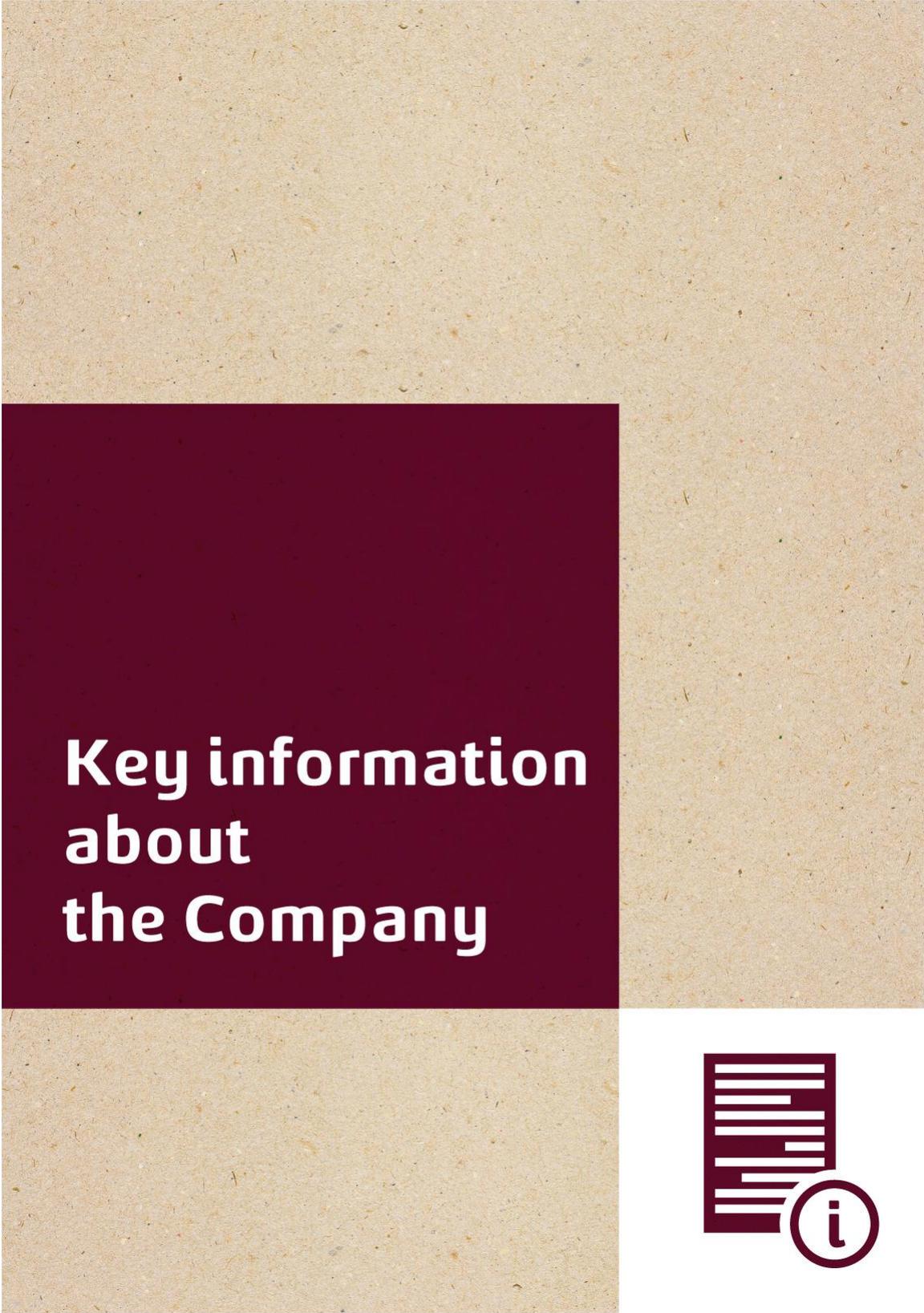


**Management Board
Report on the activity
of ENERGA SA
for the year ended
31 December 2018**

Gdańsk,
Publication date: 14 March 2019

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**Key information
about
the Company**



1. KEY INFORMATION ABOUT THE COMPANY AND THE GROUP

1.1. Role of the Company in the Group

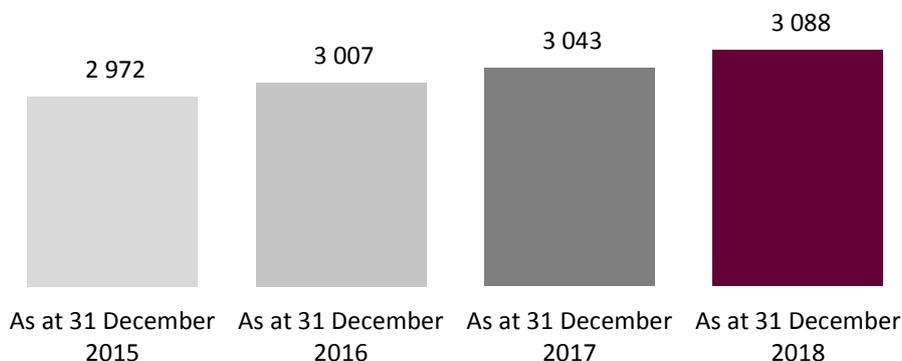
Energa SA (the Company, Energa) is the parent entity of the Energa Group (the Group, Energa Group). It was established on 6 December 2006 in the framework of the “Power Sector Programme” by the State Treasury, Koncern Energetyczny Energa SA (now Energa Operator SA) and Zespół Elektrowni Ostrołęka SA (now Energa Elektrownie Ostrołęka SA). The Company was registered in the National Court Register (KRS) on 8 January 2007 under No. 0000271591.

1.2. Activities of the Energa Group

The core business of the Energa Group involves the distribution, generation and trading in electricity and heat and concentrates on the following business lines :

Distribution Business Line. This is the business line of key importance to the Group’s operating profitability, consisting in the distribution of electricity (which is a regulated activity in Poland) and based on tariffs approved by the President of the Energy Regulatory Office (URE). The Energa Group has a natural monopoly position in the northern and central part of Poland which hosts the Group’s distribution assets through which the Group supplies electricity to more than 3.1 million customers, approx. 2.9 million of whom are customers with universal agreements and 193,000 are TPA (Third Party Access) customers. A breakdown of Energa Operator SA’s customers by tariff group is presented in the *Key operating data* section. As at 31 December 2018, the total length of the power lines was over 188 thousand km and covered almost 75 thousand km², i.e. about 24% of the country’s landmass. Energa Operator SA is the leader in this Line.

Figure 1: Number of customers of Energa Operator SA in thousands



Generation Business Line. The operation of this business line is based on four Divisions: the Ostrołęka Power Plant, Hydro, Wind and Other (including cogeneration – CHP). At the end of 2018, the total installed generation capacity of the Group’s power plants was approximately 1.3 GW. The Lead Entity in the Business Line is Energa Wytwarzanie SA.

The Group generated approx. 1 TWh of electricity (in gross terms) in Q4 2018 and 3.9 TWh of electricity throughout the year, relying on a mix of sources such as coal, water, wind, biomass, and photovoltaic energy. In Q4 2018, 74% of the Group’s gross electricity production originated from coal, 13% from

¹ The Group’s Segments were renamed to Business Lines in connection with the Cooperation Agreement signed in December 2017, as described in Section 2.3 Energa Group Management Model herein.

hydro, 12% from wind and 1% from biomass. After 12 months of 2018, 69% of the Group's gross electricity production originated from coal, 21% from hydro and 10% from wind.

The Energa Group owes its leading position in terms of the percentage of renewable electricity in the total energy mix primarily to the generation of energy in hydro- and wind power plants. Green energy is produced by 46 hydro power plants, 5 wind farms and biomass-fired installations (in Energa Kogeneracja) as well as two photovoltaic installations.

As at the end of 2018, the Group had 0.5 GW of renewable capacity, with a gross production of electricity totalling 267 GWh in Q4 2018 and 1.2 GWh throughout 2018.

Coal is the main fuel used by the Energa Group to produce electricity and heat. The Group's generating units used 1,297 thousand tonnes of coal and 13 thousand tonnes of biomass in 2018 (vs. 1,280 thousand tonnes and 46 thousand tonnes, respectively, the year before). Coal supplies were delivered to the Group by three main suppliers: Polska Grupa Górnicza, Lubelski Węgiel "Bogdanka", and Jastrzębska Spółka Węglowa.

Sales Business Line. Its lead entity is Energa Obrót SA. It sells electricity, gas and additional services both as separate products and in bundles to all customer segments – from industry to small, medium and large enterprises and to households. As at the end of 2018, the Energa Group had approximately 3.1 million customers, including 2.8 million classified as G tariff customers, with the remainder being customers from: C, B and A tariff groups, in a decreasing order.

1.3. The Company's highlights

1.3.1. Material events after the balance sheet date

Commencement of discussions regarding potential cooperation on the Ostrołęka Power Plant construction project

The Management Board of Energa SA ("Energa") reports that on 7 January 2019, Energa and ENEA SA ("Enea") commenced discussions with PGE Polska Grupa Energetyczna SA ("PGE") which are likely to result in PGE's involvement in the Ostrołęka Power Plant C construction project, currently being implemented by Energa and Enea companies (through Elektrownia Ostrołęka Sp. z o.o.), (Current Report No. 1/2019).

1.3.2. Material events in the reporting period

Information from the Management Board of Elektrownia Ostrołęka Sp. z o.o. concerning the notice to proceed (NTP) with the construction of Ostrołęka Power Plant C

The Management Board of Energa SA (the "Issuer") reports that it was informed on 29 December 2018 that the Extraordinary General Meeting of Elektrownia Ostrołęka Sp. z o.o. had passed a resolution on 28 December 2018 approving the issuance of a notice to proceed (NTP) with the construction of the 1000 MW Ostrołęka Power Plant C.

Further, the Issuer reports that it was informed by the Management Board of the Company of a notice to proceed issued on 28 December 2018 by that Company for the construction of Ostrołęka Power Plant C to the general contractor, a Consortium of GE Power Sp. z o.o. as the Consortium Leader and ALSTOM Power Systems SAS (Current Report No. 56/2018).

Signing of the Memorandum of Understanding for the construction of the Ostrołęka Power Plant C

The Management Board of Energa SA (the “Issuer”) reports that in connection with the positive outcome of the capacity market auction for Elektrownia Ostrołęka Sp. z o.o. (the “Company”) and financial support resulting from the conclusion of a 15-year conditional capacity agreement, and in view of its readiness to enter the next stage of the Ostrołęka Power Plant C project schedule, i.e. the Construction Phase, on 28 December 2018 Energa SA, ENEA SA and Elektrownia Ostrołęka sp. z o.o. terminated the Investment Agreement of 8 December 2016, as amended by Amendment No. 1/2018 of 26 March 2018, between those entities, whose conclusion was communicated by the Issuer in its Current Reports No. 49/2016 dated 8 December 2016 and No. 12/2018 dated 26 March 2018, and signed a Memorandum of Understanding with the intention to enter into a new investment agreement setting forth the terms of cooperation between the Issuer and ENEA SA and financing of Ostrołęka Power Plant C (the “Project”) during the construction phase.

The Issuer and Enea SA declare their financial commitment for the Construction Phase, amounting to: Enea SA: PLN 1 billion, and Energa SA: no less than PLN 1 billion, and the other investors – the outstanding balance, as required to cover the financial expenditure under the Project, according to the financial model for the Project, which is to be finally agreed upon by the parties and which will also include the parties’ contributions to the Project made before the date of the Memorandum of Understanding as well as the contributions of lenders and other investors.

The lending necessary to complete the Construction Phase will be provided to the Company by lenders without breaching the covenants set forth in external financing agreements signed by the Issuer (Current Report No. 5/2018).

Resolutions of the Supervisory Board of Energa SA concerning the approval of the issuance by Elektrownia Ostrołęka Sp. z o.o. of the notice to proceed to the general contractor and determination of how to vote at the Extraordinary General Meeting of Elektrownia Ostrołęka Sp. z o.o.

The Management Board of Energa SA reports that on 19 December 2018, the Supervisory Board passed a resolution approving the issuance of a notice to proceed (NTP) by Elektrownia Ostrołęka Sp. z o.o. (the “Company”) in connection with the construction of Ostrołęka Power Plant C to the general contractor, a Consortium of GE Power Sp. z o.o. as the Consortium Leader and ALSTOM Power Systems SAS, as well as a resolution determining how to vote at the Extraordinary General Meeting, to the effect that Energa SA would vote in support of a resolution approving the issuance of the NTP to the general contractor. Both resolutions were adopted under the condition that in the capacity auctions with supply periods starting in 2023, the Ostrołęka C project would obtain for the capacity specified in the conditional certificate, i.e. 852.603 MW, a 15-year price not lower than the level prescribed in the auction strategy.

Passing of the aforementioned resolution did not automatically imply that the NTP would be issued, as the issuance of the NTP should be preceded by a consent of the General Meeting (Current Report No. 52/2018).

Signing a Memorandum of Understanding concerning the potential capital investment of Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych Energia in the Ostrołęka C Power Plant construction project

On 4 September 2018, the Management Board of Energa SA informed that a Memorandum of Understanding had been signed between Energa SA, ENEA SA, Elektrownia Ostrołęka Sp. z o.o. (the “Company”) and Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych Energia (the “Fund”) concerning the Fund’s capital investment (by subscribing for shares in the Company’s share capital) in a project

implemented by the Company involving the preparation, construction and operation of a coal-fired power unit with a gross capacity of approx. 1,000 MW (the “MoU”, the “Project”).

The Fund’s involvement in the Company depends on the fulfilment of a range of legal, corporate and financial conditions, which include the market situation. The Memorandum of Understanding is solely a commitment to negotiate in good faith for the conclusion of an investment agreement between the Fund, Energa SA, ENEA SA and the Company, or for the accession of the Fund to the existing investment agreement, the conclusion of which was reported by the Issuer in its Current Report No. 49/2016 dated 8 December 2016. The Memorandum of Understanding was valid from the day of signature to 30 November 2018.

The Memorandum of Understanding defines the tentative financing structure for the Project, with a total of PLN 2 bn in equity to be contributed by Energa SA and ENEA SA (PLN 1 bn each), which includes any monies contributed by Energa SA and ENEA SA before the conclusion of a potential investment agreement with the Fund, and no more than PLN 1 bn in equity contributed to the Company by the Fund. The outstanding balance is to be covered by other forms of financing.

The Memorandum of Understanding was signed in connection with proceedings to obtain a conditional certificate permitting the Company to participate in main capacity market auction, and it can be presented to PSE SA for this purpose (Current Report No. 42/2018).

Conclusion of a Public Contract with a General Contractor selected through a competitive dialogue procedure for the award of a public utilities contract: “Construction of Ostrołęka Power Plant C with a capacity of approximately 1,000 MW”

On 12 July 2018, the Management Board of Energa SA was informed that Elektrownia Ostrołęka Sp. z o.o. had signed, on that day, a Public Contract with the General Contractor: a Consortium of GE Power Sp. z o.o. as the Consortium Leader and Alstom Power Systems SAS, selected in a Contract award procedure conducted by the Company.

The subject of the Contract covers the design, construction and commissioning of a power unit together with auxiliary installations, equipped with a pulverised coal-fired boiler with a live steam pressure of 271 MPa and a closed cooling system, with a gross electricity production capacity of 1,000 MWe (931 MWe net) and a net efficiency of 46%, working on supercritical steam parameters, with a live steam temperature of 600°C and a re-heated steam temperature of 620°C (the “Investment Project”).

Pursuant to the Contract, the remuneration of the General Contractor for the performance of the Contract will be PLN 5,049,729,000.00 net of VAT or PLN 6,023,034,950.00 inclusive of VAT (Current Report No. 33/2018).

Consent of the Extraordinary General Meeting of Elektrownia Ostrołęka Sp. z o.o. to the execution of a Public Contract with the General Contractor as a result of the competitive dialogue procedure for the award of a public contract “Construction of Ostrołęka Power Plant C with a capacity of approximately 1,000 MW”

The Management Board of Energa SA was informed on 6 July 2018 that the Extraordinary General Meeting of Elektrownia Ostrołęka Sp. z o.o. had given its consent to the execution of a Public Contract with the General Contractor, i.e. a Consortium of GE Power Sp. z o.o. as the Consortium Leader and ALSTOM Power Systems SAS, selected in a competitive dialogue procedure for the award of a public utilities contract conducted by the Company for the project “Construction of Ostrołęka Power Plant C with a capacity of approximately 1,000 MW” (the “Contract”). The Company’s Articles of Association require that a consent to the execution of a public contract with a General Contractor must be given by way of a resolution passed by the General Meeting of the Company (Current Report No. 32/2018).

Determination by the Supervisory Board of Energa SA on how to vote at the Extraordinary General Meeting of Elektrownia Ostrołęka Sp. z o.o. with respect to approving the conclusion of the Contract with the General Contractor

On 5 July 2018, the Management Board of Energa SA was informed about a resolution passed by the Issuer's Supervisory Board, deciding how to vote at the Extraordinary General Meeting of Elektrownia Ostrołęka Sp. z o.o. to the effect that Energa SA would vote in favour support of adopting a resolution approving the conclusion by the Company of a Public Contract with the General Contractor: a Consortium of GE Power Sp. z o.o. as the Consortium Leader and ALSTOM Power Systems SAS, selected in a competitive dialogue procedure for the award of a public utilities contract: "Construction of Ostrołęka Power Plant C with a capacity of approximately 1,000 MW".

Determination by the Issuer's Supervisory Board on how to vote at the Company's Extraordinary General Meeting as well as the possible passing of that resolution by the Company's Extraordinary General Meeting

do not imply that consent has been given to the issue of a notice to proceed, as the issue of an NTP requires, *inter alia*, the prior consent of the Supervisory Board of the Issuer and the prior consent in principle granted by the General Meeting of the Issuer to proceed with the Construction Phase (Current Report No. 31/2018).

Information on the receipt from the Management Board of Elektrownia Ostrołęka sp. z o.o. of a request for consent to the conclusion of a Public Contract with the General Contractor selected through a competitive dialogue procedure for the award of a public utilities contract "Construction of Ostrołęka Power Plant C with a capacity of approximately 1,000 MW"

The Management Board of Energa SA informed that on 2 July 2018 Energa SA, as a shareholder in Elektrownia Ostrołęka Sp. z o.o., it had received a request from the Management Board of the Company for the approval of the conclusion of a Public Contract with the General Contractor, a Consortium of GE Power Sp. z o.o. as the Consortium Leader and ALSTOM Power Systems SAS, selected in a competitive dialogue procedure for the award of a public utilities contract conducted by the Company: "Construction of Ostrołęka Power Plant C with a capacity of approximately 1,000 MW". The Management Board of the Company requested the Company's General Meeting for consent to the execution of the Contract with the General Contractor, the Consortium of GE Power Sp. z o.o. as the Consortium Leader and Alstom Power System SAS, which offered to perform the Contract, with the parameters specified in the tender, for PLN 5,049,729,000.00 net of VAT (PLN 6,023,034,950.00 inclusive of VAT).

The Company's Articles of Association require that a consent to the execution of a public contract with a General Contractor must be given by way of a resolution passed by the General Meeting of the Company.

The General Meeting's consent to the execution of a Public Contract with a General Contractor is conditional upon obtaining all other corporate approvals as required, including the consent the Supervisory Board of the Issuer.

Neither the request made by the Management Board of the Company to the General Meeting of the Company nor the passage (if any), by the General Meeting, of the requested resolution do imply that consent has been given to issue a notice to proceed (NTP), as the issue of an NTP requires, *inter alia*, the prior consent of the Supervisory Board of the Issuer and the prior consent in principle granted by the General Meeting of the Issuer to proceed with the Construction Phase.

It is estimated that the capital expenditures in connection with the conclusion of the Contract between the Contracting Entity and the General Contractor prior to the issue of the NTP will not exceed the equivalent of 4% of the contract price (Current Report No. 28/2018).

Distribution of profit for 2017

On 27 June 2018, the Ordinary General Meeting of Energa SA passed a resolution on the distribution of the net profit of PLN 106,601,622.10 for the financial year covering the period from 1 January 2017 to 31 December 2017, allocating the full amount to the supplementary capital (Current Report No. 25/2018).

Beforehand, on 16 May 2018, the Management Board of Energa SA reported that it had decided not to recommend the General Meeting of Energa SA to pay a dividend for the financial year ended 31 December 2017. The entire net profit for 2017 amounting to PLN 106,601,622.10 would be transferred to supplementary capital.

The decision was dictated by the implementation of the “Strategy of the Energa Group for 2016-2025” (the “Strategy”) adopted on 15 November 2016 (Current Report No. 40/2016), whereby the dividend payment policy is adjusted to reflect the financial needs of the investment process.

However, the Management Board does not rule out the possibility of restoring the dividend payments, whose level would be determined by the implementation of the Strategy (Current Report No. 16/2018).

On 25 May 2018, the Supervisory Board expressed a positive opinion on the Management Board’s recommendation for the distribution of the Company’s net profit for 2017 (Current Report No. 18/2018).

Selection of the successful tender in the public procurement procedure “Construction of Ostrołęka Power Plant C with a capacity of approximately 1,000 MW”

The Management Board of Energa SA (the “Issuer”) reported that on 4 April 2018, it had been informed that Elektrownia Ostrołęka Sp. z o.o. (the “Contracting Entity”) had selected the successful tender in the public procurement procedure: “Construction of Elektrownia Ostrołęka C with a capacity of approximately 1,000 MW” (the “Procedure”, “Contract”), that of a Consortium composed of GE Power Sp. z o.o. and Alstom Power System SAS as the General Contractor, which offered to perform the Contract

with the parameters specified in the tender for PLN 5,049,729,000.00 net of VAT, or PLN 6,023,034,950.00 inclusive of VAT.

Award of the Contract is not equivalent to:

- giving consent to conclude the contract with the General Contractor, as such consent requires the prior approval by the Supervisory Board of the Issuer;
- giving consent for the NTP, as issuing an NTP requires, *inter alia*, the prior consent of the Supervisory Board of the Issuer and the prior consent in principle by the Issuer’s General Meeting to proceed with the Construction Phase.

It is estimated that the capital expenditures in connection with the conclusion of the contract between the Contracting Entity and the General Contractor prior to the issue of the NTP will not exceed the equivalent of 4% of the contract price (Current Report No. 14/2018).

Consent of the Management Board of Energa SA and the General Meeting of Elektrownia Ostrołęka Sp. z o.o. to the selection of the successful tender in the public procurement procedure “Construction of Ostrołęka Power Plant C with a capacity of approximately 1,000 MW”

The Management Board of Energa SA (the “Issuer”) reports that on 27 March 2018, it decided to vote at the General Meeting of Elektrownia Ostrołęka Sp. z o.o. (the “Contracting Entity”, the “Company”) in support of the consent to the selection of the successful tender in the public procurement procedure “Construction of Elektrownia Ostrołęka C with a capacity of approximately 1,000 MW” (the “Procedure”,

the “Contract”), that of a Consortium composed of GE Power Sp. z o.o. and Alstom Power System SAS as the General Contractor, which offered to perform the Contract, with the parameters specified in the tender for PLN 5,049,729,000.00 net of VAT, or PLN 6,023,034,950.00 inclusive of VAT. The approval is to be granted subject to the effective submission (without any grounds to exclude the economic operator or rejecting its tender) by the Consortium composed of GE Power Sp. z o.o. and Alstom Power System SAS of all the necessary documents and statements, pursuant to Article 26(1) of the Public Procurement Law Act of 29 January 2004 (consolidated text: Journal of Laws of 2017, item 1579, as amended).

The Issuer further reported that it had been informed of the adoption by the General Meeting of the Company of a resolution on 27 March 2018 approving the selection of the successful tender in the Procedure, in line with the Issuer’s decision referred to above.

This resolution adopted by the General Meeting of the Company does not imply that:

- the Management Board of the Company has made the decision to choose the General Contractor, which means that the Contracting Entity has not made its decision in the Procedure;
- the conclusion of a contract with the General Contractor has been approved – such approval requires, *inter alia*, the prior approval of the Supervisory Board of the Issuer and the General Meeting of the Contracting Entity;
- consent has been given to issue the NTP, as this requires the prior consent of the Supervisory Board of the Issuer and the prior consent in principle by the Issuer’s General Meeting to proceed with the Construction Phase.

It is estimated that the capital expenditures in connection with the conclusion of the Contract between the Contracting Entity and the General Contractor prior to the issue of the NTP will not exceed the equivalent of 4% of the contract price (Current Report No. 13/2018).

Signing an Amendment to the Investment Agreement concerning involvement in the preparation for construction, construction and operation of a new power unit at the Ostrołęka Power Plant and the disposal of shares in Elektrownia Ostrołęka sp. z o.o.

The Management Board of Energa SA (the “Issuer”), referring to Current Report No. 49/2016 of 8 December 2016 and Current Report No. 3/2017 of 17 January 2017, reports that on 26 March 2018 the Issuer executed Amendment No. 1 (the “Amendment”) to the Investment Agreement with ENEA SA and Elektrownia Ostrołęka Sp. z o.o. (the “Company”, “Contracting Entity”), concerning the implementation of the Ostrołęka C project.

In the Amendment, the parties increased the estimated total capital expenditures resulting from their obligations to be undertaken in the Development Phase of the Ostrołęka C project, that is until a notice to proceed (NTP) is issued to the General Contractor. The capital expenditures attributable to the Issuer may amount to PLN 226.5 m.

The capital expenditures were increased in order to provide the necessary resources for, *inter alia*, organisational work to be carried out under the contract with the General Contractor, related investments and the operation of the Company.

Moreover, the Issuer informed that in the performance of the Investment Agreement, the Issuer had sold on 23 March 2018 to ENEA SA a holding of 1,201,036 Company shares for approx. PLN 58 m. As a result of this transaction, the Issuer holds a total of 50% of the Company’s share capital.

The execution of the Amendment does not imply that:

- the Management Board of the Company has made its decision to select the General Contractor, and therefore it does not mean that the Contracting Entity has concluded the public procurement proceedings “Construction of Elektrownia Ostrołęka C with a capacity of approximately 1,000 MW”;
- consent has been given to the conclusion of a contract with the General Contractor, as such consent requires certain prior corporate approvals, including the consent of the Supervisory Board of the Issuer;
- consent has been given to issue a notice to proceed (NTP), as this requires the prior consent of the Supervisory Board of the Issuer and prior consent in principle from the General Meeting of the Issuer to proceed with the Construction Phase.

It is estimated that the capital expenditures in connection with the conclusion of the contract between the Contracting Entity and the General Contractor prior to the issue of the NTP will not exceed the equivalent of 4% of the contract price (Current Report No. 12/2018).

Information on the receipt from the Management Board of Elektrownia Ostrołęka sp. z o.o. of a request for consent to the decision in the public procurement award procedure called “Construction of Ostrołęka Power Plant C with a capacity of approximately 1,000 MW”

The Management Board of Energa SA reported that on 23 March 2018, as a shareholder of Elektrownia Ostrołęka Sp. z o.o. (the “Contracting Entity”, the “Company”), it received a request addressed to the General Meeting from the Management Board of the Company for consent to the selection of the successful tender in the public procurement procedure “Construction of Elektrownia Ostrołęka C with a capacity of approximately 1,000 MW” (“Procedure”, “Contract”). In the request, the Management Board of the Company stated that it was a request to the General Meeting of the Company for its approval of the selection of a Consortium composed of GE Power Sp. z o.o. and Alstom Power System SAS as the General Contractor, which offered to perform the Contract with the parameters specified in the tender for PLN 5,049,729,000.00 net of VAT, or PLN 6,023,034,950.00 inclusive of VAT. In accordance with the request, the consent of the Company’s general meeting referred to above is to be given subject to the effective submission (without any grounds to exclude the economic operator or rejecting its tender) by the Consortium composed of GE Power Sp. z o.o. and Alstom Power System SAS of all the necessary documents and statements, pursuant to Article 26(1) of the Public Procurement Law Act of 29 January 2004 (consolidated text: Journal of Laws of 2017, item 1579, as amended).

The Company’s Articles of Association require that a consent to the decision in a contract award procedure to select a General Contractor must be given by way of a resolution passed by the General Meeting of the Company.

Neither the request made by the Management Board of the Company to the General Meeting of the Company nor the passage (if any), by the General Meeting, of the resolution in question do imply that

- the Management Board of the Company has made the decision to choose the General Contractor, which means that the Contracting Entity has not made its decision in the public procurement award procedure;
- consent has been given to the conclusion of a contract with the General Contractor, as such consent requires certain prior corporate approvals, including the consent the Supervisory Board of the Issuer;
- consent has been given to issue the NTP, as this requires the prior consent of the Supervisory Board of the Issuer and the prior consent in principle by the Issuer’s General Meeting to proceed with the Construction Phase (Current Report No. 11/2018).

Fitch Ratings affirms Energa's rating

The Management Board of Energa SA (the "Company", "Energa") announced that on 21 March 2018, Fitch Ratings (the "Agency", "Fitch") had affirmed the Company's Long-Term foreign- and local-currency Issuer Default Ratings (IDRs) at 'BBB' with a Stable Outlook, a 'BBB' rating for the bonds issued by the Company's subsidiary Energa Finance AB (publ), and a 'BB+' rating for Energa's hybrid bonds.

The Agency justified its decision by the dominant share of the Distribution Business Line in total planned capital expenditures and in the Group's EBITDA, which reduces business risks and ensures predictability of cash flows compared to conventional production. At the same time, the Agency factored in the business risk associated with the Ostrołęka Power Plant C project. Fitch pointed out that this risk was mitigated by, *inter alia*, implementing the project in a strategic partnership, participation of additional investors in its financing and emergence of the Capacity Market in Poland.

In its report, Fitch estimates that Energa SA's debt is at a moderate level, with a FFO-adjusted net leverage of 1.7 for 2017. The Agency expects this ratio to increase to 3.0 in 2018-2022, there still being some margin left in relation to the maximum level of 3.5 allowed under the BBB rating (Current Report No. 10/2018).

Composition and changes to the composition of the corporate bodies of Energa SA

For details of changes to the corporate bodies of the Company, please see Section 4.7. *Corporate bodies* herein.

Other

Additional information is provided in the Separate financial statements Note 29 *Other information significantly affecting the assessment of assets, financial position and the financial result of the Company*.

1.4. The Energa Group Governance Model

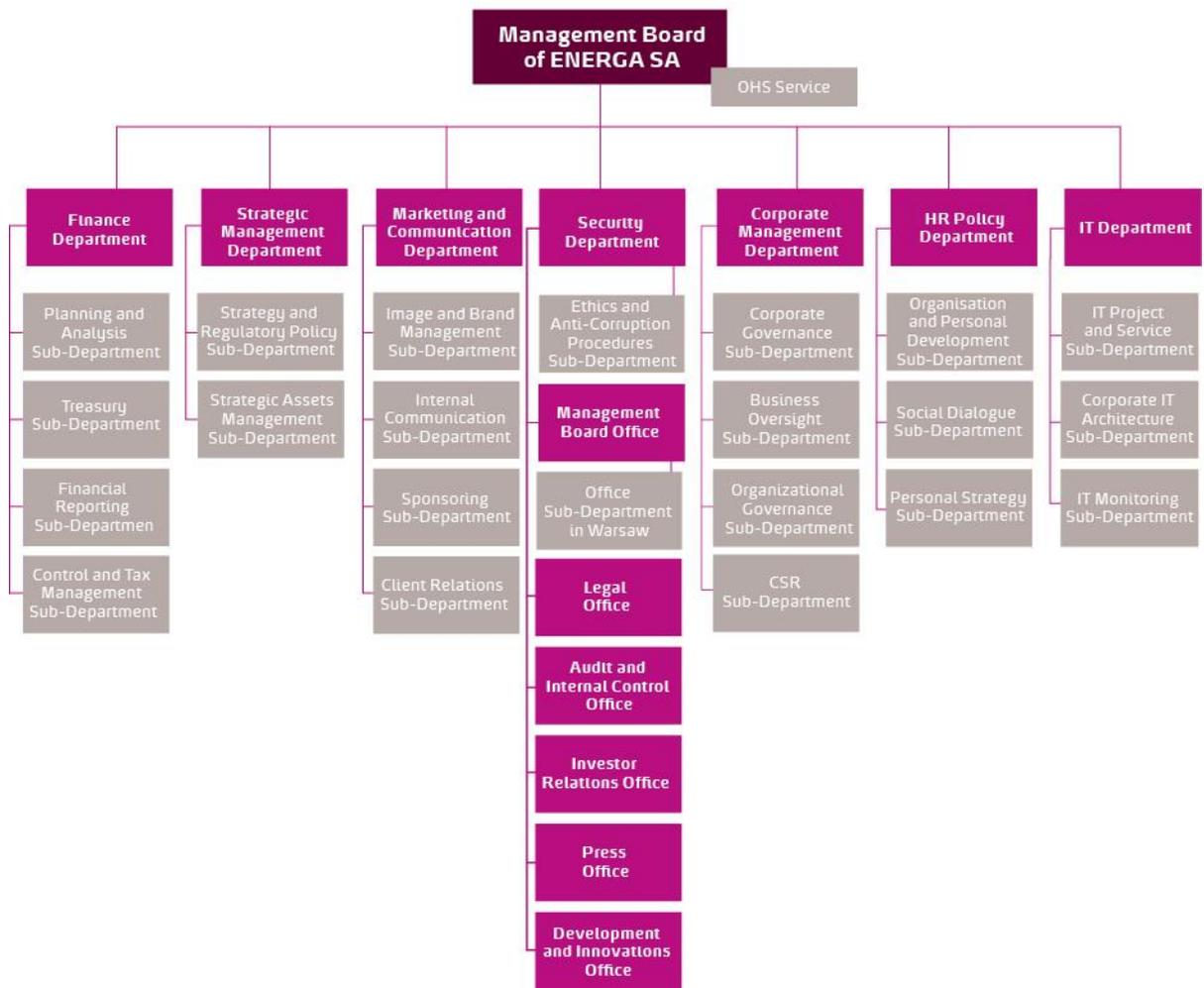
The essential document of the Energa Group setting forth its general governance framework is the Energa Group Cooperation Agreement, signed on 20 December 2017 by 31 Energa Group companies (as at the date of this report, as a result of corporate restructuring within the Energa Group, 20 companies remain parties to the Agreement).

The Energa Group Cooperation Agreement is a civil-law instrument which:

- ensures cooperation between the Energa Group companies and guarantees the performance of the Group,
- reflects the need to ensure, to the extent required by law, the independence of the distribution system operator within the Energa Group,
- forms the basis for the development of long-term cooperation across all Energa Group companies,
- reflects the necessity to have a uniform and consistent operating policy for all Energa Group companies in place.

The Energa Group Cooperation Agreement took into consideration the need to define the rights and obligations of Energa SA as the Energa Group's Parent Company with respect to setting of objectives, business strategies, as well as control and oversight of Subsidiaries, which became the foundation for the provisions of the Agreement. As at the date of signing, the Agreement had 32 appendices, which were Regulations (procedures) setting forth the operating principles of the Group in every area. As at the end of 2018, the Agreement included 34 Regulations.

Figure 2: Organisation chart of Energa as at 31 December 2018

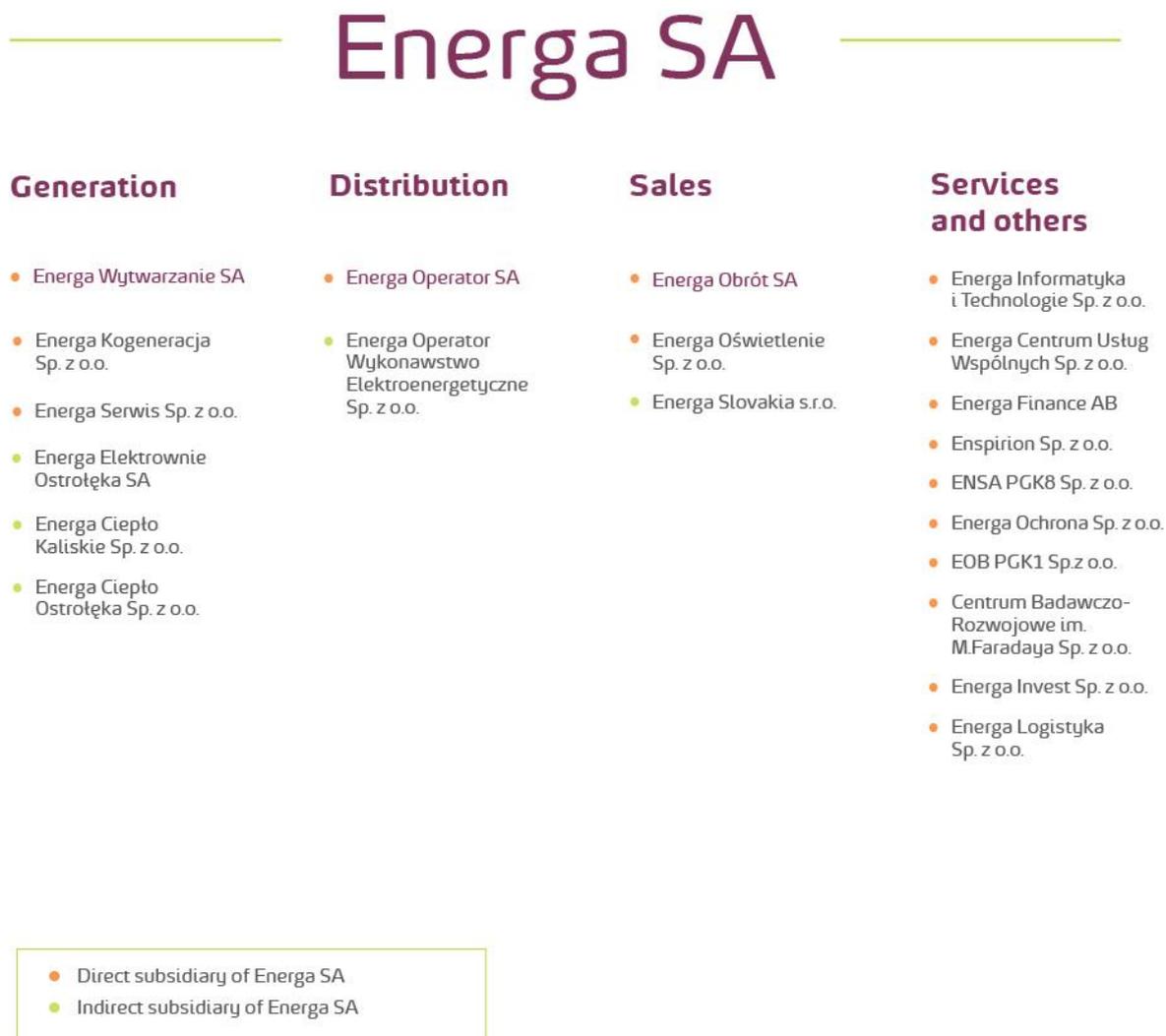


Key changes in the Group's structure and organisation

As at 31 December 2018, the Energa Group consisted of 22 companies, including its parent company, Energa SA.

Figure 3: Simplified corporate diagram of the Energa Group as at 31 December 2018

Structure of Energa Group as at 31 December 2018.



Elektrownia Ostrołęka Sp. z o.o.

On 11 January 2017, Energa SA and Enea SA signed an investment agreement concerning the execution of the new power unit construction project in Ostrołęka. The General Meeting of Elektrownia Ostrołęka SA passed a resolution (Resolution 1) on 23 November 2017 to convert this company into a limited liability company. The conversion was registered in the National Court Register on 27 February 2018.

On 23 March 2018, Energa SA signed an agreement to sell a third stake in Elektrownia Ostrołęka Sp. z o.o. to Enea SA. As a result of this transaction, each of Energa SA and Enea SA holds a 50% stake in Elektrownia Ostrołęka Sp. z o.o. and the same percentage of voting rights at the General Meeting. The Management Board and the Supervisory Board consist of the same number of representatives of both investors. Decisions on significant actions require unanimous consent of both partners.

An increase in share capital of Elektrownia Ostrołęka Sp. z o.o. by PLN 35 m by a resolution of the Shareholders Meeting of 29 March 2018, pursuant to which Energa SA and ENEA SA each subscribed for 50% of new shares (i.e. PLN 17.5 m, respectively) in exchange for cash contributions, was registered with the National Court Register on 30 July 2018.

The subject matter of the Contract is the design, construction and commissioning of a 1,000 MWe power unit with auxiliary facilities.

On 27 July 2018, a resolution was passed by the General Meeting of Elektrownia Ostrołęka Sp. z o.o. to increase the company's share capital by PLN 287 m to PLN 551,100,000. The new shares were equally divided between Energa SA and Enea SA, which acquired PLN 143.5 m each. The increase was registered by the National Court Register on 16 October 2018.

On 4 January 2019, a resolution was passed by the General Meeting of Elektrownia Ostrołęka Sp. z o.o. to increase the company's share capital by PLN 361,382,100 to PLN 912,482,100. The new shares were acquired by Energa SA i Enea SA in equal proportions, PLN 180,691,050 each. The increase was registered by the National Court Register on 1 March 2019.

Mergers

On 26 February 2018, a Merger Plan was signed by four investment companies operating within the Distribution Business Line: Przedsiębiorstwo Budownictwa Elektroenergetycznego ENBUD Słupsk Sp. z o.o. (the acquiring company), Energetyka Kaliska – Usługi Techniczne Sp. z o.o., ZEP – Centrum Wykonawstwa Specjalistycznego Sp. z o.o. and Zakład Budownictwa Energetycznego Sp. z o.o. (the target companies).

The general meetings of these companies which passed resolutions concerning the merger were held on 3 April 2018. The merger was recorded in the National Court Register on 30 April 2018. At the same time, the acquiring company's Articles of Association were amended by renaming the company to Energa Operator Wykonawstwo Elektroenergetyczne Sp. z o.o.

Following the Merger Plan, agreed and signed on 19 January 2018, to merge Energa Centrum Usług Wspólnych Sp. z o.o. (the acquiring company) and RGK Sp. z o.o. (the target company), the general meetings of these companies passed their resolutions concerning the merger on 16 April 2018. The merger was recorded in the National Court Register on 7 June 2018.

Two Group companies: Energa Operator SA and Energa Operator Techniczna Obsługa Odbiorców Sp. z o.o. signed a Merger Plan on 26 April 2018, with Energa Operator SA as the acquiring company. On 1 June 2018, the General Meeting of Energa Operator Techniczna Obsługa Odbiorców Sp. z o.o. passed a resolution concerning the merger. The merger did not involve an increase in the acquiring company's share capital (pursuant to Articles 514(1) and 515(1) of the Commercial Companies Code), since the simplified procedure provided for in Articles 516(1), 516(5) and 516(6) of that Code was followed. The merger was recorded in the National Court Register on 2 July 2018.

Another merger within the Energa Group was carried out in Q3 2018. Six grid work companies merged with the Lead Entity of the Distribution Business Line, Energa Operator SA.

On 16 July 2018, the Management Board of Energa Operator SA (the acquiring company) and the Management Boards of its subsidiaries, i.e. Energa Operator Eksploatacja Elbląg Sp. z o.o., Energa Operator Eksploatacja Gdańsk Sp. z o.o., Energa Operator Eksploatacja Kalisz Sp. z o.o., Energa Operator Eksploatacja Płock Sp. z o.o., Energa Operator Eksploatacja Słupsk Sp. z o.o., Energa Operator Eksploatacja Toruń Sp. z o.o. (the target companies) signed the Merger Plan. Resolutions of General Meetings of the companies being acquired were adopted on 31 August 2018. The merger was recorded in the National Court Register on 1 October 2018.

Other

On 4 January 2018, the General Meeting of ElectroMobility Poland SA passed a resolution concerning an increase in the share capital of the company to PLN 70 m, by increasing the nominal value of shares. Pursuant to the resolution, Energa SA contributed PLN 10 m in cash to the company. The increase in the share capital of ElektroMobility was recorded in the National Court Register on 7 January 2019.

1.5. The Energa Group Strategy for 2016-2025

On 15 November 2016, the Company's Supervisory Board passed a resolution approving the documents: the Energa Group Strategy for 2016-2025 (the "Strategy") and the Multi-Annual Plan of Strategic Investments of the Energa Group for 2016-2025.

Reasons for the revision of the Group's Strategy

Eroding profitability in the electricity sector in the recent years has pushed leading European and Polish energy companies to revise their strategies. In the medium term, operating under the existing business model could have resulted in lower performance and a decrease in the value of energy companies. Continuation of operations based only on the existing assets and without changing the existing business model could have led to a gradual decline of the Energa Group's profits in the medium and long term. In order to maintain or improve financial performance, companies and business models need to be adjusted to new trends in the electricity sector, such as the focus on the development of distributed generation and renewable energy sources (RES), improvement of energy efficiency and active participation in the new technology market. In view of the above, it was necessary to adjust the Energa Group business model to new challenges, including a revision of the Group's strategy, which resulted in the adoption of the Energa Group Strategy for 2016-2025 in November 2016. In the longer term, it would be advisable to include the following considerations in the future revisions of the Strategy: known results of capacity market auctions, in particular for long-term contracts, and the objectives of the Winter Package, and thus the EU Climate and Energy Policy for 2021-2030.

Objectives and strategic programmes

In order to reinforce the position of the Energa Group as an innovative, customer-centric energy group, while providing for a stable business foundation based on predictable regulations, two business development and value creation areas were defined in the Strategy: the Infrastructure and the Customer, within which the Energa Group's objectives and strategic programmes were defined, that are now being implemented:

Objective 1. To develop a modern electricity infrastructure, in a manner permitting to have a stable revenue base, relying mostly on the quality of service and not on typical market factors. The infrastructure will anticipate the future requirements of the Polish electricity system, balancing the interests of all Energa Group stakeholders.

Programme 1 – Development of a smart and reliable electricity distribution grid, offering the capacity for storage and local energy management.

Programme 2 – Development of the broadband infrastructure.

Programme 3 – Using revenue decoupling regulations for the Capacity Market and heat tariffs.

Programme 4 – Maintaining a strong position in RES through the implementation of (I) a project for the construction of hydro power plant at the second barrage on the Vistula River and (II) other RES projects.

Objective 2. A Customer-centric business model, supporting effective customer value management based on a consistent product and service offering.

Programme 5 – Implementation of a new, customer-centric business model and development of new business areas – as a result of the programme, approx. 100 new products will be developed, dedicated to three customer segments: individual customers, business customers, as well as local authorities and public administration.

The strategy is visualised in the diagram below.

Figure 4: Diagram of objectives and programmes of the revised Energa Group Strategy



1.6. Implementation of the investment programme in 2018

In 2018, capital expenditures of the Energa Group totalled PLN 1,668 m, of which the most capital intensive investments were made in the Distribution Business Line, totalling PLN 1,368 m.

The investments of the Distribution Business Line included grid expansion aimed at connecting new customers and producers as well as upgrades to improve the reliability of electricity supply. Additionally, expenditure was incurred on innovative technologies and grid solutions, such as the smart grid conversion project.

In the Generation Business Line, efforts made to align with sustainability requirements and upgrading investments at Ostrołęka Power Plant B had a significant share in the spending.

Table 1: Status of the investment programme as at 31 December 2018

Description of the project	Location	Capital expenditures (PLN m)	Execution stage
Distribution Business Line			
Modernisation of the distribution network to improve the reliability of supply	Distribution areas	662.2	Implemented on an ongoing basis

Grid development related to connection of new customers	Distribution areas	505.8	Implemented on an ongoing basis
Smart metering and other elements of the smart grid concept, including AMI	Distribution areas	40.0	Implemented on an ongoing basis
Grid development related to flows in the high-voltage grid and connection of EE sources	Distribution areas	31.8	Implemented on an ongoing basis
Other capital expenditures, collisions and adjustments	Distribution areas and Distribution Business Line companies	128.4	Implemented on an ongoing basis
Generation Business Line			
Overhauls of the Ostrołęka B Power Plant	Ostrołęka	54.8	In progress
Installation of an NOx control system	Ostrołęka	26.6	In progress
Modernisation of electrostatic precipitators at the Ostrołęka B Power Plant	Ostrołęka	24.3	In progress
Construction of IOS II at the Ostrołęka Power Plant	Ostrołęka	38.1	In progress
Optimisation of the steam boiler in the BB20p biomass unit	Elbląg	28.9	In progress
Upgrading a small hydro power plant and hydro power plant in Włocławek	Division	13.2	In progress
Other capital expenditures	The power division and Generation Business Line companies	51.2	-
Sales Business Line			
Capital expenditures for lighting assets	Business area of Energa Oświetlenie	33.2	In progress
Sales Support System	Business area of the Sales Business Line	2.3	In progress
Other capital expenditures	Sales area and Sales Business Line companies	9.6	-
Other companies, projects and adjustments	-	16.8	-
Total		1668,1	

1.7. Research and development

In 2018, the Energa Group continued its research, development and innovation projects commenced in previous years. In this context, it spent more than PLN 31 m on innovation activities and almost PLN 2 m on research and development activities.

In order to build innovation and competitive advantage, in 2018 the Energa Group adopted the Strategic Research Agenda for 2019-2028. The Strategic Research Agenda (SRA) is a roadmap document which specifies the development, research and innovation (R&D&I) focus for Energa Group. When developing the SRA, the company's strategy, structure and corporate culture were taken into consideration, along with its assets. SAB, allowing to focus on the most promising and priority activities in the R&D&I area.

Like in the previous years, the Energa Group is supported in the R&D&I area in 2018 by the Science and Technology Board for Innovation. The board is composed of excellent representatives of Poland's leading academic communities. The Board is Energa SA's opinion-making and advisory body, appointed by the Management Board.

In 2018, Centrum Badawczo-Rozwojowe im. M. Faradaya (CBRF) held the second edition of the Energa Open Innovation competition. Two innovative energy sector projects were rewarded, developed by scientific staff of the Gdańsk University of Technology and a very experienced practitioner from the electrical industry. The first prize went to a project whose goal was to identify the phases of LV grid customers. The Energa Open Innovation competition 2018 was held under the auspices of the Ministry of Energy and the Ministry of Entrepreneurship and Technology.

Centrum Badawczo-Rozwojowe im. M. Faradaya was brought to life as one of the key tools for the implementation of Energa's Innovation Strategy for 2017-2020, with a perspective beyond 2025. The main tasks of the CBRF are to initiate new projects and to acquire third party financing for R&D activities. CBRF is based in LINTE² – Poland's most advanced electricity laboratory on the premises of the Gdańsk University of Technology, unparalleled in Europe.

Key innovation projects of the Energa Group

The NEDO Project

One of the Energa Group Companies has been implementing the NEDO Project since 2017. The objective of the project is to gain knowledge and experience with respect to the possibility of using energy storage technologies to improve the flexibility of the National Electricity System. The final project deliverable will be an energy storage facility at the Bystra Wind Farm. The energy storage facility is being built as part of the Smart Grid Demonstration Project in Poland implemented by NEDO, a Japanese governmental organisation. An Energa Group Company is responsible for the construction of the necessary infrastructure for the foundations of the components of the facility, integration of the facility with the National Electricity System and operation of the facility in the demonstration period. The project is scheduled for completion on 31 December 2020.

The Upgrid Project

In 2018, the Upgrid Project, implemented with financial support from the European Union under the Horizon 2020 programme, was completed. As part of the project, MV and LV grids were upgraded in a selected area in order to test new LV and MV grid management functionalities. Those measures will minimise failures and reduce SAIDI/SAIFI and grid losses. The failure response process will be more efficient, and the flexibility of LV grid operation will improve.

LBZ

Construction of a Local Balancing Zone to contribute to the improvement of the safety and energy efficiency of operation of the distribution system – the project objective was to develop and implement of a Local Balancing Zone technology in order to enable the integrated management of energy resources within a specific zone of the electricity system.

The implementation of the solution developed as part of the project will help increase the connection capacity of a RES-based distributed generation network, improve the efficiency of electricity consumption and improve the reliability and security of energy supply.

SORAL

The objective of the SORAL project is to deliver knowledge and tools to improve the efficiency of management of the MV cable network. As part of the project, methodology will be developed for the assessment of the risk of MV cable failures, and an IT system called SORAL will be created to support a clear assessment of failure risks for individual components of MV cable lines. The system will provide insights for preventive measures to minimise failures and it will support the modernisation of the cable network.

Energa Living Lab

The Energa Living Lab project was completed in 2018. The objective of the project, carried out by Enspirion, was to demonstrate the effectiveness and promote the use of demand side management tools in the form of tests carried out in a live laboratory created with the involvement of 300 households in Gdynia. For around two years, households from seven districts of Gdynia tested innovative solutions provided by Enspirion supporting electricity consumption control. The underlying concept was to test the tools in a real-life situation. Throughout the project period, the families checked how the energy saving tools and products worked in practice. As a result, the overall electricity use was reduced by approx. 104 MWh, and CO₂ emissions were cut down by 124 tonnes in total. The project was subsidised by the European Commission and the National Fund for Environmental Protection and Water Management under the LIFE+ Instrument.

Floating photovoltaic

One of the Energa Group Companies has built a pilot floating photovoltaic farm. Energa Wytwarzanie SA is testing an installation with a capacity of several kW. Pilot testing is to confirm the suitability of floating photovoltaic farms in Polish climatic conditions. Tests are carried out in variable weather conditions. The floating photovoltaic farm is installed in Łapino, a village in the Kolbudy municipality, at a hydro power plant owned by the company. The testing which is under way provides an excellent foundation for the development of a research project with the objective of implementing a floating wind farm.

Energy clusters

Energa Obrót has set up the Żerków Energy Cluster in cooperation with the Żerków municipality. This is the first initiative of this kind where Energa Obrót SA wants to share its knowledge and experience with citizens and local businesses. The initiative is aimed at improving the energy security and efficiency of the municipality and its citizens.

In the second half of 2018, Energa Obrót together with 22 economic operators, local authorities and entrepreneurs created the Turek Clean Energy Cluster. Energa Obrót SA plays the role of a technical partner, and it will cooperate with some Group Companies in the implementation of the initiative, including Energa Invest. The mission of the Turek Clean Energy Cluster is to grow the share of renewable energy sources in the overall energy mix of the Turek district, protect the natural environment by reducing low emissions and, finally, strive to achieve energy self-sufficiency.

The benefits, opportunities and future of energy clusters were discussed by representatives of energy companies, local authorities and entrepreneurs during a conference held in Gdańsk "Energy clusters: an idea for RES" (*Klustry energii: pomysł na OZE*). The conference was organised by Energa Obrót, which invited, *inter alia*, representatives of the Ministry of Energy, of two clusters operating within its area, and of a provider of professional energy efficiency services.

DSR

In 2018, Enspirion sp. z o.o. acquired contracts for demand-side reduction of 340 MW in the summer and 360 MW in the winter. This accounts for 70% of the capacity available for contracting by Polskie Sieci Elektroenergetyczne in the demand-side reduction auction as part of the guaranteed capacity programme.

The company was capable of declaring such high reductions owing to the acquisition of new business partners, including all Azoty Group companies. They are able to support the security of the National Electricity System owing to their own power sources – CHP plants operated by their facilities. The demand-side reduction service improves the energy security of the country. It allows to reduce offtake for selected customers in case of a risk of energy shortages. Enspirion's customers include mills, melting plants, chemical plants, cement plants, foundries, food businesses, or telecommunications companies. Those customers declared their readiness to shift their production processes to different hours or to temporarily switch to their own power sources.

Pylon

Energa Invest kicked off the Pylon project in 2018. Its objective is to harmonise and improve the efficiency of the process of designing and building of power lines. A wide array of solutions is being developed as part of the project to meet the needs of the most part of Poland.

Energa Invest is preparing a catalogue of optimum support structures for 110 kV power lines. The design work is aimed at achieving full conformity to the latest industry standards. Out of a scheduled series of four strength tests in Romania, two have been completed so far. The experimental verification of the strength of designed structures validated the design assumptions and the computation algorithm used.

Cooperation with partners

In its R&D&I projects, the Energa Group cooperates with a range of scientific institutions, such as: the Institute of Power Engineering in Gdańsk, the University of Warsaw, the Gdańsk University of Technology, the Warsaw University of Technology, the Institute of Fluid-Flow Machinery at the Polish Academy of Sciences, the University of Warmia and Mazury, the Gdańsk Science and Technology Park, and the Pomeranian Science and Technology Park.

In 2018, the Energa Group continued to publish *Acta Energetica*, a science and engineering quarterly. The quarterly has been published in cooperation with the Gdańsk University of Technology since 2009. It is addressed to professionals: engineers and technicians, managers, university staff and students of power engineering-related studies. Its topics focus on R&D&I in the power industry and power engineering, and on related subjects.

Prospects for development and strategy execution in 2019

The overarching objective of the Company is to grow the value of the company, guaranteeing a return on capital employed for shareholders. Furthermore, the Company performs functions associated with the energy security of Poland. Because of the high proportion of regulated activities in its business structure, the Group maintains the status of a company with a balanced risk profile. As a result, it is relatively resilient to adverse developments on the electricity market. In response to the evolving regulatory and business environment, in 2016 the Management Board of Energa SA adopted the Energa Group Strategy for 2016-2025.

Distribution Business Line

The Energa Group is consistently seeking to become a leading distribution system operator (DSO) by improving its grid performance and liability, and providing top quality customer service. In 2019, the planned investment budget of the Distribution Business Line is PLN 1,282 m.

The key investment focus in 2019 includes:

- connections of new customers and new sources and the associated construction of new networks,
- upgrading and recovery of the existing assets, associated with the improvement of service quality and increasing power demand. This includes, for instance, initiatives aimed at the improvement of SAIDI/SAIFI indicators:
 - replacement of overhead MV power lines running through forest and wooded land with cable lines. The grid modernisation focus with regard to the use of the cable network is expected to help improve the resistance of the grid of Energa Operator SA to adverse weather conditions which are increasingly frequent in Poland and elsewhere in Europe, necessitating a consistent implementation of pre-existing strategy directions with regard to making the MV distribution network more resilient to external factors,
 - MV network automation,
 - replacement of non cross-linked MV cables,
 - replacement of LV cables with insulated cables with terminals,
 - construction of new MV power line connections,
 - replacement of HV/MV transformers,
- remaining needs, mostly relating to:
 - implementation of AMI and the Quality Regulation of the President of the URE, Network Codes,
 - deployment of the TETRA trunking system,
 - replacement of the vehicle fleet,
 - purchase of municipal 1- and 3-phase meters and special meters,
 - setting up the CC&B sales support system,
 - purchase of an integrated selling platform for CBP and Data Warehouses,
 - preparation and delivery of the documentation of Energa Operator's overhead power lines,
 - bringing PPE numbering in line with the requirements of the Central Information Exchange System,
 - development and upgrading of technical protection systems for HV/MV stations,
 - development of the Central Metering Database,
 - TAN network security.

In 2018, most of the work planned as part of the deployment of the TETRA network at Energa Operator SA under the TETRA project was completed. 136 out of the 139 planned BTSs were started up by the end of 2018. The remaining three, due to administrative issues during the construction of towers, will be completed in the first half of 2019. The other deployment and integration activities were also completed, and a range of pre-production tests were conducted. Aside from the radiotelephones installed in emergency vehicles and handportable radios used by staff working on the power grid, the TETRA network is now the main communication route for more than 2,500 radio-controlled disconnectors. This figure is steadily growing due to ongoing investments, which include both ongoing maintenance and the SmartGrid project. Completion of the TETRA project is scheduled for end of March 2019, after the BTSs are built in Elbląg and Dobre Miasto. Thereafter, the production operation of the TETRA network will commence and development will be planned to optimise and expand the network. At the same time, intensive efforts are made in cooperation with Enspirion Sp. z o.o., a Group company, in order to be able to offer the excess capacities of the TETRA network. A few test installations were carried out jointly in 2018, for instance for the Maritime Search and Rescue Service (SAR) and Polskie Sieci Elektroenergetyczne SA (PSE).

In 2019, the Energa Group will support and promote the development of electromobility in its area of operation. It is a new segment of the electricity market offering huge growth prospects, necessitating – due to its specific nature – independent energy distribution capabilities. To guarantee the stable development of the new market segment, the Distribution Business Line will take action in two areas: cooperating with local authorities and investing in MV and LV networks in order to enable the connection of charging stations.

The year 2019 is a subsequent year of the Regulation Strategy for Distribution System Operators 2016-2020. The Strategy has introduced far-reaching changes, for instance in the calculation of the return on capital employed, level of operating expenses reflected in the tariff, and quality regulation. Performance against key performance indicators will have an impact on the regulated revenue in future periods – performance in 2019 will be reflected in the 2021 tariff. What is noteworthy is that the President of the

URE published an evaluation of the quality regulation for DSOs, which is to apply from 2018 to 2025. An important issue is to make a distinction for four areas within SAIDI/SAIFI targets: cities, towns with district rights, towns and villages. In this context, the President of the URE set very ambitious targets for the improvement of the said indicators. Aside from the continuity of power supply indicators (SAIDI/SAIFI), it is essential to maintain a good supply time for initial connection.

In 2019, intensive efforts will have to be undertaken to bring the infrastructure of Energa Operator SA necessary for the restoration of the National Electricity System in line with the requirements of Commission Regulation (EU) 2017/2196 of 24 November 2017 establishing a network code on electricity emergency and restoration. It is worth mentioning that on 18 December 2018, in accordance with the provisions of the aforesaid regulation, PSE submitted – along with other documents – a Restoration Plan to the President of the URE, which defined the measures to be implemented in the network of Energa Operator SA in connection with the provisions of that regulation. Energa Operator SA is obliged to complete those measures by the end of 2022.

In 2019, in accordance with a contract, the document “Concept for the operation of the LV transmission network and 110 kV distribution network as a meshed grid in the territory of Energa Operator SA until 2030” will be finalised in cooperation with PSE. This study will allow for planning of the optimum development of the power network infrastructure for the identified power demand growth scenarios and planned initial connections to the electricity grid, forming the basis for a new Corporate Development Plan for 2020-2025, to be drawn up in 2019.

The ambition of the Distribution Business Line is to lead the implementation of innovative technical, organisational and process solutions. The Energa Group implements innovative solutions in such areas as smart grid, smart metering, advanced network asset management and cable diagnostics systems or smart energy storage. The DSO's activities additionally involve cooperation with another DSO on international research and development projects. The goal of the projects is to devise mechanisms for the development and integration of the future energy market and to set up the conditions for new services on the market on the DSO's side.

In the area of research and development, it is important to build relationships with universities and scientific institutes. Cooperation with local research institutions: the Gdańsk University of Technology, the Gdańsk Branch of the Institute of Power Engineering, and the Institute of Fluid-Flow Machinery at the Polish Academy of Sciences is being developed in the framework of the activities.

Generation Business Line

In the Generation Business Line, led by Energa Wytwarzanie SA, in accordance with the Multi-Annual Plan of Strategic Investments, the capital expenditure planned for 2019 amounts to PLN 0.8 bn. The main spending areas are investments in the modernisation of existing assets and development activities strengthening the generation capacity of the Group.

In line with the Strategy in place at the Energa Group, key generation investments are: the Ostrołęka C coal-fired power plant project with a capacity of approx. 1,000 MWe, and the project for the construction of a hydro power plant at the second barrage on the Vistula River with a capacity of approx. 80 MWe. The Ostrołęka C project is implemented by Elektrownia Ostrołęka Sp. z o.o. (an SPV), which has two shareholders: Energa SA and ENEA SA. On 12 July 2018, a contract was signed with the General Contractor for the unit, a Consortium of GE Power Sp. z o.o. as the Consortium Leader and Alstom Power Systems SAS. On 21 December 2018, the Project took part in a capacity auction for the supply period starting in 2023, obtaining support for 15 years for a capacity of approx. 853 MW at 202.99 PLN/kW/year. On 28 December 2018, having obtained consent from the Extraordinary General Meeting, Elektrownia Ostrołęka Sp. z o.o. issued a notice to proceed with the construction activities for Ostrołęka Power Plant C to the General Contractor. In 2019, design work will be carried out and construction will start in connection with the project. In 2018, two working groups were set up pursuant to a decision of the Steering Committee relating to the construction of the Siarzewo Barge project: for technical and organisational matters and for legal matters and finance, made up of representatives of the project owner (PGP Wody Polskie), representatives of the Energa Group, the Ministry of Maritime Economy and Inland Navigation, the Ministry of Environment, the Ministry of Energy, and representatives of the Office of Inland Navigation in Bydgoszcz.

The expenditure made for these projects will have a significant bearing on the investment projects of the Energa Group.

The measures prepared in the field of strategic investments diversify the development opportunities in four areas of maintenance, capacity expansion or new development areas.

The first one includes activities in the area of capacity maintenance and expansion for conventional capacities (construction of a flue gas desulphurisation plant at Ostrołęka Power Plant B) and cogeneration capacities (in Kalisz and Elbląg), in connection with measures aimed at bringing sources in conformity to the standards of the IED Directive and BAT conclusions.

The second area involves the expansion of RES generation capacities and includes the construction of the 30 MW Przykona wind farm, proceeding with PV (photovoltaics) capacity construction projects and proactive acquisition of investment projects or existing sources. The activity in this area will be largely determined by the outcomes of RES auctions.

The third area involves preparation of investments in new generation capacities: combined cycle power plants with cogeneration capabilities. The investment project in Grudziądz envisages the construction of an approx. 600 MWe combined cycle unit. Furthermore, a project for the construction of an approx. 450 MWe combined cycle power plant in Gdańsk is being prepared for implementation, and so is a project for the construction of a 115 MWe combined cycle unit with cogeneration in Elbląg.

The fourth area involves activities relating to the possible expansion of capacity volumes in promising directions, in line with the guidelines set out in the energy policy of the State. This activity includes the implementation of an international project for the construction of a 6+ MW battery energy storage, which is described above as the NEDO project. Efforts are also made to gain access to offshore wind farm investment opportunities and development activities are carried out with regard to the use of photovoltaics in inland water bodies. In cooperation with Centrum Badawczo-Rozwojowe im. M. Faradaya, the options for engagement in development activities are being explored, of which some based on external funding.

Activities carried out by the Generation Business Line companies are focused on the diversification of development areas and maintaining and strengthening the market position.

Sales Business Line

Energa Obrót SA is the leading entity in the Sales Business Line, engaged in activities relating to trading in electricity and customer service. Companies within the Sales Business Line are engaged in selling electricity and gas along with bundled products to all customer segments, from industry to small, medium and large enterprises and to households.

The Company continually monitors developments in the market environment (the most important ones being a sudden spike in wholesale electricity prices on the Polish Power Exchange, discontinuation of electricity selling by Energetyczne Centrum and Energia dla Firm, and raising of the 'power exchange obligation') and changes within the Energa Group.

In 2018, the unprecedented volatility of market prices coupled with consolidation of the producer markets affected the selling activities, and thus the financial performance of Energa Obrót SA. The adverse situation on the Polish Power Exchange had serious consequences for key energy market players as well. Rising prices were driven mostly by increasing prices of CO₂ emission allowances (from about 5 to almost 25 EUR per tonne) and a 20% pick-up in coal prices. The situation affected smaller companies (discontinuation of sale of electricity by Energetyczne Centrum and Energia dla Firm), their customers, who were taken over by suppliers of last resort, and the largest trading companies, including Energa Obrót SA.

Energa Obrót SA is working intensively to bring the company's pricing policy in line with the requirements of the Act of 28 December 2018 Amending the Act on Excise Duty and Certain Other Acts.

The strategic objectives laid down in the Energa Group Strategy for 2016-2025 are pursued through corresponding Strategic Programmes. Energa Obrót SA is the leader of Strategic Programme No. 5: Implementation of a new customer-centric business model and development of new business areas.

The Integrator model focused in particular on the development and selling of a new product offering, addressed mostly to individual customers. The ever-changing market environment, growing expectations of increasingly aware customers, aggressive competition, but above all the changes taking place in the Company after the restructuring and identification of a number of limitations and challenges, necessitated a redefinition of the concept of the Integrator Model Implementation Programme. Therefore, it has become key to transform the corporate structure, to review the assumptions of the Programme for accuracy and appropriateness in view of the real situation within the Company and its market position, and in consequence, to redefine the projects and reassign responsibilities. As a result, the final version of the Corporate Development Programme was developed and approved by the Company's Management Board on 10 August 2018. The objectives of the Programme are aligned with the execution of the Energa Group Strategy for 2016-2025 and support the achievement of the Management Board's objectives with respect to customer focus, improvement of organisational performance and adaptation to the evolving market environment.

The deliverables expected from the implementation of the Programme were classified into two main groups of objectives:

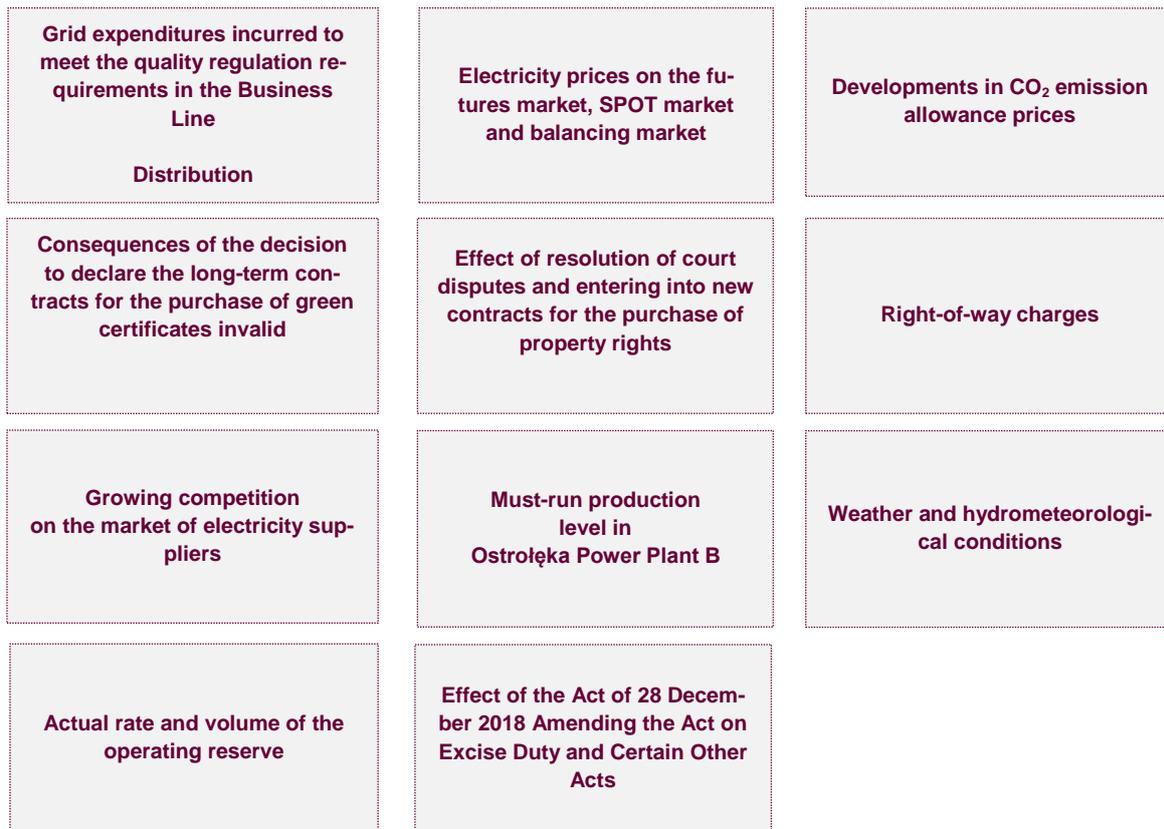
- quantitative – New Business EBITDA at an appropriate level until 2020,
- qualitative – operations focused on improving organisational performance and the quality of services.

The strategy of the Sales Business Line envisages an increased share in market margin by growing the number of electricity and gas connections and defending own customer base by winning customer loyalty and cross-selling. The sales network is being expanded, new selling channels are being set up and the existing ones are undergoing optimisation. New categories have been added to the product portfolio: core offering, medical services, savings zone, insurance, auto assistance and TV. Making its customers aware that aside from selling electricity, it offers other attractive services for business customers, the company added the 'Efficiency Product Suite' to its portfolio. In addition to this, the company optimises its processes on an ongoing basis, in particular those relating to handling of complaints. In consequence, the number of overdue complaints is minimised, and the internal consultation delivery indicators are improving, which translates directly into timely resolution of customer complaints. The Company has initiated the third stage of a project aimed at the implementation of an online selling and customer service system, including a mobile application.

Factors relevant to the development of the Energa Group

In the opinion of the Management Board of Energa SA, the factors described below will affect the results and activities of the Company and the Energa Group at least throughout 2019:

Figure 5: Factors relevant to the development of the Energa Group at least throughout 2019



1.8. Risk management at the Company

Integrated Risk Management System of the Energa Group

The Integrated Risk Management System (IRMS) has been in place at the Energa Group since 2011 and it is supervised centrally by Energa SA.

The IRMS has been implemented on the basis of a risk management process which is harmonised across the whole Group. It is based on international standards (ISO, COSO, FERMA) and spans all organisational levels and business lines. The risk management process consists of various interrelated stages

that form a continuous process. It starts at the level of organisational units and moves on to top executives and from the level of Group companies to Energa SA as the Parent Company.

Figure 6: The Energa Group risk management process



The main documents underlying the risk management process at the Energa Group are the Risk Management Policy and the risk management methodology, which define, among others, the harmonised approach, risk management principles and roles in the risk management process.



Management Board: defines the risk management focus, approves risk review outcomes and accepts risk appetite



Risk Unit: coordinates the risk management process, conducts risk reviews and action plan reviews, develops reports summarising the outcomes of risk identification and evaluation and action plan monitoring



Risk Owner: manages risks, develops and implements action plans, monitors risks, keeps risks within certain limits



Employees: report risks, events and inefficiencies of controls



Audit Committee: monitors the effectiveness of the existing internal control systems and risk management systems within the Energa Group



Internal Audit: performs an independent and objective assessment of the risk management system

As part of the Integrated Risk Management System, the Energa Group conducts the following activities:



risk review – involving identification and assessment of risks and defining the risk management strategy [in semi-annual cycles]



review of action plans – involving updates of the risk management strategy and verification of risk mitigation measures taken by Risk Owners [in quarterly cycles]



ongoing risk management – involving identification and assessment of risks and defining the risk management strategy, in the context of current events relevant to the Energa Group [on an ongoing basis]

Based on the semi-annual risk reviews, information on the risk exposure of the Energa Group is prepared. Relying on that information, the Management Board of Energa SA decides on the risk appetite level and approves the risk management strategy. The results of risk reviews are communicated to the Risk Owners and reported to the Audit Committee.

As part of the IRMS development efforts, in 2018 the Energa Group:

- implemented a risk management system in further seven Group companies,
- took steps to deploy a professional IT system within the Energa Group to support risk, audit and control activities,
- employed a range of measures and practices for a more thorough analysis of strategy-critical and IT risks,
- took measures to satisfy the requirements of personal data protection risk analysis,
- conducted a risk management system survey among Risk Owners.

Description of major factors and risks

Key risks identified at the level of Energa SA and Group companies for each of the four Energa Group Risk Model areas are presented below, together with a description of key risk mitigation measures.

Strategic area

Table 2: Key strategic risks identified at the level of Energa SA and Group companies

Risk	Description of the risk and its potential effects	Control mechanisms used
Risks of strategic programmes	Risks involved in the implementation of the Group Strategy for 2016-2025. Key risks in this area are associated with the use of revenue decoupling regulations in heat tariffs, implementation of a new customer-centric business model and development of new business areas, to name just some. Materialisation of risks may lead to lower EBITDA, loss of part of the market / competitive advantage, lack of return on investments or deterioration of image.	<ul style="list-style-type: none"> • Running programmes in project-based structures • Ongoing monitoring of progress in the implementation of individual programmes • Ongoing risk reporting
Project / investment risks	Risks involved in investments carried out within the Energa Group, including without limitation those relating to the new unit in Ostrołęka, the biomass unit in Elbląg, and the flue gas desulphurisation plants in Elbląg and Ostrołęka. Materialisation of risks may lead to non-achievement of the expected return on investments, loss of revenue,	<ul style="list-style-type: none"> • Contracts with experienced and reputable contractors • Ongoing monitoring and control of investments at the operating and strategic levels (Committees and Top Executives) • Continuous involvement of law firms

the need to repay subsidies or deterioration of image.

- Carrying out investments on project basis
- Periodic and ongoing risk identification

Market risks

Risks involved in trading in electricity, fuels and property rights, including in the context of price volatility, forward market and SPOT market fluctuations, meeting customer demand or regulatory and legal requirements. Materialisation of risks may lead to difficulties in the achievement of strategic objectives, financial losses, changes to risk exposures, customer attrition, increased costs of operation.

- Risk management in core selling activities
- Processes and principles relating to contracting, trading and purchasing areas
- A coupled model
- Use of advisory and legal services

Legal and regulatory area

Table 3: Key legal and regulatory risks identified at the level of Energa SA and Group companies

Risk	Description of the risk and its potential effects	Control mechanisms used
Regulatory risk	The risk concerns legislative changes affecting the functioning of the Energa Group's individual Business Lines. Materialisation of risks may lead to the modification of investment plans or rise in operating expenses. The risk additionally offers an opportunity to adopt new legal solutions which could facilitate raising of additional funds or provide a support system for the Group's assets.	<ul style="list-style-type: none"> • Monitoring of legal changes • Participation in the legislative process • Participation of the Group's representatives in the activities of industry associations
Risk of non-compliance with new legal provisions	The risk is associated, for instance, with legal, financial, organisational or image-related ramifications of the Energa Group's failure to align with new legal provisions, or a misinterpretation of new legal provisions.	<ul style="list-style-type: none"> • Monitoring of legal changes • Working groups engaged in bringing the Group's activities in line with the law (e.g. energy prices, cybersecurity). • Implementation of a compliance management system at the Energa Group
Environmental risk	Risks associated with conducting the operations in accordance with the provisions of environmental law, good practice and environmental standards (ISO 14001, ISO 50001) mitigating the risks and ensuring sustainability; providing information and assurance to stakeholders with respect to compliance with the national environmental regulations and the requirements of the EMAS Regulation. Materialisation of risks may lead to withdrawal of the ISO 14001 certificate. Non-compliance with environmental regulations may lead to increased costs due to the need to address potential environmental incidents, imposition of financial sanctions and closures of defective plant components.	<ul style="list-style-type: none"> • Internal polices • Monitoring legislative changes on an ongoing basis • Analysis and measurements of emissions • Inspections and audits • The EMAS system implemented by the Group companies
Risk of fraud	The risk concerns situations and actions related to fraud, including potential conflicts of interest, corruption or misappropriation on the part of the employees of the Energa Group companies. The risk involves the potential threat of fraud and corrupt	<ul style="list-style-type: none"> • Internal anti-fraud policies • Training for employees (including, without limitation, anti-corruption)

practices in operating processes. Materialisation of risks may lead to financial losses and may entail procedures conducted by law enforcement authorities against employees or bodies of the Group companies. The risk may have an adverse effect on the Energa Group's image and reputation, undermining employees' trust in supervisors, colleagues and the organisation as a whole.

- The organisation's three lines of defence (internal control system, risk management system, internal audit)
- External controls
- Investigations

Legal risk

The risks are associated with court and administrative proceedings carried out by or against the Group companies. Materialisation of risks may give rise to an obligation to pay damages and sanctions, or to grant customer discounts arising from the provisions of law.

- Cooperation with law firms
- A system for the monitoring of important matters
- Internal policies

Operating area

Table 4: Key operating risks identified at the level of Energa SA and Group companies

Risk	Description of the risk and its potential effects	Control mechanisms used
Risk to the security of persons and property	Risk associated with unauthorised access to facilities, including power equipment. The risk additionally involves the safety and security of employees and third parties present on the premises of the Group's companies, as well as incidents related to terrorism and sabotage. Potential consequences of the risk may involve a threat to security of grid operation, loss/destruction of property or interruption of operational continuity.	<ul style="list-style-type: none"> • Security Plans, including Critical Infrastructure Security Plans • Internal safety and security policies • Business Continuity Plans of the Group Companies • Property insurance, third party liability insurance and insurance for lost revenues • Physical and technical security systems for the Group's facilities • Security incident monitoring within the Group • Employee training
Risk of disruption of business continuity	Risks associated with the disruption of critical distribution activities, i.e. continuity of the distribution service meeting the required performance security criteria of the distribution system. Materialisation of risks may put human life and property in danger and lead to unavailability of critical process resources (sites, systems, employees).	<ul style="list-style-type: none"> • The Business Continuity Strategy • Emergency Procedures • The Critical Infrastructure Security Plan • Rules of proceeding in emergency • Backup sites • Periodic testing within the business continuity management system
Risk of IT system failures	Risk involving the availability (malfunctions and loss of performance), integrity and confidentiality of ICT systems, including interfaces/integrations. Materialisation of the risk may lead to increased maintenance costs of IT systems and the need to incur additional capital expenditures in this area. The risk may significantly hinder or even prevent the Group companies from performing their basic functions.	<ul style="list-style-type: none"> • IT system backup procedures • Internal policies on ICT security • Service Level Agreements (SLA) and Service Agreements signed with IT service and hardware providers • Eliminating the possibility of entering incorrect data in the system (system validations and a system of user privileges) • Training to improve specialist qualifications of IT employees • IT audits

Risk of untimely / poor customer and seller service	The risk is associated with observance of quality standards in customer service and compliance with contractual provisions. Materialisation of risks may affect revenue, result in financial sanctions, damages and obligatory discounts, as well as civil law suits and deterioration of image due to poor customer experience.	<ul style="list-style-type: none"> • Outsourcing a part of the complaints process • Customer satisfaction surveys • Monitoring of KPIs designated in the complaint resolution process • Processes and Principles for managing process interfaces between the Energa Group companies • IT systems
Compliance Programme risks	Risks associated with infringements of the Energa Operator SA Compliance Programme. If the risk materialises, complaints might be filed by system users to the Energy Regulatory Office and the Office of Competition and Consumer Protection. The effects of the risk involve an increased workload in the preparation and conduct of investigations before the President of the URE or potential financial sanctions.	<ul style="list-style-type: none"> • Provisions of the Compliance Programme allowing to seek compensation based on applicable law from an employee who has engaged in misconduct resulting in a financial sanction imposed by the President of the URE • Contractual provisions obligating subcontractors and service providers to follow the provisions of the Compliance Programme • Regular training
Fuel purchase risks	Risks associated with the need to satisfy the requirements of the production process and legal requirements with respect to holding sufficient coal stocks or sufficient quality and quantity of biomass. Materialisation of risks may lead to a reduced output, and as a result lower sales revenues, increased operating expenses, fines and sanctions, or repayment of EU subsidies.	<ul style="list-style-type: none"> • Monitoring of the fuel market • Fuel supply contracts • Supplier diversification • Reference vendor list • Inventory and warehouse management • Laboratory testing
Risk of no long-term heat supply contract for Elbląg	This risk involves a lower sales volume and breaching the conditions of integrated permits by Energa Kogeneracja due to the failure to conclude a long-term heat supply contract with Elbląg.	<ul style="list-style-type: none"> • Meetings with City Hall and EPEC representatives • Cooperation with a law firm • Construction of a flue gas desulphurisation plant on a project basis

Finance area

Table 5: Key financial risks identified at the level of Energa SA and Group companies

Risk	Description of the risk and its potential effects	Control mechanisms used
Liquidity risk	Risk associated with the ability to meet payment obligations in the short and long term. Materialisation of the risk may hinder the achievement of strategic objectives and organisational development, undermine creditworthiness, increase the cost of debt servicing and lead to a loss of reputation.	<ul style="list-style-type: none"> • Financial policy, including the market risk management policy • Financial projections • Long-term financial model • Cash pooling • Cash flow projections • Analysis of deviations
Pricing policy risk	Risk associated with incorrect calculation of selling prices and approval by the President of the URE of tariff rates at a level which does not guarantee the viability of sales. If the risk materialises, this may result in losing the market share (margin, volume, revenue), customer attrition, and if	<ul style="list-style-type: none"> • Ongoing market investigation for developments in the market, legal and regulatory environment • Ongoing examination of the planned financial result and other selected ra-

no tariff is approved – inability to bill customers for actual sales.

tios, and ongoing analysis of the impact of the adopted price calculation principles on that result/ratios

- Ongoing examination of offering mechanisms (including the Coupled Model) and proper performance of commercial IT systems and databases
 - Close collaboration to obtain the necessary insights for the pricing policy
 - Audits and inspections
 - Quoting process monitoring system
-

Implementing the provisions of the Energa Group's financial policy, group companies enter into various kinds of financial agreements that generate financial and market risks. The most important ones are interest rate risk, foreign exchange risk, credit risk, as well as liquidity risk. The above risk categories determine the financial performance of individual companies, as well as the Energa Group as a whole.

Interest rate risk

The Energa Group finances its operating or investing activity with debt liabilities bearing interest at a floating or fixed interest rate. Interest rates are also involved when surplus cash is invested in floating or fixed interest rate assets.

The floating interest rate risk resulting from existing debt liabilities applies to WIBOR-based rates only. With respect to liabilities denominated in EUR, the Energa Group has a financial liability arising from issues of fixed-coupon eurobonds, as well as issues of hybrid eurobonds, also based on a fixed coupon.

According to the interest rate risk policy, the risk of fluctuation of interest rates is mitigated by maintaining a portion of debt with a fixed interest rate. In line with these assumptions, IRS floating interest rate hedging transactions are executed.

In connection with the implementation of hedge accounting, the Energa Group additionally identifies an interest rate risk relating to its CCIRS and IRS hedging transactions, which however has no effect on the Group's financial result. Moreover, the level of interest rates has a direct effect on the WACC quoted by the President of the URE to calculate the return on RAB, which is included in the tariffs of Energa Operator SA. Low interest rates result in a lower return on RAB and an increase in actuarial provisions.

Foreign exchange risk

In the financial area, the foreign exchange risk is associated mainly with incurring and servicing Energa Group's debt liabilities in foreign currencies under the EMTN eurobond programme, as well as issue of hybrid bonds. Additionally, some Energa Group companies have a foreign currency surplus resulting from their operating activity or investing activity. The Energa Group monitors the foreign exchange risk and manages it mainly through CCIRS hedge transactions and hedge accounting.

Credit risk

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

Within the scope covered by the analysis, in order to minimise the credit risk, ratings of financial institutions cooperating with the Energa Group are regularly monitored.

Liquidity risk

Liquidity risk involves the likelihood of becoming unable to pay current liabilities on time or losing the potential benefits of over-liquidity.

The Energa Group companies monitor the liquidity risk using a regular liquidity planning tool. The tool takes into account the due/maturity dates of investment liabilities, financial assets and financial liabilities, as well as the projected cash flows from operating activities. The Group aims to maintain a balance between continuity and flexibility of financing by using many different sources of financing, such as working capital and investment loans, local bonds and eurobonds. Since the Group's debt operations are centralised within Energa SA, this company monitors the fulfilment of covenants on an ongoing basis and their long-term projections, enabling the determination of the Energa Group's debt capacity, determining its ability to invest and impacting its capability of meeting its obligations in the long term.

The efficiency of use of the Group's surplus cash for financing of daily operations of individual Group companies is maximised by zero-balancing cash pooling, which was implemented in January 2016.

In order to mitigate the liquidity risk, the Group companies can also use the short-term bond issuance mechanism, and in the existing bond programmes, the issuer – a Group company – offers the bonds to other Group companies only. This procedure is coordinated by Energa SA, which makes it possible to optimise the entire process in terms of its organisation.

Additionally, Energa SA concluded loan agreements with several financial institutions, which are a potential immediate liquidity reserve in case of any liquidity needs.

1.9. Information on material contracts, agreements and transactions

Significant contracts

Information on significant contracts entered into by the Company in 2018 is provided in Section 1.3 *The Company's highlights* in this Report.

Agreements for loans and borrowings

Lending agreements with multilateral financial institutions

Loans for the financing of Energa Operator SA's investment programme in 2009-2012

In 2009-2010, Energa SA and its subsidiary Energa Operator SA signed the following lending agreements in connection with the development and upgrading of its distribution network in 2009-2012:

- with the European Investment Bank ("EIB") for a PLN 1,050 m facility,
- with the European Bank for Reconstruction and Development ("EBRD") for a PLN 1,076 m facility,
- with the Nordic Investment Bank ("NIB") for a PLN 200 m facility.

The financing was fully utilised by the Company, and the following balances remain outstanding:

- to EIB – PLN 549 m with a final maturity date on 15 December 2025,
- to EBRD – PLN 463 m with a final maturity date on 18 December 2024,
- to NIB – PLN 76 m with a final maturity date on 15 June 2022.

Loans for the financing of Energa Operator SA's investment programme in 2012-2015

In 2013, Energa SA together with Energa Operator SA entered into the following lending agreements to finance the investment programme of Energa Operator SA in 2012-2015, in connection with the development and upgrading of the distribution network:

- an agreement with the EBRD for a PLN 800 m facility – as at 31 December 2018 PLN 476 m were utilised (of which PLN 189 m by Energa SA and PLN 287 m by Energa Operator SA). The final maturity date is 18 December 2024.

- an agreement with the EIB for a PLN 1,000 m facility – as at 31 December 2018, PLN 900 m were utilised (of which PLN 700 m by Energa SA and PLN 200 m by Energa Operator SA). The final maturity date of the utilised facility falls on 15 September 2031.

Nordic Investment Bank

On 23 October 2014, Energa SA signed a bank credit facility agreement with the Nordic Investment Bank for a PLN 67.5 m facility to finance a wind farm construction project in Myślino. As at 31 December 2018, PLN 49 m were utilised. The final maturity date is 15 September 2026.

Loans granted

Two loans totalling EUR 499 m, granted to Energa SA by Energa Finance AB (publ) (an SPV) from the proceeds of its eurobond (EMTN) issue in March 2013, as well as an EUR 200 m loan granted in June 2017 from the proceeds of an eurobond (EMTN) issue in March 2017, were continued in 2018.

Furthermore, in the reporting period, the Energa Group serviced its bond programmes, where for reasons of effective liquidity management, the Group company issuing the debt securities addressed the proposal only to the other Group companies.

In pursuance of the financial policy of the Energa Group and in line with the terms and conditions of the internal bond programmes, Energa SA purchased bonds issued by Energa Operator SA in 2018 for a total of PLN 1,066 m. The main goal of the issuance was to provide the issuer (an Energa Group company) with funds to carry out its investment programme.

The following table presents the par values of bonds taken up by Energa and not redeemed, by Energa Group issuer company, as at 31 December 2018.

Table 1: Par value of bonds taken up by Energa SA and not redeemed, by issuer, as at 31 December 2018

No.	Company name	Par value of the bonds taken up (PLN '000)
1.	Energa Operator SA	3,916,233
2.	Energa Wytwarzanie SA	747,200
3.	Energa Kogeneracja Sp. z o.o.	26,238
4.	Energa Elektrownie Ostrołęka SA	72,000
TOTAL		4,761,671

Domestic bond programme

With respect to the domestic bond programme set up in September 2012, under which Energa SA carried out its first PLN 1,000 m bond issue, there have been no changes to the volume of the issuance. In the framework of its measures carried on in 2018, the Energa Operator SA subsidiary acquired a further block of bonds of Energa SA on the secondary market: 16,780 bonds with a total par value of PLN 167.8 m. As at 31 December 2018, Energa Operator SA held 99,749 bonds of Energa SA with a total par value of PLN 997.49 m.

Insurance contracts

The Group has a common insurance policy in place, which provides for insurance coverage for the companies and their operations against risks involved in their business and assets, conforming to the highest

market standards, at a fairly calculated market rate. The sums insured are set at an adequate level for the risks and external factors and correspond to the profile of energy sector companies in Poland.

A joint Insurance Programme is carried out in cooperation with a brokerage company. In accordance with the conditions of the Programme, all Energa Group companies have a coinciding insurance period, and contracts are made for three years. The Programme accepts standardised coverage for insured risks, with individual contracts and extension clauses negotiated to suit the specific needs of the companies.

Insurance contracts are made with leading insurers operating in Poland. Currently, the Energa Group's main insurance partner is Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych.

Guarantees and sureties granted

Table 6: Information on Energa's guarantee and surety business as at 31 December 2018

No.	Date guarantee or surety granted	End date of guarantee or surety	Entity for which guarantee or surety was granted	Entity in favour of which guarantee or surety was granted	Form of surety or guarantee granted	Amount of guarantee or surety (PLN m)	Amount of obligation as at 31 Dec 2018 covered by surety or guarantee (PLN m)
1	2012-11-15	2033-12-31	Energa Finance AB	bondholders	surety agreement*	5,375.0	3,380.4
2	2015-01-08	2024-12-31	Energa Wytwarzanie SA	WFOŚiGW (Provincial Fund for Environmental Protection and Water Management) Gdańsk	surety - loan agreement	15.0	4.9
3	2017-06-20	2021-02-28	Energa Invest SA	NFOŚiGW (National Fund for Environmental Protection and Water Management) Warsaw	surety agreement	4.2	2.7
4	2017-11-22	2021-03-31	Energa Operator SA	State Treasury	surety agreement	40.00	40.0
5	2017-11-28	2021-03-31	Energa Obrót SA	Enea Trading Sp. z o.o.	surety agreement	25.00	25.0
6	2018-10-25	2019-06-30	Enspirion Sp. z o.o.	Grupa Azoty Zakłady Azotowe Kędzierzyn SA	surety agreement	0.6	0.6
7	2018-10-31	2026-01-01	Enspirion Sp. z o.o.	Polskie Sieci Elektroenergetyczne SA	surety agreement	10.1	10.1
8			Other Energa Group companies		surety** - guarantee agreement	22.1	14.8
TOTAL						5492.0	3478.5

*The Euro Medium Term Note (EMTN) programme for up to EUR 1,000,000,000 was established on 15 November 2012. As part of the EMTN Programme, Energa Finance AB (publ), a Swedish law subsidiary of Energa SA, can issue Eurobonds with maturities

of one to ten years. Under a surety agreement of 15 November 2012, as amended on 16 February 2017, Energa SA undertook to unconditionally and irrevocably guarantee the Eurobond liabilities of Energa Finance AB (publ) up to EUR 1,250,000,000 until 31 December 2033 inclusive. On 19 March 2013, Energa Finance AB (publ) issued the first series of eurobonds totalling EUR 500,000,000 and maturing on 19 March 2020; on 7 March 2017 it issued the second series of eurobonds totalling EUR 300,000,000 and maturing on 7 March 2027.

*** Civil-law sureties granted by Energa SA for liabilities of the Energa Group companies arising from bank guarantees granted by Bank PKO BP SA under guarantee facilities dedicated to Energa Group companies. The facility is available until 19 September 2022. The expiry dates of guarantees provided under the facility can fall beyond the end date of the facility itself. The repayment of obligations is secured by a civil-law surety.*

The remaining guarantees granted on the instruction of Group companies include, without limitation,

- PLN 142.7 m in bank guarantees granted by Pekao SA, ING Bank Śląski SA and mBank SA to Energa Obrót SA.

Information on material transactions with related parties made on non-arm's length terms

All transactions within the Energa Group are entered into based on arm's-length prices of the goods, products or services delivered, which result from the cost of production. For details, please see Note 32 to the Consolidated financial statements for the year ended 31 December 2018.

Assessment of management of financial resources and prospects of investment projects

During the financial year, the Energa Group had sufficient financial resources to timely cover all current and planned expenses in connection with its operating and investing activities. The cash held by the Group as well as the available credit facilities allow the Group to pursue a flexible liquidity management policy.

The execution of investment projects was based on the use of own funds combined with debt financing. The structuring of the projects implemented by the Energa Group assumes that its financial security will be maintained, which is reflected in the use of long-term debt financing sources, pursuing a dividend policy aligned with the strategy, maintaining financial covenants as agreed with debt capital providers, and maintaining the investment-grade rating. The two latter represent restrictions that determine the investment capabilities of the Energa Group, which are defined in the long-term perspective. Such a conservative approach allows to carry out the investing policy in a way that minimises any risk of violation of financial covenants or rating downgrades, while optimising the financial structure of the Group in consideration of the current and projected financial market trends. Relying on the above, the Energa Group, being equipped with sufficient financial means and funded based on diversified long-term debt obligations, cannot not see any threats to the achievement of its investment plans.

The Company monitored its liquidity risk using a regular liquidity planning tool, taking into account the due/maturity dates of investment liabilities, financial assets and financial liabilities, as well as the projected cash flows from operating activities, in order to maintain a balance between continuity and flexibility of financing by using many different sources of financing.

For reasons of efficient liquidity management, the Energa Group used a short-term bond issuance mechanism (albeit to a smaller extent than in the previous years) where the Group issuers addressed the bond offering solely to the other Group companies.

In 2018, the Energa Group continued the optimisation of liquidity management using zero-balancing cash pooling, which took over the functions associated with short-term bond issuances, and additionally maximised the Group's ability to use its surplus cash to finance the current activities of its individual companies.

1.10. Proceedings pending before courts, arbitration or public administration bodies

As at 31 December 2018, Energa SA was a party to 17 court proceedings. The Company was a plaintiff in 2 cases where the aggregate amount in dispute was approx. PLN 1.22 m. The Group was a defendant in 11 cases where the aggregate amount in dispute was approx. PLN 2.26 m.

1.11. HR and payroll situation

Employment in Energa SA

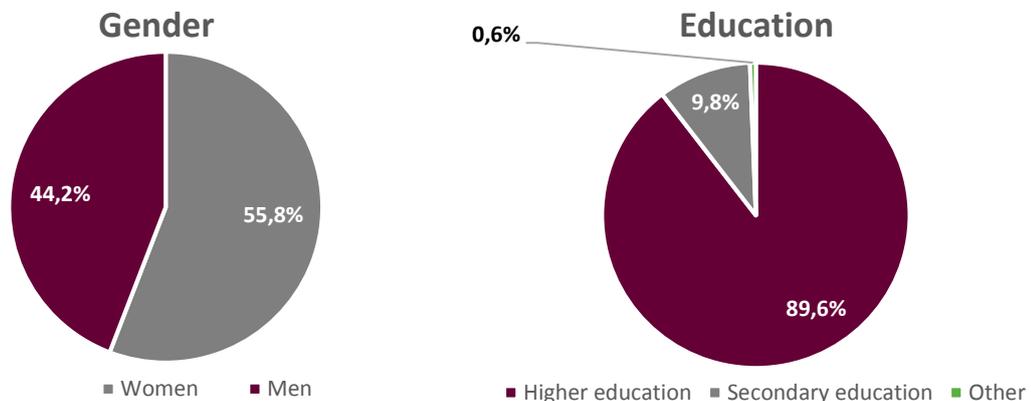
Table 7: Employment at Energa SA as at 31 December in 2015-2018*

Employment as at 31 Dec 2015	Employment as at 31 Dec 2016	Employment as at 31 Dec 2017	Employment as at 31 Dec 2018	Average employment in 2015	Average employment in 2016	Average employment in 2017	Average employment in 2018
headcount	headcount	headcount	headcount	FTEs	FTEs	FTEs	FTEs
101	144	150	163	95.4	117.7	141.3	151.0

* to the exclusion of unpaid leaves, parental leaves and rehabilitation benefits

Employment growth in 2018 was driven by the strengthening of organisation in respect of the supervision of new responsibilities arising from the Energa Group Cooperation Agreement implemented on 20 December 2017, under which the role of Energa SA as the coordinator of the Group was reinforced.

Figure 7: Employment structure of Energa SA as at 31 December 2018



Compensation plans

The compensation plan of the Company is set out in the Energa SA Compensation Policy, approved by Resolution No. 46/I/2007 of the Energa SA Management Board dated 25 July 2007, Annex 6 to the Compensation Policy of September 2017 introducing the new job grade table and monthly salary rate at Energa SA, as well as Annex 7 of December 2017 implementing, as a schedule to the Compensation Policy, the Energa SA Bonus Pay Policy and the Agreement securing employee, social and trade union rights.

By reason, *inter alia*, of the take-over of staff under a trilateral agreement (between work establishments), some pay components are additionally governed by the provisions of:

1. the Multi-Employer Collective Bargaining Agreement for Power Industry Employees,

2. the Compensation Policy of Energa Operator SA,
3. The Company Collective Bargaining Agreement of Energa Operator SA Oddział w Gdańsku,
4. The Company Collective Bargaining Agreement of Energa Kogeneracja Sp. z o.o.,
5. The Company Collective Bargaining Agreement of Energa Wytwarzanie SA.

At 31 December 2018, 37 managers were employed under contracts for management services, including three members of the Company's Management Board. The costs of services are not included in the wage bill.

Material information relevant to the HR and payroll situation

Employee benefits

In 2018, the Company had an extensive system of employee benefits in place, with the following basic components:

1. An annual bonus, equal to 8.5% of the annual salary fund from the previous year, paid in proportion to years in service,
2. The 'employee tariff' for electricity offered once an employee reaches 1 year of service in the power industry,
3. Special vouchers given to employees for Easter, the Power Engineers' Day and Christmas,
4. The Employee Pension Plan funded by the employer at the rate of 7% of employee remuneration,
5. Money equivalent of free coal,
6. Hazard pay,
7. A supplement to the base salary, depending on years in service,
8. Length of service bonus,
9. The Additional Medical Services Plan. All employees are entitled to additional medical services under the Guaranteed Package, which is funded by the employer,
10. The Company Social Benefits Fund, permitting contributions equal to twice the annual basic contribution set out in the Act on the Company Social Benefits Fund (CSFB).
11. Agreement securing employee, social and trade union rights of 18 September 2017.

As of 31 December 2014, the Company withdrew from the Multi-Employer Collective Bargaining Agreement.

As a result, employees hired after 1 January 2015 are not entitled to the benefits listed in points 1, 2, 5, 6, 7 and 8 above.

The Company offers its employees training packages and other forms of development to prepare them for their job assignments, improve their knowledge and boost effectiveness, motivation, and commitment.

The development activities carried out by the Company in 2018 focused mainly on improving qualifications and professional competencies in the form of post-graduate studies, courses, trainings and conferences. Managers participated in dedicated management programmes to improve their management and leadership skills. Moreover, employees and managers learned English actively.

Changes in wage conditions

Under the Agreement on the allocation of the salary increase budget in 2018, some groups of Energa SA's employees received base pay raises starting from 1 January 2018.

Collective dismissals

No collective dismissals occurred within the Company in 2018.

Collective disputes

Approx. 24.5% of the Company's employees were members of trade unions as at 31 December 2018.

Three trade union organisations operate within the Company:

1. Zakładowa Organizacja Związkowa NSZZ „Solidarność” w Enerdze SA (company trade union),
2. Związek Zawodowy Inżynierów i Techników MOZ w Grupie Kapitałowej Energa SA Oddział w Gdańsku (group trade union of engineering and technical staff),
3. Niezależny Związek Zawodowy Pracowników Grupy Kapitałowej Energa (independent group trade union).

No collective disputes occurred in Energa SA in 2018.

1.12. Corporate Social Responsibility at the Energa Group

One way to achieve the vision, mission and goals of the Energa Group and to create its value is by conducting business in line with the applicable law, being ethical, transparent and open to dialogue, balancing the needs of all stakeholders and environmental protection. In view of the above, the Group's business objectives are supported by its sustainable development objectives set out in the Sustainable Development and Responsible Business Strategy of the Energa Group. These objectives include:

- responsible development of customer relations – building relationships based on fair practices, transparency and openness, and ensuring top-quality customer service
- reducing the environmental footprint (while maintaining legal compliance and business competitiveness) through a continuous strive to reduce emissions and improve energy efficiency
- developing the distribution business towards improved reliability and security of supply
- caring for employees and their safety – working to reduce the number of accidents at work, offering a friendly and safe workplace, improving satisfaction and commitment
- responsibility towards local communities – supporting communities considering their needs and building of community partnerships, as well as charitable activities
- national responsibility – contribution to the security of the Polish energy system and social development, support for strategic resources.

The Group informs on all corporate social responsibility activities in its CSR reports every year. The 2018 report was prepared according to the Global Reporting Initiative guidelines at the CORE level (considering the indicators included in the supplement for power sector entities). Starting from this year, reporting is done according to new guidelines, the GRI Standard.

The choice of key themes to be covered by the report is based on internal and external stakeholder dialogue and the requirements of the Accounting Act.

This year's document entitled “Our Responsibility 2018” will span the entire calendar year 2018 and all Energa Group companies.

The Group also published, once again, its Environmental Statement, in line with the requirements of EMAS (the Eco Management and Audit Scheme), which shows the efforts made by the Group to reduce its environmental footprint, as corporate social responsibility at Energa Group is correlated with environmental protection, which is an important element of the Group's strategy for 2016-2025.

Maintenance, upgrading and construction of new grid and production infrastructure, including that based on renewable energy, climate commitments, adjustment to BAT conclusions (resulting from the Industrial Emissions Directive) and amended regulations on water and waste management, the idea of circular economy and diversification of supplies were the key tasks undertaken by the Group companies.

2018 was extremely important for the organisation of the Group's environmental and energy management system. The Group implemented a management system conforming to the updated EMAS regulation and ISO 14001:2015 (environmental management) and ISO 50001:2012 (energy management) standards. Meeting of the criteria of the aforesaid regulations was confirmed by an independent audit (July – September 2018), carried out by an international certification body. The companies and the Group were awarded certificates of conformity to ISO 14001 and ISO 50001 (in this respect to the exclusion of Energa Operator SA). Meanwhile, the General Directorate for Environmental Protection is carrying out the next stage, which is the extension of the EMAS registration covering – aside from the core 9 companies – all other Group members (23 companies across 431 locations).

Obtaining and maintaining an ISO 50001 certificate not only ensures more efficient energy management and a focus on financial performance, but also helps businesses meet their legal obligations – carry out the corporate energy audits required by the Energy Efficiency Act of 20 May 2016.

For the fifth time, Energa SA was included in the RESPECT Index, which groups listed companies that are socially responsible and managed to the highest standards. Energa SA is also a part of the FTSE4Good Emerging Index. This index represents companies from more than twenty emerging economies, which are selected based on compliance of their operations with environmental, CSR and corporate governance criteria.

In 2018, the Energa Group additionally continued its engagement in the Carbon Disclosure Project. The CDP is an international non-governmental organisation which seeks to demonstrate the environmental footprint of large organisations and to build a low-carbon economy. Since 2002, more than 6,000 companies have disclosed their environmental impact information through the CDP.

In line with the requirements of Article 49b of the Accounting Act (Journal of Laws of 1994, No. 121, item 591), non-financial information can be found in the CSR Report published on the Group's website on 14 March 2019.

1.13. Awards and recognitions for the Energa Group

Table 8: Awards, recognitions and certificates received in 2018

2018
<p>Feb. 2018</p> <p>Eco-Inspiration (Eko-Inspiracja): The Energa Group received a sustainability distinction in a poll run by Forum SA for EnerGo, its e-mobility product, in the Eco-Inspiration category. The award ceremony took place during the Eko-Inspiracje 2017 Gala on 28 February 2018 in Warsaw.</p>
<p>March 2018</p> <p>Parkiet's Bulls and Bears (Byki i Niedźwiedzie): Energa SA won the Bulls and Bears statue from the <i>Parkiet</i> magazine for the best company in the WIG20 index. In the period reviewed by the jury, the company recorded a 38% increase in share price and excellent financial performance.</p>

April 2018

Platinum Megawatt 2017 (Platynowy Megawat 2017): The Polish Power Exchange (TGE) awarded the Platinum Megawatt 2017 to Energa Obrót for the most intensive activity in international trade in 2017. The company was recognised in this category for the third time over a few years. Energa Obrót is engaged in trading activity on the Slovak, German and Czech markets. The award was presented on 19 April 2018, during TGE's annual wrap-up ceremony for 2017.

Transparent Company 2017 (Transparentna spółka 2017): The Energa Group received a distinction and a "Transparent Company 2017" certificate. The title of a Transparent Company is awarded to companies which thoroughly comply with the obligation to inform investors and improve the quality of communication with all market participants.

May 2018

Telemarketer of the Year (Telemarketer Roku): Beata Woźniak from Gdańsk, a consultant at Energa Obrót, made it to the finals of the Telemarketer of the Year 2018 contest in the customer service category. This year's edition had almost 180 entrants from 30 companies. The contest promotes best practices in remote customer service and the professionalism of call centre consultants.

June 2018

Nagroda Gospodarcza (Economic Prize) in the Corporate Social Responsibility category: Energa SA won the main prize in the Corporate Social Responsibility category. The organiser of the contest recognised the Group for its efforts towards building a strategy that balances social interests, environmental protection and stakeholder relationships. The prize was presented during the Vision for Development Forum (Forum Wizja Rozwoju) in Gdynia.

July 2018

EKOJANOSIK – Poland's Green Ribbon (Zielona Wstęga Polski) Energa Wytwarzanie won the National Sustainability Award EKOJANOSIK – Poland's Green Ribbon. The Company was recognised for the implementation of sustainability projects making a difference to the environment. 600 business operators from all over Poland were entered in the contest. The prize was awarded by the National Sustainability Board (Krajowa Rada Ekologiczna).

August 2018

Leader 2017 in the Industry 4.0 category: Energa Obrót won the second prize in the Industry 4.0 category of the Leader 2017 contest held by *Gazeta Bankowa*. The company was recognised for its online forms, i.e. the option to conclude online electricity sale agreements. The innovative system enables the transfer of electricity meters, tariff group changes or online offers.

September 2018

THE ECO-EAGLE (EKO-ORZEŁ): Energa Wytwarzanie won the EKO-ORZEŁ award in the Air Protection category. From among a number of projects, the Provincial Fund for Environmental Protection and Water Management in Toruń recognised the construction of a 3.77 WM photovoltaic farm in Czernikowo near Toruń. Today, it is one of the largest installations of its type in Poland.

December 2018

The Innovation Pearl (Perła Innowacji): The Energa Group received the PROGRESS 2018 – Innovation Pearl award. When choosing the winner, the jury considers the innovative nature of the submitted projects, how they have been implemented and their impact on the economy and society.

In 2018, they recognised, among others, the implementation of feed-in tariff mechanisms for hydro power plants and the smart parking solution in Gdańsk.

Analysis of the financial situation and assets



2. ANALYSIS OF THE FINANCIAL SITUATION AND ASSETS

2.1. Rules of preparing the separate consolidated financial statements

The separate financial statements of Energa SA for the twelve months ended 31 December 2018 were prepared:

- in accordance with the International Financial Reporting Standards endorsed by the European Union;
- on a historical cost basis, except for financial instruments measured at fair value through profit or loss and hedging derivatives;
- in millions of Polish zlotys ("PLN m"), unless otherwise specified;
- based on the assumption that Energa SA would continue as a going concern in the foreseeable future and without any evidence indicating that the continuation of the Company business activities as a going concern may be at risk.

To the extent not covered by the IFRS, Energa SA maintains its accounting books in accordance with the accounting policy (principles) set forth by the Accounting Act of 29 September 1994 (Journal of Laws of 2016, item 1047) and its secondary legislation (the "Accounting Act", "Polish Accounting Standards", "PAS").

The accounting principles (policy) applied to prepare the annual separate financial statements are presented in note 8 to the annual separate financial statements of Energa SA for the twelve months ended 31 December 2018.

2.2. Explanation of the economic and financial data disclosed in the annual separate financial statements

Table 9: Separate statement of profit or loss

PLN m	2017	2018	Change	Change (%)
Sales revenues	80	89	9	11%
Cost of sales	(78)	(79)	(1)	1%
Gross profit on sales	2	10	8	400%
Other operating income	10	9	(1)	-10%
General and administrative expenses	(72)	(76)	(4)	6%
Other operating expenses	(18)	(14)	4	-22%
Dividend income	203	675	472	233%
Other financial income	225	239	14	6%
Financial expenses	(271)	(351)	(80)	30%
Profit before tax	79	492	413	523%
Income tax	28	3	(25)	-89%
Net profit	107	495	388	363%

Energa SA's operating income arises mainly from services provided by the Company to other Group companies. Revenue growth in 2018 was driven mostly by increasing income from marketing and financing activities, as well as office space leases (in the form of recharging).

The main source of the Company' financial income in 2018 was dividend income, which increased by PLN 472 m yoy. Interest income increased by PLN 14 m, with the parallel increase of interest expenses by PLN 80 m.

The above factors contributed to the net result of Energa SA, which amounted to PLN 495 million and improved by PLN 388 m vs. the net profit in 2017.

Table 10: Separate statement of financial position

	As at 31 December 2017	As at 31 December 2018	Change	Change (%)
ASSETS				
Non-current assets				
Intangible assets	13	13	-	-
Shares in subsidiaries, associates and joint ventures	7,149	7,326	177	2%
Bonds	3,805	3,477	(328)	-9%
Deferred tax assets	19	19	-	-
Financial derivatives	33	64	31	94%
Other non-current assets	149	138	(11)	-7%
	11,168	11,037	(131)	-1%
Current assets				
Cash pooling receivables	553	596	43	8%
Trade receivables and other current financial receivables	99	39	(60)	-61%
Bonds	444	1,462	1,018	> 100%
Current tax receivables	19	-	(19)	-100%
Cash and cash equivalents	3,013	2,063	(950)	-32%
Other current assets	96	96	-	-
	4,224	4,256	32	1%
TOTAL ASSETS	15,392	15,293	(99)	-1%
EQUITY AND LIABILITIES				
Equity attributable to equity holders				
Share capital	4,522	4,522	-	-
Reserve capital	1,018	1,018	-	-
Supplementary capital	1,433	1,540	107	7%
Cash flow hedge reserve	2	(34)	(36)	< -100%
Retained earnings	151	539	388	> 100%
	7,126	7,585	459	6%
Non-current liabilities				

Loans and borrowings	5,087	4,864	(223)	-4%
Liabilities on account of the issue of debt securities	2,043	1,075	(968)	-47%
Deferred income and non-current grants	79	63	(16)	-20%
Financial derivatives	78	40	(38)	-49%
	7,287	6,042	(1245)	-17%
Current liabilities				
Cash pooling liabilities	477	314	(163)	-34%
Trade liabilities and other financial liabilities	23	25	2	9%
Current loans and borrowings	326	202	(124)	-38%
Liabilities on account of the issue of debt securities	30	1,025	995	> 100%
Current income tax liability	-	64	64	-
Deferred income and grants	19	16	(3)	-16%
Accrued expenses	8	12	4	50%
Other current liabilities	96	8	(88)	-92%
	979	1,666	687	70%
Total liabilities	8,266	7,708	(558)	-7%
TOTAL EQUITY AND LIABILITIES	15,392	15,293	(99)	-1%

As at 31 December 2018, the balance sheet total of Energa SA was PLN 15,293 m, down by PLN 99 m (1%) compared to 31 December 2017. In 2018, Energa SA purchased additional stock in Elektrownia Ostrołęka Sp. o.o. – the value increased by PLN 162 m. At the same time, the value of investments in bonds issued by subsidiaries increased, due to new bonds acquired.

The balance of loans and borrowings changed significantly in relation to the previous year as well. The decline was mainly attributable to obligations repaid to International Financial Institutions, where aside from scheduled payments, certain prepayments were made.

By reason of the above, the balance of cash and cash equivalents declined by PLN 950 m in 2018 vs. 2017.

The entire result of Energa SA for 2017 totaling PLN 107 m was transferred to supplementary capital. As at 31 December 2018, 49.6% of the Company's operations were financed by equity, vs. 46.3% at the end of 2017.

Table 11: Separate statement of cash flows

PLN m	2017	2018	Change	Change (%)
Net cash flows from operating activities	1	(30)	(31)	> -100%
Net cash flows from investing activities	386	(140)	(526)	> -100%
Net cash flows from financing activities	1,335	(780)	(2,115)	> -100%
Net increase/ (decrease) in cash and cash equivalents	1,722	(950)	(2,672)	> -100%
Cash and cash equivalents at the end of the reporting period	3,015	2,065	(950)	-32%

As at 31 December 2018, Energa SA held PLN 2,065 m in cash. Total net cash flows from operating, investment and financial activities of the Company in 2018 were negative at PLN -950 m, compared to PLN 1,722 m in 2017.

Cash flows from operating activities dropped by PLN 31 m. This was mainly due to a higher level of income tax, which was caused by the separate recognition of capital gains in the tax calculation. Additionally, the tax in 2017 was lower due to a refund of an income tax overpayment for 2016.

The decrease in net cash inflows from the Company's investing activities was mainly attributable to a higher level of investment in bonds issued by subsidiaries and a lower level of cash inflows from the redemption of bonds by subsidiaries. This was partially offset by a higher level of dividends received in 2018.

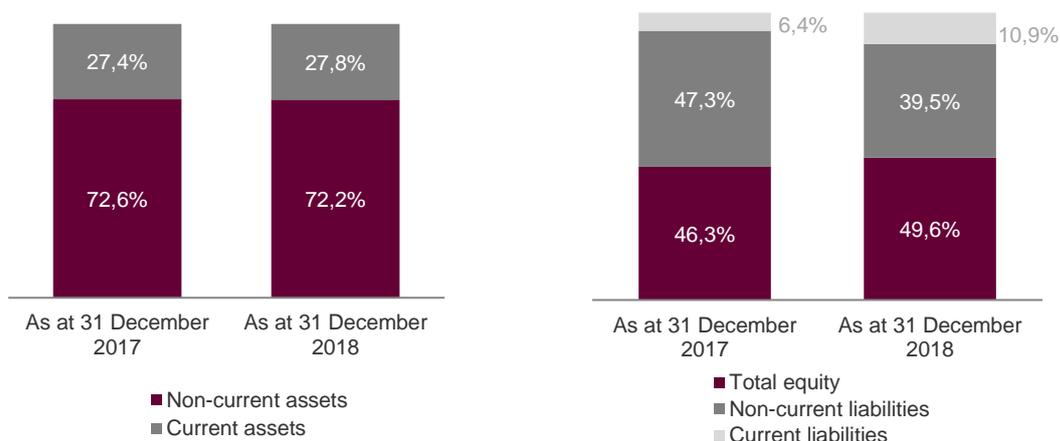
The decline in net cash flows from financing activity was mostly due to the prepayment of loans to International Financial Institutions and absence of receipts from loans and issuances of debt securities.

2.3. Structure of assets and liabilities in the separate statement of financial position

Table 12: Structure of the annual separate statement of financial position

Standalone statement of financial position	As at 31 December 2017	As at 31 December 2018
ASSETS		
Non-current assets	72.6%	72.2%
Current assets	27.4%	27.8%
TOTAL ASSETS	100.0%	100.0%
EQUITY AND LIABILITIES		
Total equity	46.3%	49.6%
Non-current liabilities	47.3%	39.5%
Current liabilities	6.4%	10.9%
Total liabilities	53.7%	50.4%
TOTAL EQUITY AND LIABILITIES	100.0%	100.0%

Figure 8: Structure of assets and liabilities



As at 31 December 2018, non-current assets represented 72.2%, and current assets 27.8% of total assets. Equity accounted for 49.6% of equity and liabilities as at 31 December 2018. The remaining portion of equity and liabilities were liabilities, with financial liabilities as the main item.

Table 13: Financial ratios of the Energa SA

Ratio	Definition	2017	2018
Profitability			
return on equity (ROE)	net profit for the period / total equity at the end of period	1.5%	6.5%
return on assets (ROA)	net profit for the period / total assets at the end of the period	0.7%	3.2%

Ratio	Definition	As at 31 December 2017	As at 31 December 2018
Liquidity			
current liquidity ratio	current assets / current liabilities	4.3%	2.6%
Debt			
financial liabilities (PLN m)	total liabilities due to loans and borrowings and long- and short-term debt securities	7,486	7,166

2.4. Description of significant off-balance sheet items

The Company does not have any significant contingent assets or liabilities.

2.5. Projected financial results

The Management Board of Energa SA has not yet published projections for separate and consolidated financial results for FY 2018.

2.6. Ratings

On 21 March 2018, Fitch Ratings affirmed the Company's existing BBB long-term ratings: long-term rating in foreign and domestic currency, rating for the bonds issued by the Company's subsidiary Energa Finance AB (publ) in domestic and foreign currency, and a BB+ rating for hybrid bonds issued by Energa SA. The rating outlook remained stable (Current Report No. 10/2018).

The agreement with Moody's expired at the end of October 2017, and therefore starting from the current reporting period, Energa will no longer publish information on ratings assigned by that agency.

Table 14: Energa's current ratings

	Fitch
Long-term rating of the company	BBB
Rating outlook	Stable
Rating date	19 January 2012
Rating last changed on	12 October 2012
Rating last affirmed on	21 March 2018

2.7. Dividend

By the date of publication of these financial statements, no proposal for the distribution of profit for 2018 had been adopted.

On 27 June 2018, the Annual General Meeting adopted a resolution on the distribution of profit for 2017, which was transferred to supplementary capital in whole.

On 26 June 2017, the Annual General Meeting adopted a resolution on the distribution of profit for 2016, where PLN 79 m was appropriated for payment of dividend for shareholders of the Company, resulting in PLN 0.19 per share. The dividend was paid out in full, including PLN 28 m on account of shares with voting preference.

2.8. Information on the statutory audit firm

The statutory audit firm engaged to audit the financial statements of Energa SA and of the Energa Group is KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. ("KPMG").

The agreement between Energa SA and KPMG was concluded on 12 April 2017 and covers an audit of separate and consolidated financial statements of the Company and of the Group for 2017 and a review of the statements for H1 2017, as well as an audit of separate and consolidated financial statements of the Company and of the Group for 2018, and a review of the statements for H1 2018. Aside from the audit of financial statements in 2018, KPMG performed a covenant review service for Energa SA. Therefore, the Audit Committee evaluated the independence of the audit firm and approved the provision of the service.

Table 15: Remuneration of the auditor for services provided to the Company (PLN '000)

(PLN '000)	Year ended 31 December 2017	Year ended 31 December 2018
Audit of annual statements	50	50
Other assurance services, including review of financial statements	223	230
Total	273	280

Shares and shareholding structure



3. SHARES AND SHAREHOLDING STRUCTURE

3.1. Energa’s shareholding structure

Table 16: Issuer’s shares by series and type

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

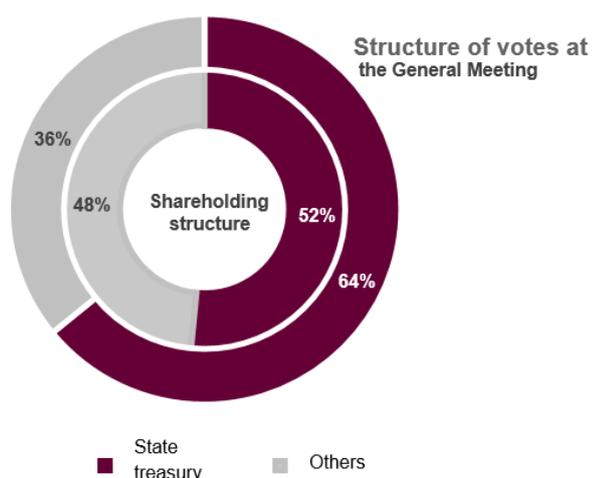
* One preferred share carries two votes at the General Meeting. These shares are held by the State Treasury.

Table 17: Shareholding structure of Energa as at 8 November 2018, 31 December 2018 and as at the date of this Re-port

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

* The State Treasury holds 144,928,000 series BB registered shares, preferred in terms of voting at the General Meeting, and one share entitles the holder to 2 votes at the General Meeting.

Figure 9: Shareholding and voting structure at the General Meeting of Energa as at 8 November 2018, 31 De-cember 2018 and the date of this Report



The Management Board is not aware of the existence of any agreements (including agreements concluded after the balance sheet date) which could result in changes to the proportions of shares held by the current shareholders and bondholders.

Neither is the Issuer aware of any material contracts between shareholders.

The Company does not have any employee share schemes in place.

In 2018, neither the Company nor its subsidiaries purchased Energa's own shares. As at 31 December 2018 neither the Company nor its subsidiaries held any shares in Energa.

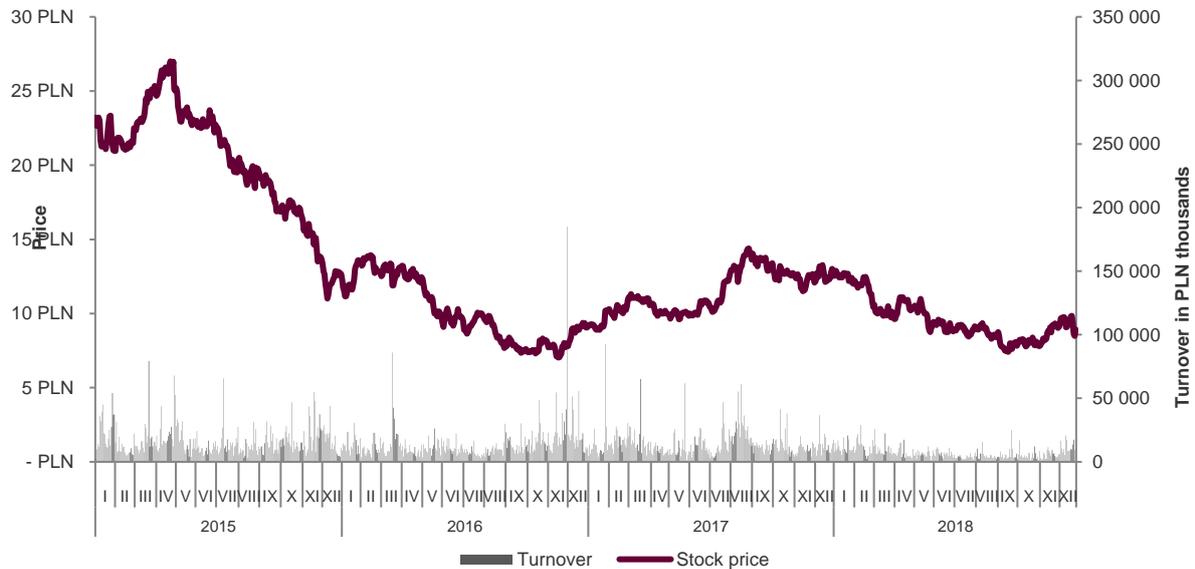
3.2. The Company's stock prices on the Warsaw Stock Exchange

Table 18: Data for Energa stock as at 31 December 2018

Data	Value
Issue price	PLN 17.00
Shares	414,067,114
Stock price at the end of the period	PLN 8.91
Capitalisation at the end of the period	PLN 3.7 bn
Q4 minimum at market close	PLN 7.78
Q4 maximum at market close	PLN 9.84
2018 minimum at market close	PLN 7.41
2018 maximum at market close	PLN 14.50
2018 minimum	PLN 7.35
2018 maximum	PLN 14.57
Average trading value	PLN 16.9 m
Average trading volume	744,200
Average number of trades	1,450

Source: Proprietary material based on data from www.infostrefa.com

Figure 10: Energa SA stock price curve in 2015-2018



Source: Proprietary material based on data from www.infostrefa.com

Figure 11: Changes in Energa stock prices compared to changes in WIG, WIG20 and WIG-ENERGIA indices



Source: Proprietary material based on data from www.infostrefa.com

As at 31 December 2018, the Company was included in the following stock exchange indices: WIG, WIG20, WIG30, WIG-Energia, WIG-Poland, RESPECT Index, FTSE4Good Emerging Index, MSCI Global Sustainability Indexes.

3.3. Investor relations at Energa SA

The investor relations team carries out activities aimed at intensifying effective communication on the capital market. In 2018, they included, without limitation:

1. Publication of 56 current reports and 4 interim reports,
2. More than 120 face-to-face meetings with institutional investors (investor conferences or non-deal roadshows),
3. A thematic workshop focusing on the Group's business for brokerage house analysts,
4. Online publication of the annual report for 2017

5. 4 conferences presenting its performance, which were also transmitted online,
6. Cooperation with the Association of Private Investors to improve communication with private investors, including presence at the Wall Street Convention in Karpacz,
7. The Private Investors' Day held on 11 October 2018,
8. 2 investor chats with a member of the Management Board (addressed mainly to private investors),
9. Ongoing communications with analysts making stock recommendations to their clients.

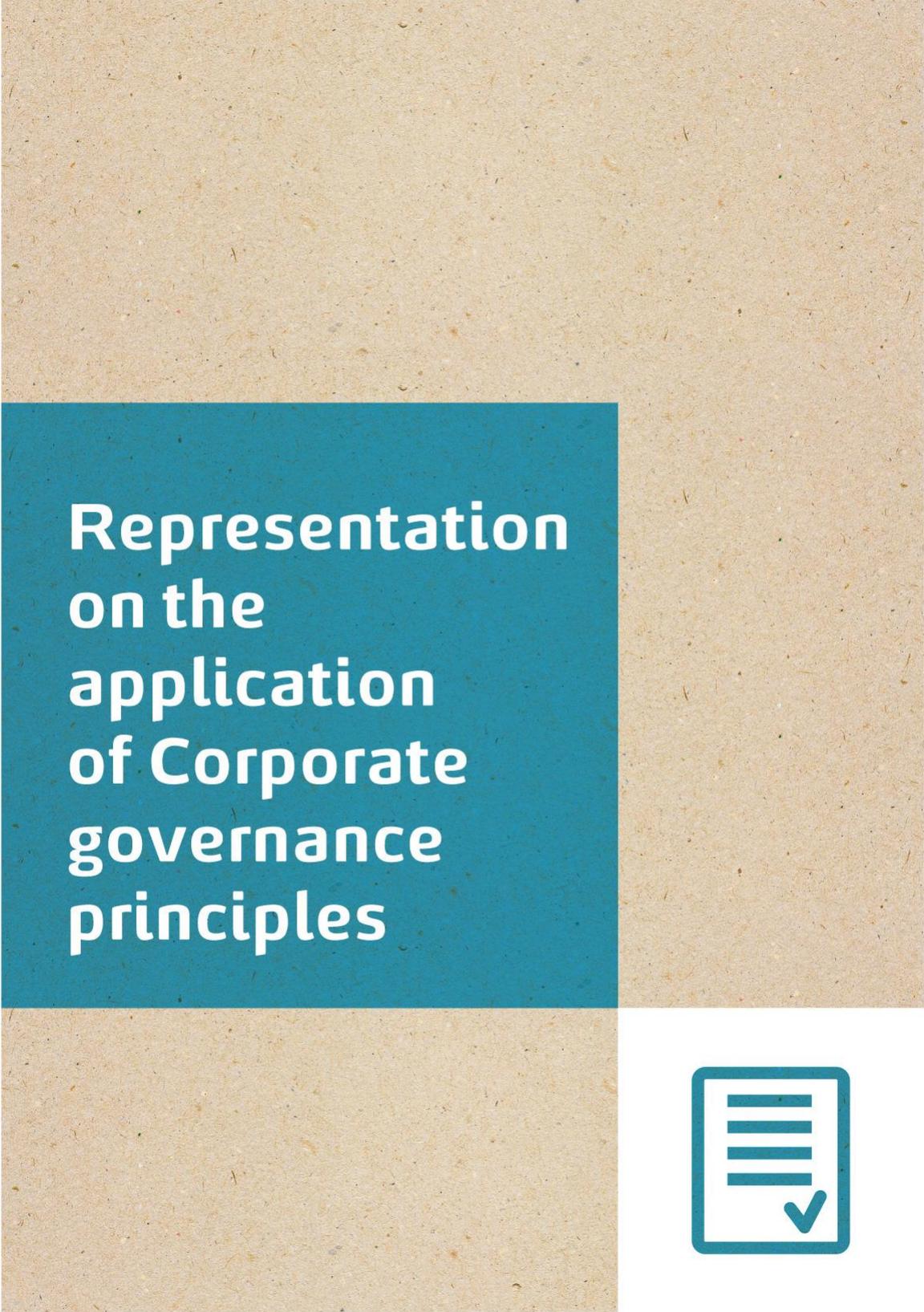
The Investor Relations Team uses a bilingual website to carry out its activities, which is updated on an ongoing basis with essential information about the Group, including quarterly results presentations, fact sheets, and the like. Market participants are free to access the rules followed by the Company in its investor relations – the website contains the Information Policy.

3.4. Recommendations for the Company's stock

In 2018, analysts from brokerage houses and investment banks made 15 recommendations concerning the stock of Energa SA. A list of recommendations can be found on the Company's Investor Relations website.

Figure 12: Recommendations made for Energa's stock in 2018





**Representation
on the
application
of Corporate
governance
principles**



4. CORPORATE GOVERNANCE STATEMENT

In 2018, the Company and its corporate bodies followed corporate governance principles, which are described in the set of documents approved by Resolution No. 26/1413/2015 of the Supervisory Board of Giełda Papierów Wartościowych in Warszawie SA of 13 October 2015 as the “Best Practice of GPW Listed Companies 2016” (Best practice, DPSN), published on the website of the Warsaw Stock Exchange and in the Investor Relations section of the Company’s website.

4.1. Corporate governance principles not applied by the Company

Energa SA does not apply principle III.Z.3 – the Company does not comply with the requirement of Standard 1110-1, but only with respect to the organisational independence of appointing and dismissing the Internal Audit Manager (IAM) and the approval and changes of his or her remuneration. The standard referred to above has been defined in the International Standards for the Professional Practice of Internal Auditing by the Institute of Internal Auditors. Moreover, IAM does not functionally report to the Supervisory Board.

In the absence of a decision on the publication of forecasts and considering the provisions of the Regulation of the Minister of Finance on Current and Interim Information of 29 March 2018, the Specific Principle I.Z.1.10 did not apply, either.

In view of the fact that the Company has implemented the Energa Group Anti-Fraud and Conflicts of Interest Policy, Principle V.Z.6, formerly reported as not applicable, has been applicable to Energa SA since 2018. The document addresses the concerns of identification, prevention and resolution of conflicts of interest.

4.2. Significant shareholders

For information on the shareholding structure, please see Section 3.1 *The Company’s shareholding structure* in this Report.

4.3. Holders of stock with special control rights and a description of special control rights

The State Treasury holds a majority of shares and voting rights at the General Meeting, as stated in the previous subsection. The State Treasury holds 144,928,000 series BB registered shares, preferred in terms of voting at the General Meeting, where one BB share carries two votes at the General Meeting.

Furthermore, the State Treasury is individually authorised to appoint and dismiss a part of the members of the Company’s Supervisory Board, and also to select the Chairman of the Supervisory Board, based on the principles set out in the Company’s Articles of Association. For details in this respect please see the subsection *Appointments and dismissals of the members of the Supervisory Board*.

At the same time, in accordance with the Company’s Articles of Association, the State Treasury has the right to obtain:

1. information regarding the Company and the Group in the form of a quarterly report, in accordance with the applicable guidelines, subject to relevant provisions on the disclosure of confidential information,
2. copies of announcements which are subject to obligatory publication in *Monitor Sądowy i Gospodarczy*,
3. complete sets of documents which must be debated by the Annual General Meeting in accordance with Article 395 sec. 2 of the Commercial Companies Code (CCC), i.e.: financial statements (consolidated financial statements of the Group), Management Board report on the Com-

pany's operations (Management Board report on the Group's operations) for the previous financial year, the auditor's opinion and report on the audit of the Company's financial statements (consolidated financial statements of the Group), Supervisory Board report, Management Board's recommendation on profit distribution or loss coverage,

4. consolidated text of the Articles of Association within four weeks from the date of entry of amendments to the Articles of Association in the business register.

4.4. Restrictions on voting rights

Section 27 of the Company's Articles of Association provides for restrictions of the exercise of voting rights by shareholders, usufructuaries and pledgees holding shares representing more than 10% of the total vote at the General Meeting as at the date of the General Meeting.

For the purposes of restricting the voting rights, the votes of shareholders linked by a parent or subsidiary relationship are aggregated by adding up the number of votes vested in such shareholders.

If, as a result of such cumulative treatment, a reduction in votes is required, it is effected through a pro rata reduction in the number of votes of all the shareholders linked by a parent or subsidiary relationship, by rounding down or up the fractional votes of the shareholder possessing 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 performed is selected by the Management Board on a random basis. Such reduction cannot lead to any shareholder being entirely stripped of his voting right.

The provisions concerning restrictions on voting rights do not apply to the State Treasury, whose voting rights attached to shares on the date of introduction of the restrictions, in accordance with the Articles of Association, accounted for more than 10% of the total vote.

Further to that, the restrictions 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 Organised Trading System and on Public Companies (consolidated text: Journal of Laws of 2013, item 1382) (hereinafter: the "Act on Offering"). Along the same lines, those provisions do not apply in the event of the determination of obligations of entities acquiring or intending to acquire significant blocks of shares.

Aside from the above mechanism and other mechanisms set out in generally applicable legal provisions, including the CCC, there are no additional mechanisms that would restrict the exercise of voting rights in any particular manner.

4.5. Restrictions on transfer of ownership of securities

As at the date of this report, there are no restrictions on the transfer of ownership of the Company's securities.

4.6. Amendments to the Articles of Association

Amendments to the Articles of Association must be made in accordance with the provisions of the CCC. In particular, an amendment to the Articles of Association requires a resolution of the General Meeting adopted by a three-quarters majority vote, and subsequently it has to be recorded in the business register. The Company's General Meeting may authorise the Supervisory Board to establish the consolidated text of the amended Articles of Association or make other editing changes as specified in a resolution of the General Meeting.

In accordance with Article 27 sec. 8 and 9 of the Articles of Association:

1. Resolutions of the General Meeting (which also require an amendment to the Articles of Association) pertaining to:
 - a. the introduction of different types of shares, establishment of new types of shares,
 - b. changes to share preferences,
 - c. a division of the Company, with the exception of division by separation,
 - d. relocation of the Company,
 - e. transformation of the Company,
 - f. any decrease in the share capital by redemption of a portion of shares, unless made in parallel with an increase in share capital – require a four-fifths majority of votes cast.
2. A resolution of the General Meeting concerning a significant change to the Company's business profile can be adopted without the redemption of shares from the shareholders who oppose the change.

On 27 June 2018, the Annual General Meeting of Energa SA amended the content of the Articles of Association (sec. 16 of the Articles of Association), and the amended wording still applies today.

4.7. Corporate bodies

The General Meeting

The rules of procedure of the Company's General Meeting are set out in the CCC and in the Articles of Association. Additional issues concerning the conduct of the General Meeting are governed by the Rules of Procedure of the General Meeting (available on the Company's corporate website).

Shareholders have certain rights associated with the General Meeting which arise expressly from the applicable provisions of law.

Manner of convening the General Meeting

The General Meeting is convened by means of a notice published on the Company's website and in the manner prescribed for the provision of current information in the Act on Offering, i.e. in the form of current reports. The notice must be published at least twenty six days before the date of the General Meeting, in accordance with the provisions of the CCC.

In line with the Articles of Association, the General Meeting is convened by the Management Board:

1. on its own initiative,
2. at the written request of 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 it is the Company's shareholder.

As a general rule, a properly convened General Meeting is valid irrespective of the number of shares represented therein.

General Meetings can be held either at the Company's registered office in Gdańsk or in Warsaw.

Conduct of the Ordinary General Meeting

The General Meeting is opened by the Chairperson or Vice-Chairperson of the Supervisory Board, and in their absence – by the President of the Management Board or a person designated by the Management Board. Subsequently, the Chair of the Meeting is elected from among the persons entitled to participate in the General Meeting, in accordance with the Rules of Procedure of the General Meeting.

Resolutions must not be passed on items not covered by the agenda of the General Meeting, unless the entire share capital is represented therein and no one of those present has objected as regards the adoption of such resolutions.

Voting is open. Voting by secret ballot is ordered in the case of elections and motions to dismiss members of the Company's governing bodies or liquidators, motions to hold them liable, as well as in personnel-related matters. Further, a secret ballot must be ordered at the request of at least one of the shareholders present or represented at the General Meeting.

In accordance with the Company's Articles of Association, the voting rights of shareholders and the voting rights of share usufructuaries and pledgees are restricted in a manner which is described in detail in the *Restrictions on voting rights* section of the Report.

Resolutions of the General Meeting are adopted by an absolute majority, unless the CCC or the Articles of Association provide otherwise.

The General Meeting may order adjournments (by a two-thirds majority), which may not last longer than thirty days altogether.

Powers and responsibilities of the General Meeting

Key powers and responsibilities of the General Meeting, as prescribed by the CCC and the Articles of Association, include:

1. reviewing and approving the Management Board's report on the Company's operations, and the financial statements for the previous financial year,
2. granting discharge to the members of the corporate bodies,
3. distribution of profit or coverage of loss,
4. changing the principal business activity of the Company,
5. amending the Articles of Association,
6. share capital increases or decreases,
7. merger, demerger or transformation of the Company,
8. dissolution or liquidation of the Company,
9. issues of convertible bonds, bonds with pre-emptive rights and subscription warrants,
10. disposal or lease of the enterprise or a branch of activities and creation of limited property rights thereon,
11. creation, utilisation and liquidation of the Company's capitals and funds,
12. appointment and dismissal of members of the Supervisory Board and determining the level of their remuneration,
13. stripping existing shareholders of subscription rights, in whole or in part,
14. purchase of own shares and authorising the Management Board to purchase them for redemption,
15. execution by the Company 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 (*prokurent*) or a liquidator, or in favour of any such person,
16. the purchase of real property, a right of perpetual usufruct or interest in real property or in a right of perpetual usufruct worth more than PLN 40 m,
17. purchase of non-current assets, excluding the purchase of real property or a right of perpetual usufruct or the acquisition of and subscription for shares in other companies, worth more than PLN 40 m,
18. disposal of non-current assets, including real property, a right of perpetual usufruct or interest in real property or in a right of perpetual usufruct, excluding shares in other companies, worth more than PLN 40 m,
19. postponement of the record date, setting the record date or arrangement for dividend payment in instalments.

Three General Meetings took place in 2018:

- 1) An Extraordinary General Meeting on 15 February 2018. The content of the resolutions adopted by that Meeting was published in Current Report No. 8/2018 dated 15 February 2018.
- 2) An Annual General Meeting on 27 June 2018. The content of the resolutions adopted by that Meeting was published in Current Report No. 25/2018 dated 28 June 2018.

- 3) An Extraordinary General Meeting on 3 September 2018. The content of the resolutions adopted by that Meeting was published in Current Report No. 41/2018 dated 3 September 2018.

The Supervisory Board

Composition

In FY 2018 and until the date of this Report, the composition of the Energa SA Supervisory Board has been as follows:

1. from 1 January 2018 until the date of the Report:
 - a) Paula Ziemiecka-Księżak – Chairperson of the Supervisory Board,
 - b) Zbigniew Wtulich – Vice-Chairperson of the Supervisory Board,
 - c) Agnieszka Terlikowska-Kulesza – Secretary of the Supervisory Board,
 - d) Andrzej Powałowski – Member of the Supervisory Board,
 - e) Marek Szczepaniec – Member of the Supervisory Board,
 - f) Maciej Żółtkiewicz – Member of the Supervisory Board.

Marek Szczepaniec and Andrzej Powałowski satisfy the independence criteria envisaged 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, taking into account the requirements envisaged by the Best Practices of WSE Listed Companies, and also for independent members of the Audit Committee, within the meaning of the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (Journal of Laws of 2017, item 1089).

The current term of office of the Company's Supervisory Board will end on 26 June 2020.

Paula Ziemiecka-Księżak graduated from the Leon Koźmiński Entrepreneurship and Management College. In 1996, she began her employment with the Ministry of Treasury. She worked in departments responsible for the oversight of state-owned companies. She was in charge of the oversight of companies from the motor transportation and marine transport sectors, and also in the energy sector. Currently, she is the Head of the Supervision Division in the Department of Supervision and Ownership Policy of the Ministry of Energy. Her responsibilities include the supervision of overall economic and legal issues associated with the activity of state-owned companies from the mining sector, energy sector and other sectors. Additionally, she has gained experience in corporate governance since 2002, serving on supervisory bodies of companies such as SIP-MOT SA in Zamość, PKS Ostrołęka SA, Opakomet SA based in Kraków and PERN SA based in Płock. She has been the Chairperson of the Energa SA Supervisory Board since 12 November 2015.

Agnieszka Terlikowska-Kulesza graduated from the Agricultural Faculty of the Warsaw University of Life Sciences and completed postgraduate studies at the Warsaw School of Economics in finance and European economic and legal relations. In February 1997, she started her career with the Ministry of State Treasury, in the Department of Commercialisation and Direct Privatisation, in the Tender Privatisation Team. Between September 1997 and June 2002, she worked for the Privatisation Agency in the Tender Team as a Chief Specialist and then as a Section Manager. During that period, she participated in the organisation of tenders for the selection of providers of pre-privatisation analyses for companies with State Treasury shareholding, she was in charge of the oversight and execution of privatisation projects, mainly through the invitation to tender procedure, reviews of economic and financial analyses and valuations of state-owned companies slated for privatisation. Between July 2002 and June 2016, she was a Chief Specialist in state-owned company supervision departments at the Ministry of Treasury. She supervised companies from the ceramic, construction and vehicle transportation industries. In 2009-2016, she supervised chemical sector companies. Since July 2016, she has been a Chief Specialist at the Department of Supervision and Ownership Policy at the Ministry of Energy, in charge of the oversight of mining companies. She gathered additional experience in 2001-2016 by serving on supervisory bodies of companies with State Treasury shareholding such as: "Chłod-

nia Szczecińska” Sp. z o.o., Zakłady Ceramiczne “Bolesławiec” w Bolesławcu Sp. z o.o., Przedsiębiorstwo Komunikacji Samochodowej w Białymstoku SA, 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 Hydro Drainage Design Department. Subsequently, he worked as a Construction Engineer for the Regional Drainage Projects Enterprise (in October 1984). He held that position until April 1988. In 1988-1991, he worked as an Engineer for Amak, a foreign company (construction sector), and in 1993-1997 he was employed by the State Treasury Agricultural Property Agency. Before his appointment on the Supervisory Board, Zbigniew Wtulich served as a Chief Expert in the Department of Treasury Property Records of the Ministry of Treasury (1997-1998), Chief Expert and Team Coordinator in the Department of Reprivatisation and Compensation of the Ministry of Treasury (1998-2001), Head of Unit in the Department of Reprivatisation and Share Allocation of the Ministry of Treasury (2002 to 2006), Head of Unit in the Department of Records, Reprivatisation, Compensation and Share Allocation (2006-2010). In 2010-2017, he additionally performed the function of Head of Unit in the Department of Treasury Property of the Ministry of Treasury. Additionally, he was a Member of the Supervisory Board in Zakłady Tworzyw Sztucznych GAMRAT SA (in 2011) and in Przedsiębiorstwo Gospodarki Wodnej i Rekultywacji SA (2002 to 2009). Currently he is the Minister’s Advisor in the Department of Forestry of the Ministry of the Environment.

Maciej Żółtkiewicz graduated from the Faculty of Electrical Engineering of the Częstochowa University of Technology and completed a postgraduate course 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 worked at Elektrociepłownia Radom SA, successively as: an Automation and Measurement Specialist, Corporate Governance and Restructuring Department Manager, Chief Specialist for Organisational and Staff Matters and Management Board Member. In 1999-2000, he sat on the Management Board of Zakład Maszyn do Szycia Łącznik Sp. z o.o. in Radom. In 2001-2005, he successively held the following offices: a Forced Administrator of Putis in Milanówek, a privatisation representative at Transdrog in Warsaw, Vice-President of the Management Board at P.W. Mediainstal Sp. z o.o. in Radom. In 2006-2008, he was the President of the Management Board at Fabryka Łączników Radom SA. From 2009 he was in charge of internal control and audit at RTBS Administrator Sp. z o.o. in Radom, and from 2013 at Radpec SA in Radom. He has acquired state-owned company oversight experience sitting on the supervisory boards of such companies as: Elektrociepłownia Radom SA, Elektrownia Wodna Żarnowiec SA, Fabryka Łączników Radom SA. In 2009-2015, he served on 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 (since 2008) and professor at the Kazimierz Wielki University in Bydgoszcz (since 2014). In 1993-2001, he worked as a Consultant at the Polish-American Small Business Advisory Foundation. In 1992-2006, he was a Consultant with the consulting firm B.P.S. Consultants Poland. Since 2006, he has been the Co-Owner and Vice-President of Qualifact, which is a research firm. He specialises in research on entrepreneurship, human capital, economic growth, behavioural finance and corporate marketing strategies. He has authored more than 150 research reports, scientific papers and other publications. Examples of companies that have relied on his reports and studies include PKO Bank Polski, BZ WBK, Credit Agricole, BNP Paribas, Pekao SA, ING, mBank in the banking sector, PZU, Warta, Compensa, Allianz, Aviva in the insurance sector, and the LOTOS Group, PKN Orlen, BP, Total in the fuel sector. He led market research for Elektrociepłownia Wybrzeże and the Energa Group and drew up a study entitled “Energy company customer service models. Global trends”.

Andrzej Powalowski studied at the Faculty of Law and Administration of the Nicolaus Copernicus University in Toruń in 1969-1973. In 1973, he started a job as a Junior Lecturer in the National Economy Management Law Section at the Faculty of Law and Administration of the University of Gdańsk.

In 1980, he obtained the title of PhD in legal studies and was employed as an Assistant Professor. From 1992, he was a Senior Lecturer at the Public Economic Law Faculty, and from 1994 – at the Public Economic Law and Environmental Protection Faculty. In 2009, he received a post-doctorate degree (*doktor habilitowany*) in legal studies in the area of public economic law. In 2010, he was nominated to the position of an Associate Professor at the University of Gdańsk. Currently, he is the Head of the Public Economic Law Section at the Law and Administration Faculty and the Head of postgraduate programmes: “Legal conditions for conduct of business activity” and “Public procurement law and system” at the University of Gdańsk. He is also a lecturer at the Branch Campus of the Gdańsk School of Higher Education in Olsztyn. He was employed as an Associate Professor at the Baltic College of the Humanities and the Real Estate Management College. He wrote a number of publications, including books and papers for scientific journals, and he is a member of governing bodies of non-governmental organisations and scientific periodicals. He worked as a legal advisor (*radca prawny*), and since 2010 he has been a trial lawyer (*adwokat*) in his own law firm in Gdańsk. He is an arbitrator of the International Court of Arbitration of the Polish Chamber of Maritime Commerce.

None of the above members of the Supervisory Board are engaged in any activities competitive to the business of Energa SA, participate in any competitive company as a partner of a partnership or as a member of a body of a corporation, or participate in any other competitive legal person as a member of its corporate bodies, neither is any of them listed in the Registry of Insolvent Debtors maintained pursuant to the Act on the National Court Register.

Powers and responsibilities of the Supervisory Board

The powers and responsibilities of the Supervisory Board include, in particular:

1. assessing the Management Board's report on the Company's and Group's operations as well as the financial statements for the previous financial year and the consolidated financial statements of the Group in terms of their consistency with the records, relevant documents and the facts, assessing the Management Board's recommendations on allocation of profit or coverage of loss,
2. submitting annual written reports on the assessment results to the General Meeting, referred to in point 1,
3. preparation of reports in connection with oversight of the investments carried out by the Management Board and ensuring that investment spending is incurred in a correct and effective manner,
4. preparation, at least once a year, together with a report from the assessment of the annual financial statements and the consolidated financial statements of the Group, of the Supervisory Board's opinion on the economic viability of the Company's capital exposure to other commercial companies effected in financial year concerned,
5. preparation and presentation, once a year, to the Annual General Meeting of a brief assessment of the Company's standing, including an evaluation of the internal control system and the system for managing the Company's material risks,
6. reviewing of and expressing opinion on issues which are to be the subject of resolutions of the General Meeting,
7. selecting an auditor to audit the financial statements,
8. approving the strategies of the Company and of the Group,
9. approving annual/long-term income and expenditure budgets and investment plans for the Company and the Group,
10. adopting rules of procedure detailing the procedures applicable to the activities of the Supervisory Board,
11. approving the rules of procedure of the Company's Management Board,
12. approving the Company's organisation policy,
13. approving the principles of the Company's sponsoring activity,
14. setting the principles and rates of remuneration for the President of the Management Board and Management Board members, subject to the mandatory provisions of law,

15. delegating members of the Supervisory Board to temporarily substitute for Management Board members who are unfit for office and setting their rates of remuneration,
16. deciding how the Company will vote at general meetings of its subsidiaries.

A detailed description of the powers and responsibilities of the Supervisory Board is provided in the Articles of Association, available on the corporate website.

Method of operation of the Supervisory Board

The Supervisory Board is responsible for the permanent supervision of the operations of the Company, in accordance with the CCC and the Articles of Association. The detailed operating procedure is defined in the Rules of Procedure of the Supervisory Board, available on the corporate website.

The Supervisory Board carries out its activities as a body. Members of the Supervisory Board participate in meetings, exercise their rights and perform their obligations in person. Members of the Supervisory Board are obliged to keep confidential any information related to the Company's operations which they have obtained, whether in connection with the exercise of their mandates or otherwise.

As a general rule, the Supervisory Board adopts its resolutions at meetings held at least once every two months.

Meetings of the Supervisory Board are convened by the Chairperson or Vice-Chairperson, who present a detailed agenda. A meeting should also be convened at the request of any Supervisory Board member or of the Management Board.

Meetings of the Supervisory Board are chaired by the Chairperson, and in his or her absence – by the Vice-Chairperson.

Supervisory Board members may participate in meetings and vote on resolutions adopted during such meetings by means of distance communication, i.e. tele- or videoconferencing technologies, provided that at least one Supervisory Board member is present at the venue chosen by the person who convened the meeting and that it is technically possible to ensure a secure connection.

In accordance with the Articles of Association, the Supervisory Board may adopt resolutions if at least half of its members are present at the meeting and all Supervisory Board members have been invited to the meeting.

The proposed agenda may be amended if all Supervisory Board members are present at the meeting and none of them objects to such amendment. An item not included on the agenda should be put on the agenda of the next meeting.

The Supervisory Board may adopt resolutions independently of its meetings, either by circulation or by means of distance communication, including in particular by electronic mail. Such resolution is valid if all members of the Supervisory Board have been notified of the wording of the draft resolution.

Supervisory Board resolutions are passed by an absolute majority of votes, and in the event of a tie vote, the Chairperson's vote is decisive.

As a general rule, the Supervisory Board passes resolutions by open vote, however, at a request of a member of the Supervisory Board and in personnel-related matters, voting by secret ballot is ordered. Whenever voting by secret ballot is ordered, resolutions must not be adopted by circulation or by means of distance communication.

For important reasons, the Supervisory Board may delegate individual members to perform certain supervisory activities on their own.

The Supervisory Board may delegate its members, for no longer than three months, to temporarily substitute for the members of the Management Board who have been dismissed, have resigned or are otherwise unfit for office.

Details of the activities of the Supervisory Board in the past financial year can be found in the Report on the Activities of the Supervisory Board, which is submitted on an annual basis to the General Meeting and published on the Company's corporate website.

The Supervisory Board appoint the Audit Committee and the Nomination and Compensation Committee from among its members.

From 1 January to 31 December 2018, the Supervisory Board of Energa SA held 15 meetings and adopted 132 resolutions. Five Supervisory Board meetings in 2018 were held without all members in attendance.

In each case, the Supervisory Board members resolved to justify absences, relying on information provided by the Supervisory Board members concerning the reasons for their absences.

The most important matters handled by the Supervisory Board in FY 2018 included, without limitation:

1. initiation and conduct of recruitment procedures for the positions of members of the Management Board of Energa SA,
2. approving the Energa Spółka Akcyjna Organisation Policy,
3. analysis of the current economic and financial position of the Company and the Group and of the execution of and return on Energa Group's investments,
4. adopting a consolidated version of the Articles of Association of Energa SA and a consolidated version of the Rules of Procedure of the General Meeting,
5. supervising the activities carried out as part of the investment project consisting in the construction of the Ostrołęka C power unit with a capacity of approx. 1000 MW.

Additionally, in 2018, the Supervisory Board decided how to vote at the general meetings of subsidiaries, to the extent arising from the Company's Articles of Association, approved the income and expenditure budgets of Energa SA and the Energa Group, evaluated separate and consolidated financial statements for FY 2017 along with a motion to distribute profit, and monitored the Management Board's execution of the sponsorship activity plan.

The Audit Committee

The operating principles of the Audit Committee are defined in the Articles of Association of Energa SA and the Rules of Procedure of the Supervisory Board, available on the Company's website.

The Audit Committee operates as a body and provides advice and opinion to 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 at the Company,
4. monitoring the performance of financial audit activities,
5. verifying whether the statutory auditor and the statutory audit firm are independent and objective, in particular when they provide non-audit services,
6. recommending a statutory audit firm to be engaged for financial auditing to the Supervisory Board.

The Audit Committee performs its functions by submitting proposals, recommendations, opinions and reports within its area of competence to the Supervisory Board, in the form of resolutions.

The Audit Committee is independent from the Company's Management Board, which must not give any binding instructions to the Committee as to the performance of the Committee's functions.

The Audit Committee includes at least three members of the Supervisory Board, of whom at least one should meet the independence criteria prescribed by law and be qualified in the field of accounting or financial auditing in accordance with the Act on Statutory Auditors. In accordance with the Articles of Association, that person should satisfy the requirements for independent Supervisory Board members.

within the meaning of 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 of Best Practices of WSE Listed Companies, and also for independent members of the Audit Committee, within the meaning of the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (Journal of Laws of 2017, item 1089).

In FY 2018 and to date, the composition of the Audit Committee has been as follows:

1. from 1 January 2018 until the date of the Report:
 - a. Marek Szczepaniec – Chairperson of the Committee,
 - b. Zbigniew Wtulich,
 - c. Andrzej Powałowski.

Since 18 October 2017, Marek Szczepaniec has been the Chairperson of the Audit Committee.

A description of the Audit Committee's activities in the previous financial year, together with a detailed description of the activities undertaken by the Committee, are provided in the Report on the activities of the Audit Committee, which is an Appendix to the Report on the Activities of the Supervisory Board, submitted annually to the General Meeting and published on the Company's corporate website.

In 2018, the Audit Committee held four meetings, of which three took place with all members in attendance.

The Nomination and Compensation Committee

The Nomination and Compensation Committee of the Supervisory Board of Energa SA has operated since 27 February 2015, when the Company's Supervisory Board made a decision to appoint it and approve the new Rules of Procedure of the Supervisory Board of Energa SA, setting out its method of operation.

The scope of activity of the Nomination and Compensation Committee covers expressing opinions and conducting analyses to support the Supervisory Board in the performance of its duties prescribed in the Articles of Association in respect of the overall compensation policy for Management Board members and executives of the Company and other Energa Group companies, as well as making recommendations concerning the appointments of Management Board members.

The powers and responsibilities of the Nomination and Compensation Committee include in particular:

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 supervision of the performance of the contractual obligations taken by the parties,
3. supervising the implementation of the Management Board's compensation plan, in particular preparing billing documents concerning variable and bonus pay elements,
4. monitoring and analysis of the compensation plan for the Management Boards and executives of Energa Group companies,
5. supervising the correct provision of contractual benefits for the Company's Management Board, such as personal and medical insurance, use of company cars, apartments and other benefits.

In FY 2018, the composition of the Nomination and Compensation Committee was as follows:

1. from 1 January 2018 until the date of the Report:
 - a. Paula Ziemięcka-Księżak – Chairperson of the Committee,
 - b. Agnieszka Terlikowska-Kulesza,
 - c. Zbigniew Wtulich.

Five meetings of the Nomination and Compensation Committee were held in 2018, of which four had all members in attendance.

A description of the Nomination and Compensation Committee's activities in the previous financial year is provided in the Report on the Activities of the Nomination and Compensation Committee, which is an Appendix to the Report on the Activities of the Supervisory Board.

The Management Board

Rules of appointing and dismissing the members of the Management Board

The Management Board may consist of one to five persons, including the President and one or more Vice-Presidents. The term of office of the Management Board is three years, and all members serve the same term of office.

In accordance with the Articles of Association, Management Board members are appointed and dismissed by the Supervisory Board, which appoints one member as the President and one or more members as the Vice-President.

A member of the Management Board can also be:

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

In conformity with section 16 of the Articles of Association of Energa SA, the Supervisory Board appoints the members of the Management Board following a recruitment procedure.

A Management Board member submits his or her resignation to another member of the Management Board or to the commercial proxy (*prokurent*), and where this is not possible, to the Supervisory Board. The resignation notice should be submitted in writing. The member of the Management Board must inform the Chairperson of the Supervisory Board of the resignation.

Composition

Throughout 2018 and until the date of this Report, the Management Board of the Company has had the following members:

1. in the period from 1 January 2018 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 Finance,
 - d. Grzegorz Ksepko – Vice-President of the Management Board for Corporate Matters.
2. from 6 February 2018 to 1 July 2018:
 - a. Alicja Barbara Klimiuk – Vice-President of the Management Board for Operations, acting President of the Management Board,
 - b. Jacek Kościelniak – Vice-President of the Management Board for Finance,
 - c. Grzegorz Ksepko – Vice-President of the Management Board for Corporate Matters.
3. from 2 July 2018 to 31 July 2018:
 - a. Arkadiusz Siwko – 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 Finance,
 - d. Grzegorz Ksepko – Vice-President of the Management Board for Corporate Matters.
4. from 31 July 2018 until the date of this Report:
 - a. Alicja Barbara Klimiuk – Vice-President of the Management Board for Operations, acting President of the Management Board,
 - b. Jacek Kościelniak – Vice-President of the Management Board for Finance,
 - c. Grzegorz Ksepko – Vice-President of the Management Board for Corporate Matters.

Since Daniel Obajtek resigned as President of the Management Board of Energa SA on 5 February 2018, on 6 February 2018, the Management Board of Energa SA passed a resolution to appoint Alicja Barbara Klimiuk as acting President of the Management Board of the Company. On 6 February 2018, the Supervisory Board of the Company approved the decision to appoint the Vice-President of the Management Board for Operations, Alicja Barbara Klimiuk, as acting President of the Management Board of Energa SA.

On 29 June 2018, the Company's Supervisory Board decided to appoint Arkadiusz Siwko on the Management Board of Energa SA of the 5th Term of Office as President of the Management Board, effective from 2 July 2018.

Due to the dismissal of Arkadiusz Siwko by the Supervisory Board from the office of the President of the Management Board of Energa SA on 31 July 2018, on the same day, the Management Board of the Company passed a resolution to appoint Alicja Barbara Klimiuk as acting President of the Management Board. On 31 July 2018, the Supervisory Board approved the decision to appoint Alicja Barbara Klimiuk, Vice-President of the Management Board for Operations, as acting President of the Management Board of Energa SA.

In view of the expiry of the 5th Term of Office of the Management Board of Energa SA on 4 January 2019, on 14 December 2018, the Supervisory Board of Energa SA initiated a recruitment procedure for the offices of members of the Company's Management Board of the 6th Term of Office:

1. President of the Management Board,
2. Vice-President of the Management Board for Finance,
3. Vice-President of the Management Board for Operations,
4. Vice-President of the Management Board for Corporate Matters.

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

She graduated from the Management Faculty of the University of Gdańsk. She completed a Management post-graduate course at the Warsaw School of Economics and a Controlling in Corporate Management postgraduate course at the University of Gdańsk. She has long-standing experience with state-owned companies, including at Energa SA as the President of the Management Board. During the consolidation of the Energa Group and the Ostrołęka Power Plant Complex, she was in charge of the DSO separation process, establishment of an electricity trading company and restructuring of the Energa Group subsidiaries. In 2006-2007, she also served on supervisory boards of such companies as: Towarowa Giełda Energii SA in Warsaw, Zespół Elektrowni Ostrołęka SA and Cergia Energetyka Toruńska SA. From 1992 to 1998, as the Vice-Mayor of Suwałki, she supervised the areas of finance, infrastructural investments, land surveying, spatial management and public utility companies. In 1998-2006, she was the President and Vice-President of the Special Economic Zone in Suwałki, where her responsibilities included, without limitation, oversight of infrastructure construction and development within the Special Economic Zone and monitoring the compliance of businesses with their permits. In 2008-2013, she ran her own business in the field of investment and environmental impact assessment report consulting. Since 2014, she has been the Director of the Technology Transfer Centre at the Prof. Edward F. Szczepanik State School of Higher Professional Education in Suwałki, where she is in charge of EU-funded projects focusing on research and development activities for the benefit of undertakings and technology transfers from academic centres to the economy.

Jacek Kościelniak – Vice-President of the Management Board for Finance

He graduated from the Economic Academy in Katowice (today the University of Economics). He specialises in finance and accounting. He started his career in 1989 as an accountant, finance specialist and chief accountant in privately held limited liability companies. Subsequently, from 1992 to 1998, he provided accounting, tax and legal and economic advisory services as a sole proprietor. He delivered training in the field of taxes, accounting and mandatory prevention of introducing assets from illegal or undisclosed sources into the financial market. He also worked as a Compliance Inspector (*lustrator*) for the National Cooperative Savings and Loans Union (Krajowa Spółdzielcza Kasa Oszczędnościowo-

Kredytowa).

In 1998-2002, he worked as the Finance Department Director at the Silesian Voivodship Office. He was the Chairman of the Supervisory Board of the Upper Silesia Regional Development Agency and a Member of the Council of the Upper Silesia Restructuring Fund. A Member of the Sejm of the 5th Term and, during that period, a Member of the Parliamentary Public Finance Committee. From January to November 2007, he was the Secretary of State at the Prime Minister's Office and the Deputy Chairman of the Standing Committee of the Council of Ministers. In 2007-2011, he was the Vice-President of the Supreme Audit Office. He was engaged in an expert capacity in a twinning project concerning the reinforcement of the audit capacity of the audit authorities in Georgia and Albania.

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

Graduate of the University of Gdańsk's Faculty of Law and Administration (2001). In 2004, he completed a public prosecutor trainee programme at the Regional Public Prosecution Office in Gdańsk and passed the public prosecutor examination. He was admitted to the bar in November 2005. In July 2006 he became a Partner at Kancelaria Radców Prawnych i Adwokatów Głuchowski Siemiątkowski Zwara i Partnerzy (a law firm). In November 2010, he was promoted to a Senior Partner, taking an executive position. In his law practice, he specialised mostly in corporate law, business services, criminal law, criminal tax law, civil law, administrative law and matters relating to the oil and power sector. Additionally, he provided services to other businesses, including consulting in the broad area of corporate governance. In 2003-2007, he sat on the Supervisory Board of Agencja Rozwoju Pomorza SA (the Pomeranian Development Agency) in Gdańsk. He was one of the leading authors of a proposal for the Lustration Act and amendment to the Act on the Institute of National Remembrance, drafted in 2006. He also participated in drafting of a proposal for the Act on Personal Bankruptcy, an amendment of the Act on the General Counsel to the Republic of Poland, an amendment of the Press Law, an amendment of the Act on Weapons and Ammunition, an amendment of the Criminal Code, and he drafted proposals for regulations of the Minister of Regional Development in the field of public aid. In 1996, he completed the Fourth Annual Summer School for Young Social and Political Leaders of the Polish Robert Schuman Foundation and in 1997, the English language school at the University of California Los Angeles.

None of the above members of the Management Board are engaged in any activities competitive to the business of Energa SA, participate in any competitive company as a partner of a partnership or as a member of a body of a corporation, or participate in any other competitive legal person as a member of its corporate bodies, neither is any of them listed in the Registry of Insolvent Debtors maintained pursuant to the Act on the National Court Register.

Powers and responsibilities of the Management Board

The Management Board proceeds in compliance with the CCC and the Articles of Association. The organisation and operating principles of the Management Board, including the detailed resolution procedure, are set out in the Rules of Procedure of the Management Board approved by the Supervisory Board, published on the corporate website of the Company.

The Management Board administers the Company's business and represents the Company. Joint action of two members of the Management Board or of a member of the Management Board and a commercial proxy (*prokurent*) is required to bind and sign on behalf of the Company.

The area of responsibility of the Management Board includes all matters of the Company that are not restricted by the law or Articles of Association to the competence of the other corporate bodies. In accordance with the Articles of Association, subject to certain exceptions provided for therein, each member of the Management Board may administer the Company's business within his or her competence set forth on the Rules of Procedure of the Management Board, without a prior resolution of the Management Board. However, if prior to handling of any such matter even one of the remaining members of the Management Board opposes to its handling, a resolution of the Management Board is required.

As at the date of this Report, members of the Management Board, in order to manage matters falling within their competence individually, have functionally divided specific areas of the Company's activities, delegating:

1. to the President of the Management Board – functional oversight of the following areas of activity:
 - a. press relations,
 - b. audits and inspections,
 - c. strategic risk management,
 - d. legal services,
 - e. safety and security,
 - f. HR policy of the Group, including recruitment of members of corporate bodies of the Energa Group companies,
 - g. marketing and sponsoring,
 - h. organisational management,
 - i. social dialogue.
2. To the Vice-President of the Management Board for Corporate Matters – functional oversight of the following areas of activity:
 - a. institutional relations,
 - b. corporate governance within the Group,
 - c. management by objectives,
 - d. internal communication,
 - e. CSR and environmental policy,
 - f. management of organisational governance within the Group.
3. To the Vice-President of the Management Board for Finance – functional oversight of the following areas of activity:
 - a. planning and financial analysis,
 - b. financial reporting and consolidation,
 - c. financial policy,
 - d. financial risk management within the Group,
 - e. business controlling,
 - f. investor relations,
 - g. stakeholder relations,
4. To the Vice-President of the Management Board for Operations – functional oversight of the following areas of activity:
 - a. the Energa Group Strategy, regulatory policy,
 - b. strategic asset management,
 - c. market analysis and Group development,
 - d. research, development and innovation,
 - e. mergers and acquisitions,
 - f. IT.

Furthermore, in the periods between 6 February and 1 July as well as since 31 July to date (as referred to above), pursuant to Article 1 sec. 6 of the Rules of Procedure of the Management Board of Energa SA, the Management Board appointed Alicja Barbara Klimiuk, Vice-President of the Management Board for Operations, as acting President of the Management Board of Energa SA. The above was approved by the Supervisory Board of the Company. At the same time, the Management Board delegated functional oversight of the following areas of activity to Alicja Barbara Klimiuk, acting President of the Management Board of Energa SA:

1. press relations,
2. audits and inspections,
3. strategic risk management,
4. legal services,
5. safety and security,
6. HR policy of the Group, including recruitment of members of corporate bodies of the Energa Group companies,
7. marketing and sponsoring,
8. organisational management,
9. social dialogue.

Method of operation of the Management Board

Resolutions of the Management Board, as a general rule, are adopted at meetings. Meetings are held as scheduled, when required, however no later than once every two weeks.

Meetings of the Management Board are convened by the President or by a member of the Management Board. Meetings held according to a fixed schedule adopted by a Management Board resolution do not require any notice. Furthermore, at a written request from a member of the Management Board or Supervisory Board, a meeting of the Management Board should be convened within no more than four days after the submission of the request to the President of the Management Board.

As a general rule, meetings of the Management Board are chaired by the President of the Management Board. The meeting venue is either the registered office or a different venue specified by the person convening the management board meeting. The Rules of Procedure of the Management Board allow management board members to participate in meetings and vote on resolutions adopted during such meetings by means of distance communication, i.e. tele- or videoconferencing technologies, provided that at least one Management Board member is present at the venue chosen by the person who convened the meeting and that it is technically possible to ensure a secure connection.

Management Board resolutions are passed by an absolute majority of votes. In the event of a tie vote, the vote of the President of the Management Board is decisive. For resolutions to be valid, it is necessary to properly notify all members of the Management Board of the meeting to be held and, if the Management Board has at least three members, more than half must be present at the meeting. In the case of a Management Board consisting of two members, all members must be present for resolutions to be valid. As a general rule, voting is open. However, at a request of a member of the Management Board, voting by secret ballot is ordered.

In urgent situations, it is acceptable to adopt resolutions by circulation or by means of distance communication, such as fax and electronic mail, provided that all members of the Management Board consent to that. A resolution is valid if the proposal for the resolution has been circulated or communicated by means of distance communication to all members of the Management Board.

In 2018, the Management Board of Energa SA held 51 meetings and adopted 512 resolutions.

Key activities and decisions of the Management Board included:

1. implementation of the project involving the construction of a new power unit in Ostrołęka,
2. continuation of the development of the SMILE system for the Energa Group,
3. adoption of the Long-Term Financial Model for the Energa Group,
4. taking action in view of the entry into force of the General Data Protection Regulation,
5. taking measures to implement an optimum structure for the Energa Group and to harmonise purchasing and logistics processes,
6. approving the Energa Spółka Akcyjna Organisation Policy.

4.8. Salaries of executive and supervisory staff

The Management Board

On 15 December 2016, pursuant to Resolution No. 27 of the Extraordinary General Meeting, the principles of remuneration for Management Board members were adjusted to the provisions of the Act of 9 June 2016 on Remuneration Policies for Persons Managing Certain Companies (Journal of Laws of 2016, item 1202). As at the date of the Report, the rates of remuneration for work (the fixed component) for the members of the Management Board of Energa SA were set in a range of 7 to 15 times the average monthly salary in the business enterprise sector, excluding profit distributions for the fourth quarter of the previous year, as announced by the President of the Central Statistical Office.

On the basis of the remuneration principles, contracts for management services are concluded with the management staff, which provide for:

1. the right to non-competition compensation for a period of 6 months after the date of termination of the contract,
2. the right to a severance grant equal to three times the base monthly salary if the manager is dismissed from his or her office as a member of the Management Board.

The individual salaries of the members of the Company's Management Board for 2018 are presented in the table below.

Table 19: Salaries of members of the Management Board of Energa SA in the period from 1 January to 31 December 2018 (in PLN '000)

Name	Period in office	Wages and salaries	Other benefits	Total*
Alicja Barbara Klimiuk	from 1 January to 31 December 2018	739.84	34.85	774.69
Jacek Kościelniak	from 1 January to 31 December 2018	739.84	31.26	771.10
Grzegorz Ksepko	from 1 January to 31 December 2018	739.84	6.00	745.84
Daniel Obajtek	from 1 January to 5 February 2018	77.07	27.88	104.95
Arkadiusz Siwko	from 2 July to 31 July 2018	66.06	2.50	68.56
TOTAL		2362.65	102.49	2465.14

*differences in totals are due to roundings

Members of the Management Board were additionally entitled to benefits in kind in the previous year, including without limitation:

1. medical insurance for the member and his or her immediate family and the right to choose between life cover and medical cover,
2. tied accommodation, in justified situations, or reimbursement of rental costs,
3. financing or reimbursement of individual training relating to the scope of activities performed for the Company,
4. use of the Company's assets.

The compensation plan for the members of the Management Board of Energa SA is based on management by objectives. Objectives are set on the basis of the current Energa Group Strategy, the Multi-Annual Plan of Strategic Investments and the internal and external challenges faced by the Group. The payment of variable pay components to members of the Management Board of Energa SA depends on the degree and level of achievement of objectives. Additionally, the objectives of the Management Boards of Lead Entities of Business Lines and Company management are aligned with the objectives of the Management Board of Energa SA and cascaded in a top-down fashion. The existing model offers incentives and integrates the executives and managers around the objectives, encouraging co-ownership.

The system design allows both a focus on activities that are important from the perspective of the Group and the fulfillment of the Group's ambitions. It is also important for the Company's shareholders, allowing to create long-term value for Energa and ensuring the stability of business operations.

The Supervisory Board

In accordance with the Articles of Association, members of the Supervisory Board are entitled to a monthly salary at a rate set by the General Meeting.

Furthermore, the Company covers the expenses incurred in connection with the performance of functions by the members of the Supervisory Board, in particular the cost of travel to attend Supervisory Board meetings, costs of accommodation and meals.

No remuneration is payable for a month in which a member of the Supervisory Board attended none of the formally convened meetings and the absences were not excused. Salaries of the members of the Supervisory Board of Energa SA for 2018 are presented in the table below.

Table 20: Salaries of members of the Supervisory Board of Energa SA in the period from 1 January to 31 December 2018 (in PLN '000)

Name	Period in office in 2017	Wages and salaries	Other benefits	Total
Paula Ziemiecka-Księżak	from 1 January to 31 December 2018	89.84	0	89.84
Zbigniew Wtulich	from 1 January to 31 December 2018	79.27	0	79.27
Marek Szczepaniec	from 1 January to 31 December 2018	79.27	0	79.27
Maciej Żółtkiewicz	from 1 January to 31 December 2018	79.27	0	79.27
Agnieszka Terlikowska-Kulesza	from 1 January to 31 December 2018	79.27	0	79.27
Andrzej Powalowski	from 1 January to 31 December 2018	79.27	0	79.27
TOTAL*		486.19	0	486.19

**differences in totals are due to roundings*

Number and par value of Company shares and shares in the Company's related entities held by management and supervisory staff

None of the members of the Management Board or Supervisory Board of Energa SA had any Company shares as at 31 December 2018.

4.9. Description of the diversity policy

Energa SA respects the dignity of every person regardless of race, nationality, religion, gender, education, professional position, sexual orientation, degree of disability or political affiliation, and does not accept any form of discrimination. The Company seeks to ensure diversity through the selection of diverse and professional managerial and supervisory talents. Furthermore, inspiring ideas put forward by employees encourage action, while stimulating the Company's development. This diverse human potential is a source of innovation.

Another cornerstone of diversity management at Energa involves ensuring equal access to professional development and promotions. Based on a level paying field, equal rights and obligations, the Company ensures that everyone can be fairly and fully involved in the Energa Group's fields of activity.

4.10. Main features of internal control and risk management systems in relation to the financial reporting process

The internal audit function is an important element of the internal control system. The Company has an internal audit unit which performs audit and control functions across the Energa Group. These functions are performed in line with the Energa Group's Internal Audit Policy. Internal auditing is an independent, objective activity designed to add value and improve an organisation's operations, bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. It helps an organisation accomplish its objectives, giving assurance as to the effectiveness of these processes, also through consulting.

The purpose of an effective internal control system in financial reporting is to ensure the adequacy and accuracy of the financial information disclosed in periodic reporting. For that purpose, the Company has designed, implemented and used financial reporting process control matrices.

Such aspects as financial reporting were analysed as part of the annual Evaluation of internal controls, risk management and compliance at Energa SA, which was carried out in 2018 with the participation of an external advisor, Ernst&Young Sp. z o.o. Business Advisory Sp.k. ("EY"). The advisers did not make any negative observations in this respect. As a positive observation, they pointed out to a good practice that involved setting up a financial controlling unit (the Control and Tax Management Sub-Department).

Financial information used for financial reporting, Management Board reports and Energa's monthly management and operational reporting is derived from the Company's financial accounting system. Following the completion of all predefined end-of-month ledger closing processes, detailed management reports on finance and operations are prepared. The reports are drafted with the involvement of managers and executives from each organisational unit. For past reporting periods, the Company's financial performance is thoroughly analysed against budget estimates, and any identified deviations are properly clarified.

Both financial and management reporting of the Company and the Energa Group are based on the Accounting Policy (according to the International Financial Reporting Standards), which is updated as required and adopted for application by means of a resolution of the Company's Management Board.

The Company carries out annual reviews of strategies and economic and financial plans. Managers and executives are engaged in a detailed planning and budgeting process, which spans all areas of operation. When prepared, the economic and financial plan is adopted by the Management Board and approved by the Supervisory Board.

The selection of an auditor to audit the separate and consolidated financial statements of the Company is the responsibility of the Supervisory Board. A statutory auditor licensed to audit the financial statements of the Company is understood as the entity defined in the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (Journal of Laws of 2017, item 1089).

The Company adopted a document entitled "The policy and procedure governing the selection of an audit firm and the policy on the provision of additional services by the audit firm, its related entities and members of its network", whose provisions satisfy the requirements of the Act on Statutory Auditors, Audit Firms and Public Oversight (Journal of Laws of 2017, item 1089). In accordance with art. 23a of the Articles of Association, the Audit Committee recommends a statutory auditor to perform the financial audit to the Supervisory Board, while its selection and change are the responsibility of the Supervisory Board. In previous practice, the Company did not cooperate for a continuous period of more than 5 years with any statutory audit firm.

The auditor selection procedure as a whole is carried out by the Audit Committee of the Supervisory Board and it includes the definition of auditor selection criteria, carrying out the selection procedure and authorising the Management Board to enter into a contract for auditing services with the auditor of choice. The Supervisory Board awards the contract for auditing services following a procedure aimed at selecting an independent auditor and a proposal in which the quote reflects the auditor's workload, its position on the market for auditing services and understanding of the Company's industry.

Due to the entry into force of Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and the expected adoption by the Polish Parliament of an act transposing EU legislation providing for a minimum term of two years for auditing services contracts, the Supervisory Board decided to carry out the auditor firm selection procedure for the period from 2017 to 2018. As a result of the procedure, on 20 December 2016, the Company's Supervisory Board selected the statutory audit firm KPMG Audyt spółka z ograniczoną odpowiedzialnością sp.k., with registered office in Warsaw, ul. Inflancka 4A ("KPMG") as the statutory auditor to audit and review the separate and consolidated financial statements of Energa SA and the Energa Group for annual periods ended, respectively, 31 December 2017 and 31 December 2018.

The audit report is presented to the Management Board, Audit Committee and Supervisory Board. Following the annual audit, the statutory auditor presents the Company with the 'Audit Management Letter', describing the deficiencies and irregularities which have been identified in the course of the audit but do not have any significant impact on the reliability and accuracy of the financial statements.

As part of the Energa Group Integrated Risk Management System, financial reporting risk relating to the timely and error-free preparation of the Company's and Group's financial statements, as well as reporting and management information risk involved, for instance, in obtaining and preparation of management, operating and financial information required for management decisions, are identified and managed. The control mechanisms for the above risks include, without limitation: the Energa Group Accounting Policy, ledger accounting instructions, automatic controls embedded in IT systems. All controls are subject to periodic reviews in terms of adequacy, effectiveness and efficiency. At the end of 2018, an in-depth review of controls was carried out for reporting and management information risks, which showed that the controls were highly effective.

The risk management process, which is described in more detail in section 1.8. herein, spans all business lines and corporate levels across the Group. It provides for ongoing and periodic risk reviews, an independent periodic evaluation of system effectiveness and efficiency, and continuous improvement of the system based on the PDCA cycle.

The findings of risk identification and assessment, including reporting risks, are always adopted by the Company's Management Board in the form of a resolution of the Management Board, which additionally covers the definition of the organisation's risk appetite and management strategies for individual risks, while obligating risk owners to implement action plans. Additionally, as part of the monitoring of the effectiveness of the Energa Group risk management system, a summary risk review report is submitted to the Audit Committee of the Energa Group's Supervisory Board.

Management board's representation



5. MANAGEMENT BOARD REPRESENTATION AND INFORMATION

Gdańsk, 13 March 2019

The Management Board of Energa SA hereby informs and represents that:

- (1) to the best of its knowledge, the annual separate financial statements and reference data have been prepared in accordance with the applicable accounting policies and that they give a true, fair and clear view of Energa SA's assets, financial standing and profit/loss. The Report of the Management Board on the operations of Energa SA gives a true view of the Company's development, achievements and condition, and includes a description of the key risks and threats;
- (2) KPMG Audyt spółka z ograniczoną odpowiedzialnością sp.k., the statutory audit firm which audited the separate financial statements of Energa SA for the financial year ended 31 December 2018, was selected in accordance with the applicable regulations. The firm and the auditors who audited the aforesaid statements met the conditions for expressing an impartial and independent audit opinion in accordance with the applicable regulations and professional standards,
- (3) the selection of the audit firm for the annual financial statements was compliant with legal provisions, including those on the selection and selection procedure of audit firms, and states that:
 - a) the firm and the members of the audit team met the conditions required to issue an impartial and independent auditor's report on the annual financial statements, in accordance with the applicable provisions of law, professional standards and principles of professional ethics,
 - b) the Group complies with the applicable legal provisions governing the rotation of audit firms and lead auditors as well as with the mandatory cooling-off periods,
 - c) the issuer has a policy in place governing the selection of audit firms and a policy on the provision of non-audit services by audit firms, their related parties or members of their service networks to the issuer, including services conditionally exempted from the prohibition on provision by audit firms.

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 Finance

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

Jarosław Małkowski
Director of the Finance Department

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Glossary of terms and abbreviations

AMI Advanced Metering Infrastructure.	An integrated set of smart electricity meters, modules and communication systems enabling the collection of data on energy consumption for specified users.
Billing	A detailed receipt, a statement of all charges for value-added services used by a subscriber in a billing period.
Biomass	Solid or liquid, biodegradable substances of plant or animal origin, originating from products, waste and residues from agriculture, forestry and related industries, as well as the biodegradable fraction of other waste, in particular agricultural raw materials
CAPEX	Capital expenditures.
CIRS, CCIRS	Currency Interest Rate Swap and Cross-Currency Interest Rate Swap transactions in which payments are made over a specified period with a prescribed frequency, based on variable interest rates, in two different currencies (CIRS) or in more currencies (CCIRS).
CO ₂	Carbon dioxide.
EIB	The European Investment Bank
EBITDA	Energa SA defines EBITDA as operating profit/loss plus depreciation/amortisation and impairment of non-financial non-current assets. Since the EBITDA definition changed in 2016, EBITDA for comparable periods (2013-2015) has been recalculated according to the new definition.
EBIT (earnings before interest and taxes)	Operating profit.
EBRD	The European Bank for Reconstruction and Development.
Issuer, issuer	Energa SA
Energa SA, Energa, Energa SA	Parent company in the Energa Group of Companies.
Energa Operator, Energa Operator SA, EOP	Energa Operator SA – a subsidiary of Energa SA and the Lead Entity of the Distribution Business Line in the Energa Group.
Energa Obrót, Energa Obrót SA, EOB	Energa Obrót SA – a subsidiary of Energa SA and the Lead Entity of the Sales Business Line in the Energa Group.
EMTN	The Euro Medium Term Notes issuance programme.
EU	The European Union.
EUA	European Union Allowance; emission allowances.
EU ETS	The European Union Greenhouse Gas Emission Trading Scheme. Its functioning is governed by the ETS Directive.
EUR	Euro, the currency used in European Union's eurozone countries.
WSE	Giełda Papierów Wartościowych w Warszawie SA (the Warsaw Stock Exchange).
The Energa Group, the Group, Energa	A Group of companies engaged in distribution, trade and generation of electricity and heat. It also conducts activity related to street lighting, design, procurement of materials, grid-related services, specialised 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 (the Central Statistical Office).
GW	Gigawatt, unit of power in the International System of Units, 1 GW = 10 ⁹ W.
GWe	Gigawatt of electric power.
GWh	Gigawatt hour.
IBnGR	Instytut Badań nad Gospodarką Rynkową (the Institute for Market Economics).
IPO	Initial public offering.
IRS	An interest rate swap agreement between two parties, under which the parties pay interest to each other on a contractual nominal amount calculated according to a different interest rate.
KNF	Komisja Nadzoru Finansowego (the Polish Financial Supervision Authority).
Cogeneration, CHP	An engineering process of simultaneous production of heat and electric or mechanical energy in the course of the same engineering process.
Covenants	Contract clauses used as safeguards, especially in lending agreements.
KRS	Krajowy Rejestr Sądowy (the National Court Register).
kWh	Kilowatt hour, unit of electricity generated or used by a 1 kW device in an hour; 1 kWh = 3,600,000 J = 3.6 MJ.
MEW	Small hydro power plant.
MSP	Ministerstwo Skarbu Państwa (the Ministry of Treasury).

MW	Unit of power in the International System of Units, 1 MW = 10 ⁶ W.
MWe	Megawatt of electric power.
MWh	Megawatt hour.
MWt	Megawatt of electric power.
NBP	Narodowy Bank Polski (the National Bank of Poland), Poland's central bank.
NCBiR	Narodowe Centrum Badań i Rozwoju (the National Centre for Research and Development).
NFOŚiGW	Narodowy Fundusz Ochrony Środowiska i Gospodarki Wodnej (the National Fund for Environmental Protection and Water Management).
EGM	The Extraordinary General Meeting of Energa SA.
Renewable energy sources, RES	Sources converting the energy of wind, solar radiation, geothermal energy, waves, currents and marine tides, run of rivers and energy obtained from biomass, landfill biogas as well as biogas from sewage discharge or treatment processes or the decomposition of plant and animal remains to generate electricity.
DSO, Distribution System Operator	A utility company distributing gaseous fuels or electricity, responsible for grid operation in a gas or electricity distribution system, current and long-term operational safety of the system, operation, maintenance, repairs and the necessary expansion of the distribution network, including connections to other gas or electricity systems.
TSO, Transmission System Operator	A utility company transmitting gaseous fuels or electricity, responsible for grid operation in a gas or electricity transmission system, current and long-term operational safety of the system, operation, maintenance, repairs and the necessary expansion of the transmission network, including connections to other gas or electricity systems.
OZEX_A	Volume-weighted average price for 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 in certificates of origin for renewable electricity generated starting from 1 March 2009, as specified in the certificate of origin.
pp	Percentage point.
Property rights	Transferable rights constituting a commodity arising from certificates of origin for renewable energy and energy from cogeneration.
Vertically integrated undertaking	An energy undertaking or a group of undertakings whose mutual relationships are defined in Article 3 sec. 2 of the Concentration Regulation, engaged (i) for gaseous fuels: in the transmission, or distribution, or storage, or liquefaction and production or sale of such fuels, or (ii) for electricity: transmission or distribution and generation or sale of electricity.
PSE	Polskie Sieci Elektroenergetyczne Spółka Akcyjna with its registered office in Warsaw, entered in the Register of Entrepreneurs of the National Court Register under KRS No. 0000197596; a company designated by the President of the URE's decision No. DPE-47-58(5)/4988/2007/BT of 24 December 2007 to operate as the electricity transmission system operator in the Republic of Poland in the period from 1 January 2008 to 1 July 2014.
yoy	Year on year.
SAIDI	System Average Interruption Duration Index.
SAIFI	System Average Interruption Frequency Index.
SFIO	Specialist open-end investment funds.
Smart Grid	An electricity system that integrates in an intelligent way the behaviours of all participants of generation, transmission, distribution and use processes in order to supply electricity in an economic, sustainable and safe manner. Comprehensive power industry solutions allowing for linking, mutual communication and optimal control of previously dispersed elements of energy networks.
SPOT	Day-Ahead Market (DAM): an energy market operating in the "day ahead" time interval (DA) supplying energy on day D.
Certificate of origin	Certificate of origin from renewable energy sources, a green certificate, and a certificate of origin from cogeneration.
Certificate of origin from cogeneration	A document issued by the President of the URE pursuant to Article 9I of the Energy Law confirming that electricity has been generated in high-efficiency cogeneration in: (i) a gas-fired cogeneration unit or a cogeneration unit with a total installed electrical capacity at source under 1 MW (known as the yellow certificate), (ii) a cogeneration unit fired by methane released and captured during deep mining operations in coal mines (open, in liquidation or closed), or gas obtained by processing biomass, (known as a purple certificate), or (iii) another cogeneration unit (known as a red certificate).

Certificate of origin from renewable energy sources, green certificate	A document issued by the President of the URE pursuant to Article 9e of the Energy Law confirming that electricity has been generated from a renewable energy source (known as a green certificate).
Tariff G	A tariff group for individual customers – households.
Polish Power Exchange, TGE	Towarowa Gielda Energii SA, a commodity exchange where admitted commodities are traded, i.e. electricity, liquid and gaseous fuels, mine gas, pollution emission allowances and property rights arising from certificates of origin, whose price depends directly or indirectly on the price of electricity, liquid or gaseous fuels and the volume of pollution emissions.
TWh	Terawatt hour, a multiple of the SI unit of electricity. 1 TWh equals 10 ⁹ kWh.
EU	The European Union.
URE	The 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 can be deemed to be energy generated in a renewable energy source