31 December 2017	79	0	79
Andrzej Powalowski	from 1 January to 31 December 2017	79	0	79
TOTAL*		489	0	489

*the differences in sum are caused by rounding.

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

No member of Energa SA's Management Board or Supervisory Board held shares in the Company as at 31 December 2017.

6.9. Diversity policy

Energa SA does not have a specific diversity policy in place. In 2017, the Company developed and implemented the Group's Personnel Policy. The document regulates a number of issues in the HR area, however Energa SA bears in mind a description of the diversity area. The document will be ultimately expanded to include a description of diversity issues, which is currently being prepared by the Company.

6.10. Primary attributes of the internal control and risk management systems in reference to preparing financial statements

An important element of the internal control system is the internal audit function. The Company has an internal audit unit which carries out the audit and control tasks in the Energa SA Group. These tasks are carried out according to the Rules for conducting audits in the Energa SA Group. The internal audit function helps the organization maintain effective and efficient control mechanisms through their evaluation and promotion of constant improvements while following international standards of internal audit practices.

The purpose of an effective internal control system in the financial reporting process is to ensure adequacy and correctness of financial information contained in periodic reports. For this purpose, the Company designed and implemented and applies the financial reporting process oversight matrices.

The financial reporting area is additionally an element of the annual Assessment of the Internal Control System, Risk Management and Compliance System in Energa SA, which in 2017 was effected with the participation of PricewaterhouseCoopers ("PwC") – the work of the advisors pertaining to the financial reporting process was positive.

The financial data, which are the basis of financial reports and Management Board's reports as well as Energa SA's monthly management and operational reporting, come from the Company's financial and accounting system. After the performance of all the pre-determined ledger closing processes at the end of each month, detailed financial and operational managerial reports are prepared. These reports are drafted with co-participation of middle and senior management of the individual organizational cells. As far as closed reporting periods are concerned, the Company's financial results are analyzed in detail and compared to the budget assumptions, and the identified deviations are properly explained.

The financial reporting and the management reporting of the Company and the Energa SA Group are carried out on the basis of the accounting policy (according to International Financial Reporting Standards), which is adopted by a resolution of the Company's Management Board and updated as needed.

Annual reviews of strategies and economic and financial plans are carried out in the Company. The process of detailed planning and budgeting, which includes all the areas of the Company's functioning, involves middle and senior management. The economic and financial plan is accepted by the Company's Management Board and approved by the Supervisory Board.

The Supervisory Board is responsible for selecting a statutory auditor to audit the Company's financial statements and the Group's consolidated financial statements. The auditor authorized to audit the Company's financial statements is the entity specified in the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (Journal of Laws No. 2017, item 1089).

The Company does not have a specific rule regarding an entity authorized to audit financial statements. According to § 23a of the Company's Articles of Association, the Audit Committee recommends to the Supervisory Board the entity authorized to perform the financial review of the Company, and the Supervisory Board chooses and changes such entity. In the past, the Company did not cooperate with any of the entities authorized to audit financial statements for more than five years in a row.

The entire auditor selection procedure is conducted by the Supervisory Board's Audit Committee, and it encompasses determining the auditor selection criteria, conducting the selection procedure and authorizing the Management Board to conclude with it an agreement to audit the financial statements. The Supervisory Board selects the proposal for auditing the financial statements after carrying out the procedure, whose aim is to select an independent statutory auditor and the proposal whose price that takes into account the auditor's efforts, the auditor's position on the market of auditing services, and knowledge of the industry in which the Company operates.

In connection with the entry into force of the Regulation of the European Parliament and of the Council (UE) on specific requirements regarding statutory audit of public-interest entities and the expected enactment, by the Polish parliament, of an act implementing the EU regulations providing for the minimum period of two years for which a statutory audit agreement should be signed, the Supervisory Board decided to carry out a procedure to elect an auditor for the years 2017-2018. Following the procedure, on 20 December 2016 the Company's Supervisory Board selected the authorized entity KPMG Audyt spółka z ograniczoną odpowiedzialnością sp.k. with its registered seat in Warsaw at ul. Inflancka 4A ("KPMG") as the statutory auditor to audit and review the financial statements and consolidated financial statements of Energa SA and the Energa SA Group for the annual periods ended on 31 December 2017 and 31 December 2018, respectively.

Audit report is presented to the Management Board, the Audit Committee and the Supervisory Board. After the annual audit, the auditor sends to the Company the so-called Letter to the Management Board, which lists the failures and shortcomings found during the audit that have no material influence on the reliability and correctness of the financial statements prepared.

Within the framework of the Integrated Risk Management System in place in the Energa SA Group, the financial reporting risk is identified and managed to ensure timely and error-free preparation of the Company's and the Group's financial statements and the reporting and management information risk related, among others, with collection and preparation of management, operational and financial information needed to make management decisions. The mechanisms to control these risks, as described above, are registered in the Risk Card and subject to periodic evaluation in respect to adequacy, efficiency and effectiveness.

The risk management process, which is described in more detail in item 2.6 of this Report, encompasses all of the Group's business lines and levels of organization. It assumes both ongoing and regular risk reviews as well as independent regular evaluation of the systems effectiveness and efficiency and continuous improvement based on the Deming cycle (PDCA).

The results of the risk identification and evaluation process, including reporting risks, are accepted each time by the Company's Management Board in the form of a Management Board Resolution, which sets the level of the organization's risk appetite, accepts the management strategy for the individual risks

and obligates the Risk Owners to implement action plans as recorded in the Risk Cards. Additionally, as part of the effectiveness monitoring process for the risk management system in the Energa SA Group, a report summarizing risk reviews in the Group is delivered to the Audit Committee operating within the Energa SA Supervisory Board.

Management board's representation



7. MANAGEMENT BOARD'S REPRESENTATION

Gdańsk, 14 March 2018

The Energa SA Management Board hereby represents that:

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

- (2) KPMG Audyt spółka z ograniczoną odpowiedzialnością sp.k., an entity authorized to audit the financial statements, which audited the consolidated financial statements of the Energa SA Group for the financial year ended 31 December 2017, was selected in accordance with the applicable regulations. That entity as well as the auditors who audited the aforementioned financial statements satisfied the conditions for expressing an unbiased and independent opinion about the audit of the consolidated financial statements as required by the binding regulations and professional norms.

Signatures of Energa SA Management Board Members

Alicja Klimiuk
acting President of the Energa SA Management Board

Jacek Kościelniak
Vice-President of the Energa SA Management Board for Financial Matters

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

Zbysław Dobrowolski
Director of the Finance Department

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Glossary of terms and abbreviations

AMI, Advanced Metering Infrastructure	Integrated set of elements: intelligent electricity meters, communication modules and systems providing the possibility to collect data regarding electricity consumption by specific customers.
Billing	Itemized bill, statement of all fees for added services which a subscriber uses in a given billing period
Biomass	Solid or liquid, biodegradable substances of plant or animal origin, originating from products, waste and remnants of agricultural and forestry production, the industry processing their products, and also a portion of other biodegradable waste, and especially agricultural raw materials.
CAPEX	Capital expenditures
CIRS, CCIRS	Currency Interest Rate Swap and Cross-Currency Interest Rate Swap transactions, in which payments will be made over a specified period with a specified frequency, based on variable interest rates, in two different currencies (CIRS) or in more currencies (CCIRS).
CO ₂	Carbon dioxide
EIB	European Investment Bank
EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization)	ENERGA SA defines EBITDA as operating profit/loss plus amortization and depreciation and impairment losses for non-financial non-current assets. Since the EBITDA definition changed as of 2016, EBITDA for comparative periods (2013-2015) was calculated using the new definition.
EBIT	Operating profit
EBRD	European Bank for Reconstruction and Development
Issuer, issuer	ENERGA SA
ENERGA SA, ENERGA, Energa SA	Parent company in the ENERGA SA Group.
ENERGA-OPERATOR, Energa Operator SA, EOP	ENERGA-OPERATOR SA – a subsidiary of ENERGA SA and the Leading Entity of the Distribution Business Line in the ENERGA SA Group.
ENERGA-OBRÓT, Energa Obrót SA, EOB	ENERGA-OBRÓT SA – a subsidiary of ENERGA SA and the Leading Entity of the Sales Business Line in the ENERGA SA Group
EMTN	Euro Medium Term Note issue program.
EU	European Union
EUA	Emission allowances
EU ETS	European Union Greenhouse Gas Emission Trading Scheme The rules governing its operation are stated in ETS Directive.
EUR	Euro, currency used in countries belonging to the European Union's Eurozone
WSE	Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.)
ENERGA SA Group, Energa Group, Group, ENERGA	A group distributing, selling and generating electricity and heat. It also conducts activity related to street lighting, design, procurement of materials, grid-related services, specialized transport, hotel and IT services.
Tariff group	Group of customers off-taking electricity or heat or using electricity or heat supply services with respect to which a single set of prices or fee rates along with their terms and conditions are applicable.
GUS	Główny Urząd Statystyczny (Central Statistical Office)
GW	Gigawatt, unit of power in the International System of Units, 1 GW = 10 ⁹ W
GWe	Gigawatt of electrical power
GWh	Gigawatt hour
IBnGR	Market Economy Research Institute (Instytut Badań nad Gospodarką Rynkową)
IPO	Initial Public Offering
IRS (Interest Rate Swap)	An interest rate swap agreement between two parties, under which the parties pay interest on the contractual nominal amount calculated according to a different interest rate.
KNF	Komisja Nadzoru Finansowego (Polish Financial Supervision Authority)
Cogeneration, CHP	Technological process of simultaneous combustion of heat and electricity or mechanical energy in the course of the very same technological process.
Covenants	Contractual clauses offering protection to lenders in loan agreements.
KRS	National Court Register
kWh	Kilowatt hour, unit of electricity generated or used by equipment with 1 kW of power in an hour; 1 kWh = 3,600,000 J = 3.6 MJ
MEW	Small hydropower plant
MoT	Ministry of Treasury

MW	Unit of power in the International System of Units, 1 MW = 10 ⁶ W
MWe	Megawatt of electrical power
MWh	Megawatt hour
MWt	Megawatt of thermal power
NBP	National Bank of Poland, central bank in Poland
NCBiR	National Centre for Research and Development (Narodowe Centrum Badań i Rozwoju)
NFOŚiGW	National Fund for Environmental Protection and Water Management
EGM	Extraordinary General Meeting of ENERGA SA
Renewable Energy Sources, RES	Sources converting the energy of the wind, solar radiation, geothermal energy, waves, currents and marine tides, run of rivers and energy obtained from biomass, garbage dump biogas as well as biogas ensuing from waste removal or treatment processes or the degeneration of stored plant and animal remains to generate electricity.
DSO, Distribution System Operator	Utility dealing with the distribution of gaseous fuels or electricity, responsible for grid operation in the gaseous distribution system or in the electricity distribution system, the current and long-term operational safety of this system, the operation, maintenance, refurbishment and required expansion of the distribution grid, including connections with other gaseous systems or other electrical power systems.
TSO, Transmission System Operator	Utility dealing with the transmission of gaseous fuels or electricity, responsible for grid operation in the gaseous transmission system or in the electrical energy transmission system, the current and long-term operational safety of this system, the operation, maintenance, refurbishment and required expansion of the transmission grid, including connections with other gaseous systems or other electrical power systems.
OZEX_A	Volume-weighted average price using all transactions pertaining to the PMOZE_A contract on an exchange session
PGE	PGE Polska Grupa Energetyczna SA
GDP	Gross Domestic Product
PLN	Polish zloty, national currency
PMOZE_A	Property rights to certificates of origin for electricity generated in RES whose period of generation, as specified in the certificate of origin, commenced after 1 March 2009
pp.	Percentage point
Property rights	Negotiable rights constituting a commodity arising from certificates of origin for energy generated from renewable energy sources and co-generation
Vertically-integrated utility	Utility or group of utilities whose reciprocal relationships are prescribed by Article 3 sec. 2 of the Regulation on the Control of Concentrations, dealing with (i) in respect of gaseous fuels: transmission or distribution, or storage, or condensation and generation or the sale of these fuels, or (ii) in respect of electricity: transmission or distribution and generation or the sale of this energy
PSE	Polskie Sieci Elektroenergetyczne Spółka Akcyjna with its registered office in Warsaw, entered in the register of entrepreneurs of the National Court Register under file number KRS 0000197596; company designated by ERO President decision No. DPE-47-58(5)/4988/2007/BT of 24 December 2007 to be the electrical power transmission system operator in the Republic of Poland for the period from 1 January 2008 until 1 July 2014
yoy	Year on year
SAIDI	System Average Interruption Duration Index
SAIFI	System Average Interruption Frequency Index
SFIO	Specialized Open-end Mutual Funds
Smart Grid	Electrical power system intelligently integrating the actions of all the participants in the processes of generation, transmission, distribution and usage to deliver electricity in an economical, reliable and safe manner. It entails comprehensive energy solutions making it possible to combine, facilitate reciprocal communication and control in an optimum way elements of power grids that have been diverse to date
Spot	Day-Ahead Market (DAM) – energy market operating in the “day ahead” time interval (DA) providing for energy supply on day D
Certificate of origin	Certificate of origin from renewable sources and certificate of origin from co-generation
Certificate of origin from co-generation	Document issued by the ERO President pursuant to art. 9l of the Energy Law confirming the generation of electricity in highly-efficient co-generation generated in: (i) a co-generation unit fired with gaseous fuels or with the total installed

	electrical capacity at source being under 1 MW (known as a yellow certificate), (ii) a co-generation unit fired with methane released and drained in the course of underground mining activity in hard coal mines that are active, that are being shut down or that have been shut down or with gas obtained by processing biomass (known as a purple certificate), or (iii) some other co-generation unit (known as a red certificate)
Certificate of origin from renewable energy sources, green certificate	Document issued by the ERO President pursuant to art. 9e of the Energy Law confirming the generation of electricity in a renewable energy source (known as a green certificate)
Tariff G	Tariff group for individual customers – households
Polish Power Exchange, TGE	Polish Power Exchange S.A., a mercantile exchange on which commodities admitted to be traded on the exchange are traded, i.e. electricity, liquid and gaseous fuels, mine gas, pollution emission limits and property rights ensuing from certificates of origin whose price is directly or indirectly dependent on the price of electricity, liquid or gaseous fuels and the quantity of pollution emissions
TWh	Terawatt hour, a multiple unit of electricity in the International System of Units. 1 TWh is 10 ⁹ kWh
EU	European Union
ERO	Energy Regulatory Office
WACC	Weighted average cost of capital
WIBOR	Warsaw Interbank Offered Rate
Cofiring	Generation of electricity or heat using a process of simultaneous and joint combustion of biomass or biogas with other fuels in a single device; a portion of the energy generated in this manner may be deemed to be energy generated in a renewable energy source