



## ENERGA FINANCE AB (PUBL)

(incorporated with limited liability in the Kingdom of Sweden)

**Euro 1,000,000,000**

### **Guaranteed Euro Medium Term Note Programme Due from one to 15 years from the date of original issue guaranteed by ENERGA SA**

(a joint stock company incorporated in the Republic of Poland)

Under the Guaranteed Euro Medium Term Note Programme (the "**Programme**") described in this prospectus (the "**Prospectus**"), ENERGA Finance AB (publ) (the "**Issuer**"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue Euro Medium Term Notes guaranteed by ENERGA SA (the "**Guarantee**" and, the "**Guarantor**", respectively) (the "**Notes**"). The aggregate nominal amount of Notes outstanding will not at any time exceed Euro 1,000,000,000 (or the equivalent in other currencies), subject to increase as described herein. The Guarantee will expire on 31 December 2033 and will be valid in respect of sums not exceeding an aggregate of Euro 1,250,000,000 (or its equivalent in other currencies).

Application has been made to the *Commission de Surveillance du Secteur Financier* (the "**CSSF**") in its capacity as competent authority under the Luxembourg Act dated 10 July 2005 relating to prospectuses for securities, for the approval of this Prospectus as a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in a relevant Member State of the European Economic Area (the "**EEA**") (the "**Prospectus Directive**"). The CSSF assumes no responsibility as to the economic and financial soundness of the transaction and the quality or solvency of the Issuer in line with the provisions of article 7(7) of the Luxembourg Act.

Application has also been made to the Luxembourg Stock Exchange for the Notes issued under the Programme to be admitted to the official list of the Luxembourg Stock Exchange (the "**Official List**") and to be admitted to trading on the Luxembourg Stock Exchange's regulated market. References in this Prospectus to Notes being "**listed**" (and all related references) shall mean that such Notes have been admitted to the Official List and admitted to trading on the Luxembourg Stock Exchange's regulated market. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments. However, unlisted Notes may be issued pursuant to the Programme. The relevant Final Terms (or Pricing Supplement (as defined herein)) in the case of Exempt Notes (as defined herein), in respect of the issue of any Notes will specify whether or not such Notes will be listed on the Official List and admitted to trading on the Luxembourg Stock Exchange's regulated market (or any other stock exchange).

The requirement to publish a prospectus under the Prospectus Directive only applies to Notes which are to be admitted to trading on a regulated market in the EEA and/or offered to the public in the EEA other than in circumstances where an exemption is available under Article 3.2 of the Prospectus Directive. References in this Prospectus to "**Exempt Notes**" are to Notes for which no prospectus is required to be published under the Prospectus Directive. Exempt Notes do not form part of this Prospectus for the purposes of the Prospectus Directive and the CSSF has neither approved nor reviewed information contained in this Prospectus in connection with Exempt Notes. Exempt Notes may be admitted to listing, trading or quotation by any relevant authority, stock exchange and/or quotation system or be admitted to listing, trading and/or quotation by such other or further relevant authorities, stock exchanges and/or quotation systems, as may be agreed with the Issuer and the Guarantor.

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and certain other information which is applicable to each Tranche of Notes (as defined in "*Overview of the Programme – Method of Issue*") will (other than in the case of Exempt Notes) be set out in a final terms document (the "**Final Terms**") which will be filed with the CSSF.

Copies of Final Terms in relation to Notes to be listed on the Luxembourg Stock Exchange will also be published on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)). In the case of Exempt Notes, notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and certain other information which is applicable to each Tranche will be set out in a pricing supplement document (the "**Pricing Supplement**").

Each Series (as defined in "*Overview of the Programme – Method of Issue*") of Notes in bearer form will be represented on issue by a temporary global note in bearer form (each a "**temporary Global Note**") or a permanent global note in bearer form (each a "**permanent Global Note**" and, together with each temporary Global Note, the "**Global Notes**"). If the Global Notes are stated in the applicable Final Terms to be issued in new global note ("NGN") form, the Global Notes will be delivered on or prior to the original issue date of the relevant Tranche to a common safekeeper (the "**Common Safekeeper**") for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, S.A. ("**Clearstream, Luxembourg**"). Notes in registered form will be represented by registered certificates (each a "**Certificate**"), one Certificate being issued in respect of each Noteholder's entire holding of Registered Notes of one Series. Registered Notes issued in global form will be represented by registered global certificates ("**Global Certificates**"). If a Global Certificate is held under the New Safekeeping Structure (the "**NSS**") the Global Certificate will be delivered on or prior to the original issue date of the relevant Tranche to a Common Safekeeper for Euroclear and Clearstream, Luxembourg.

Global notes which are not issued in NGN form ("**Classic Global Notes**" or "**CGNs**") (the Global Certificates which are not held under the NSS) will be deposited on the issue date of the relevant Tranche with a common depository on behalf of Euroclear and Clearstream, Luxembourg (the "**Common Depository**"). The provisions governing the exchange of interests in Global Notes for other Global Notes and definitive Notes are described in "*Summary of Provisions Relating to the Notes while in Global Form*".

The Guarantor has been rated Baa1 by Moody's Investors Service Ltd ("**Moody's**") and BBB by Fitch Polska SA ("**Fitch**"). Each of Moody's and Fitch is established in the European Union and is registered under the CRA Regulation (as defined below). Tranches of Notes (as defined in "*Overview of the Programme – Method of Issue*") may be rated or unrated. Whether or not a tranche of Notes is rated, together with the assigned ratings, will be specified in the relevant Final Terms (or Pricing Supplement, in the case of Exempt Notes). Whether or not a rating in relation to any Tranche of Notes will be treated as having been issued by a credit rating agency established in the European Union and registered under Regulation (EC) No. 1060/2009 of the European Parliament and of the Council of 16 September 2009 as amended on credit rating agencies (the "**CRA Regulation**") will also be disclosed in the relevant Final Terms (or Pricing Supplement, in the case of Exempt Notes). In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Union and registered under the CRA Regulation and such registration has not been withdrawn or suspended, subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

PROSPECTIVE INVESTORS SHOULD HAVE REGARD TO THE FACTORS DESCRIBED UNDER THE SECTION HEADED "**RISK FACTORS**" IN THIS PROSPECTUS.

Arrangers and Dealers for the Programme

BNP PARIBAS

J.P. MORGAN

Prospectus dated 16 February 2017

This Prospectus comprises a base prospectus in respect of all Notes other than Exempt Notes issued under the Programme for the purposes of Article 5.4 of the Prospectus Directive and for the purpose of giving information with regard to the Issuer, the Guarantor and the Guarantor's subsidiaries and affiliates taken as a whole (the "**Group**") and the Notes which, according to the particular nature of the Issuer, the Guarantor and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer and the Guarantor.

The Issuer and the Guarantor accept responsibility for the information contained in this Prospectus and the Final Terms for each Tranche of the Notes (other than Exempt Notes) issued under the Programme. To the best of the knowledge of the Issuer and the Guarantor (having taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

No person has been authorised to give any information or to make any representation other than those contained in this Prospectus in connection with the issue or sale of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Guarantor or any of the Arrangers or the Dealers (as defined in "*Overview of the Programme*"). Neither the delivery of this Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or the Guarantor since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer or the Guarantor since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

In the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive, the minimum specified denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Notes).

**The distribution of this Prospectus and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer, the Guarantor, the Arrangers and the Dealers to inform themselves about and to observe any such restriction. The Notes have not been and will not be registered under the United States Securities Act of 1933 (the "Securities Act") and include Notes in bearer form that are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to U.S. persons. For a description of certain restrictions on offers and sales of Notes and on distribution of this Prospectus, see "*Subscription and Sale*".**

This Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Guarantor or the Arrangers or Dealers to subscribe for, or purchase, any Notes.

To the fullest extent permitted by law, none of the Arrangers or the Dealers accept any responsibility for the contents of this Prospectus or for any other statement, made or purported to be made by the Arrangers or a Dealer or on its or their behalf in connection with the Issuer, the Guarantor, or the issue and offering of the Notes. Each Arranger and each Dealer accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Prospectus or any such statement. Neither this Prospectus nor any other financial statements are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer, the Guarantor, the Arrangers or the Dealers that any recipient of this Prospectus or any other financial statements should purchase the Notes. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Prospectus and its purchase of Notes should be based upon such investigation as it deems necessary. None of the Arrangers or the Dealers undertake to review the financial condition or affairs of the Issuer or the Guarantor during the life of the arrangements contemplated by this Prospectus nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Arrangers or the Dealers.

In connection with the issue of any Tranche (as defined in "*Overview of the Programme – Method of Issue*"), the Dealer or Dealers (if any) appointed as the stabilisation manager(s) (the "**Stabilisation**"),

**Manager(s)**") (or any person acting on behalf of any Stabilisation Manager(s)) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche and 60 days after the date of the allotment of the relevant Tranche. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or any person acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.

Each potential investor in the Notes must determine (either alone or with the help of a financial adviser) the suitability of that investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial or other professional advisers, whether it:

- (i) has sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Prospectus or any applicable supplement;
- (ii) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio;
- (iii) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understands thoroughly the terms of the Notes and is familiar with the behaviour of financial markets; and
- (v) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The investment activities of certain investors are subject to investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether, and if so to what extent, (i) Notes are legal investments for it, (ii) Notes can be used as collateral for various types of borrowing, and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

In this Prospectus, unless otherwise specified or the context otherwise requires, references to (i) "**U.S. dollars**", "**U.S.\$**" and "**\$**" refer to United States dollars, (ii) "**kr**", "**kronor**" and "**SEK**" refer to Swedish kronor, (iii) "**zloty**" and "**PLN**" refer to Polish zloty, (iv) "**Sterling**" and "**£**" refer to pounds sterling, and (v) "**euro**", "**EUR**" and "**€**" refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

As at 31 January 2017, the National Bank of Poland average exchange rate between euro and zloty was €1 = PLN 4.3308. Certain zloty amounts in this Prospectus were translated into euro. The exchange rate for the convenience translations is PLN 4.3308 per EUR 1.00. Potential investors should not view such translations as a representation that such euro amounts actually represent such zloty amounts, or could be or could have been converted into euro at the rate indicated or at any other rate.

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## RISK FACTORS

*In purchasing Notes, investors assume the risk that the Issuer and the Guarantor may become insolvent or otherwise be unable to make all payments due in respect of the Notes or under the Guarantee. There is a wide range of factors which individually or together could result in the Issuer and the Guarantor becoming unable to make all payments due. It is not possible to identify all such factors or to determine which factors are most likely to occur, as the Issuer and the Guarantor may not be aware of all relevant factors and certain factors which they currently deem not to be material may become material as a result of the occurrence of events outside the Issuer's and the Guarantor's control. The Issuer and the Guarantor have identified in this Prospectus a number of factors which could materially adversely affect their businesses and consequently their ability to make payments due in respect of the Notes and the Guarantee. Factors which the Issuer and the Guarantor believe may be material for the purpose of assessing the market risks associated with Notes issued under the Programme are also described below. Terms used but not defined in this section have the meanings ascribed to them in the "Glossary" section.*

*Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.*

### RISKS RELATING TO THE REGULATORY AND LEGAL ENVIRONMENT

***The energy industry is subject to significant and changing regulation which could have a negative effect on the Group***

As an owner and operator of power plants, owner and operator of renewable energy facilities and owner and operator of an electricity distribution business, ENERGA S.A. ("**ENERGA**") and its subsidiary companies (the "**Group**") are subject to, among other things, both Polish and EU energy market and environmental regulations. The Group conducts its business operations in a sector in which the market regulator (the President of the ERO) plays an active role.

Pursuant to the Energy Law, the Polish state may introduce limitations on the sale of fuels and limit the supply and usage of electricity and heat. In addition, local government entities may affect the activity of firms in the energy sector, in particular by determining local plans for the supply of heat and electricity.

There have been frequent amendments to: the Energy Law and related secondary legislation; the Public Procurement Law; the Anti-Monopoly Law; and other laws that regulate the operations of the energy sector in Poland. The numerous amendments and inconsistencies, as well as the lack of a uniform interpretation of the law in Poland, particularly tax law, create risks within the legal environment in which the Group conducts its operations. Combined with a relatively long period under which tax liabilities become statute barred by limitation, such circumstances may adversely impact the operations, financial results and condition of the Group.

A recently adopted package of amendments to the Energy Law and laws concerning RES significantly changes rules with respect to the functioning of the Polish energy market, in particular relating to the renewable energy sector. This could result in an adverse change in the performance of long-term agreements for the purchase of electricity and property rights, which could affect the feasibility of new investments and current operations in the energy sector and in particular for RES.

Furthermore, the Wind Farm Act significantly limits any new investments in onshore wind power projects and increases the performance parameters of existing wind power plants. The Wind Farm Act also creates a risk of a several-fold increase in real estate tax charges imposed on owners of existing wind power plants. As the capacity of wind farms owned by the Group is significant, this may affect the business operations, financial condition or results of operations of the wind farms involved.

A new regulatory model, introduced on 1 January 2016, is designed to improve the quality of services provided by DSOs. An analysis of data comparing energy supply continuity indices in Poland and Europe shows that Poland is underperforming in comparison to other European countries. The introduction of quality regulations is both an opportunity and a challenge for distribution companies, given that operators can derive financial and reputational benefits from effective compliance with the regulations but could also experience negative consequences in the event of their failure to adequately comply. Any such failure on the Group's part could damage its reputation which in turn could materially impact the Group's activities, operations and financial condition.

Future regulation, changes in regulation and other legal requirements by the Polish government, European regulatory authorities or the EU may require significant changes in the Group's business or otherwise affect its business in ways that the Group cannot predict. Any new regulation that causes the Group to restructure or otherwise change its business could have a material adverse effect on its business.

#### ***Risks related to licences***

In Poland, operations conducted by the Group require various licences including, in particular, concessions to produce, distribute and trade in electricity and heat. Securing new licences, maintaining current licences, or extending the validity of current licences, is of major importance to the operations of the Group. The most important licences held by Group companies have been issued by the President of the ERO. The Group cannot give any assurance that, in the future, the President of the ERO will not change its approach with respect to granting licences to Group companies or that it will not amend an existing licence on the basis of the relevant statutory authority, including restricting its scope, or that it will not revoke any of the existing licences. The Group cannot guarantee that Group companies will always comply with all of the licence requirements. Any failure to comply with licence requirements could result in financial fines of up to 15 per cent. of income or the revocation of the licence.

Prior to the expiry of the most important licences, Group companies apply for extensions and, as their operations develop, they apply for new licences. For example, the Group's distribution licence expires in 2020. The Group cannot provide assurance, however, that the licences held by Group companies will be extended or that the Group will obtain all of the new licences necessary for its development.

Failure to obtain new licences or to renew existing ones may have an adverse impact on the operations, financial condition and results of the Group and/or the ability of the Issuer and the Guarantor to meet their obligations under the Notes and the Guarantee, respectively.

#### ***Risks related to tariffs***

##### ***Legal regulatory background***

The revenues of an energy company are predominantly determined by tariffs. Under Polish law, tariffs should cover reasonable costs of operation and should protect customers from unreasonable price increases. Energy companies that hold licences are obliged to submit their proposed tariff packages to the President of the ERO for approval. The terms and conditions of setting tariffs are set out in secondary legislation issued pursuant to the Energy Law. The President of the ERO may exempt an energy company from the duty to submit tariffs for approval if the President of the ERO determines that the company operates in a competitive market.

The obligation to submit tariffs for approval by the President of the ERO currently applies to energy undertakings engaged in the electricity distribution and transmission sectors and to energy undertakings selling electricity directly to retail customers (known as tariff group G). The tariff obligation also applies to entities involved in the generation and distribution of heat. All energy undertakings engaged in the generation and sale of electricity are exempt from the obligation to have their tariffs approved by the President of the ERO.

In accordance with the above, ENERGA-OBRÓT and power producers in the Group are exempt from the obligation to have their tariffs approved by the President of the ERO except for sales by them to retail customers. ENERGA-OPERATOR, as a company involved in distribution services, also needs to apply to the President of the ERO for the approval of its tariff (see "*Regulatory Environment—Tariffs*").

##### ***Specific risks***

Specific risks concerning tariffs include:

- Risks associated with the fact that the tariffs are approved by the President of the ERO by way of an administrative decision which involves a process over which the Group has limited influence. The President of the ERO may regulate prices according to the law and other external factors beyond the control of energy companies and also with a view to protecting customers. This may lead it to reject what it believes to be unjustified costs and/or profit margins, or the prices and tariff-related fees proposed by energy companies and, as a result, tariffs might not fully reflect the Group's operational costs, assumed level of capital expenditures or return on capital.

- The risk associated with any delay or non-approval of tariffs by the President of the ERO. A protracted process of agreeing the components of a tariff (such as costs and volumes) may lead to a delay in its approval. If a tariff is not approved by 17 December of the year preceding the introduction of the new tariff, the energy company making the application cannot introduce new rates from 1 January. Such potential delays in the introduction of a tariff (especially in cases where the company had bona fide expectations that any increase in tariff prices would be approved) could potentially result in loss of part of the revenue assumed for the given tariff year. Therefore, a delay in the approval of its proposed tariffs may adversely affect the Group's financial condition.
- The risk of changes in regulatory policy which affects the Group's distribution business. When approving tariffs for the Group's distribution business, the President of the ERO determines key formulas and inputs based on the regulatory policy adopted by it in its guidelines, which are not necessarily derived directly from provisions of law. Therefore, there can be no assurance that existing principles relating to regulatory policy as understood by the market will remain constant should the President of the ERO decide to modify its regulatory policy, especially after the end of the current five year regulatory period for 2016-2020. Any such changes could result in lower than expected revenues and profitability achieved by the Group in the Distribution Segment.
- New parameters for the calculation of DSO tariffs for the regulatory period 2016-2020 take into account, among other things, an updated approach to determining the weighted average cost of capital, the reassessment of the efficiency of undertakings in terms of operating costs and the book-tax difference volume, as well as some elements of quality-control regulation. This more expansive set of parameters could make it more difficult for relevant Group companies to have their tariffs approved which in turn could have a material adverse impact on the Groups' operations and financial condition.
- Risks associated with quality performance. The President of the ERO has introduced a system which allows the imposition of penalties with respect to the quality of service provided by a distribution company. Since 2016, any interruption in (i) the supply of electricity to customers and (ii) connectivity implementation time, impacts an energy company's quality ratio. Any deterioration in the quality ratio may result in a reduction of the relevant company's capital-based remuneration in its tariffs for subsequent years. The Group's inability to achieve quality of service measures stipulated by the President of the ERO could therefore result in lower than expected profitability in the Distribution Segment.
- In the current regulatory period, the President of the ERO introduced an additional ratio which aims to determine and evaluate the innovation activities undertaken by the DSO. There is also a risk that a negative or critical assessment by the ERO in relation to this ratio could result in a reduction of the relevant company's capital-based remuneration in its tariffs for subsequent years.

#### ***Risk related to the capacity market***

A draft Act on the capacity market (the "**Draft CMA**"), prepared by the Ministry of Energy, was published and submitted for public consultation on 5 December 2016. The Draft CMA aims to ensure cost-effective security of supply of electricity to final customers in the medium- and long-term. It does this by creating new economic incentives for the construction, maintenance and modernisation of generating units.

The Draft CMA assumes the development and implementation of an established capacity market with net available capacity which can be offered by generators and demand-side response units in return for remuneration for their readiness to supply energy and, in the circumstances prescribed by law, their obligation to do so in periods of capacity shortfalls. The capacity market is to operate in the form of auctions organised by the TSO based on auction parameters specified by the Minister of Energy. It is anticipated that first deliveries on the capacity market will take place in 2021.

In addition, at the end of November 2016, the EC proposed introducing a CO<sub>2</sub> emissions limit for electricity generators assisted from public funds which would operate within the framework of the capacity market. The proposed CO<sub>2</sub> emission limit per one kilowatt-hour (kWh) is 550g, which effectively precludes the participation of coal-fired units in the capacity market.

Since the capacity market constitutes a type of public aid, the Draft CMA must also be notified to the European Commission.

For the time being it is difficult to predict the end result of the current public consultation which is still ongoing and the nature of the new regulations regarding the capacity market. However, these regulations will be applicable to Group companies and they could materially affect the operations, financial condition and results of the Group.

***Risk associated with the stability of the RES support system (certificates of origin of electricity)***

As a result of the entry into force of the Act on RES, the then-existing support system for RES installations was fundamentally remodelled. As a result of the changes, access to the green certificates system was stopped for new installations (the last installations to gain access to the system had to commence energy production before 1 July 2016), and the obligation to purchase "green" energy by obliged sellers at a regulated price has been abolished with effect from 1 January 2018 for installations with installed capacity of over 500 kW. Furthermore, the Act on RES introduced an auction system as the target support system for RES. Although existing installations are permitted to "migrate" to the auction system, there is a lack of detail in the new legislation as to how this will work. In addition, despite oversupply on the green certificates market resulting in a significant fall in the prices of green certificates, no mechanisms have been introduced in the new legislation to effectively counteract this phenomenon.

In light of the possible prolonged oversupply of green certificates and the possibility that migrating to the auction system will not achieve prices reflecting the anticipated returns on investments into the RES installations, the revenues of the Group companies affected may be lower than expected. Additionally, certain Group companies may incur losses arising from their obligation to perform long-term agreements for the purchase of green certificates at prices higher than market prices, which may affect the competitiveness of the Group's electricity offer when compared with that of other market participants.

The production of electricity from RES is a significant source of income for the Group. The uncertainty of the legal regime surrounding the RES sector, including changes reducing the support system to certain installations and introducing limitations with respect to biomass sourcing as well as changes in the market of certificates of origin, could adversely affect the results achieved by the Group in this area, and make its existing and future investments in renewable sources less feasible.

**Risk associated with CO<sub>2</sub> emission allowances**

The production of electricity and heat from coal-fired power plants and combined heat and power plants involves the emission of CO<sub>2</sub> into the environment. In 2005, the EU introduced the EU ETS. Within the EU ETS, each greenhouse gas emitter must counterbalance its greenhouse gas emissions with emission allowances allocated to it for free by the state or acquired within an auction or in the open market, otherwise the emitter is penalised.

In the Phase III of the EU ETS, the pool of free CO<sub>2</sub> emission allowances granted to power generation installations in Poland as part of the transitional allocation (see "*Regulatory Environment - CO<sub>2</sub> emissions allowances*") are being progressively limited and will be completely terminated by the end of 2019. Thereafter, CO<sub>2</sub> emission allowances will have to be purchased at auction or in the open market, where prices are subject to fluctuation.

The Group is planning to develop certain new facilities, notably the unit at Ostrołęka C, which will increase the Group's CO<sub>2</sub> output. Any increase in CO<sub>2</sub> emissions increases the associated risks relating to the increased cost of such emissions, including any potential tightening of legislation with respect to CO<sub>2</sub> emissions. As a result, it is expected that certain Group companies will be forced to purchase a higher number of EUA, CER or ERU certificates in the future which will, if the price for the emission allowances increases significantly, adversely affect the Group's energy production costs.

The decreasing availability of free emission allocations and/or the increase of CO<sub>2</sub> allowance prices are likely to result in a substantial increase in the Group's generation variable costs, thus making the price of electricity sold to end customers less competitive, which may adversely impact the Group's business, prospects, financial condition or results of operations.



## **RISKS RELATING TO ISSUER AND GUARANTOR**

### ***Risks related to consents and permits from local authorities and access to real estate***

The Group is subject to various regulations in Poland and is also required to obtain various safety permits from various authorities for its operations.

The future success of the Group will depend, in part, on it receiving various permits, consents and relevant legal title to key real estate, as well as reaching agreements with local authorities. In the past, Group companies have experienced difficulties in obtaining such permits, consents and titles in a timely manner, as well as obtaining access to real estate, which has caused delays in executing investment plans. The Group is not in a position to assure that, in the future, it will be able to obtain all necessary permits, consents and agreements in a timely manner and that it will be able to enter into relevant agreements regarding real estate. Any failure to do so could adversely impact the operations, financial condition and results of the Group and/or the ability of the Issuer and the Guarantor to meet their obligations under the Notes and the Guarantee, respectively.

### ***Risks related to the unregulated legal status of real properties***

Certain properties in the possession of the Group on which equipment and installations are located or through which power lines run have an unregulated legal status.

In many cases after World War II, the electricity transmission and distribution grid infrastructure was built on real property owned by third parties without an explicit agreement with the owners of such property since no such agreement was legally required at the time. As a result, there are legacy problems in this respect.

The AACC has made it possible for a person who incurred the costs of construction of infrastructure used for, among other things, supplying electricity and connecting to the grid of a transmission or distribution company, to acquire the ownership rights to that infrastructure for appropriate consideration. As the AACC does not precisely specify the status of the infrastructure constructed before it came into force or the rules of the settlement thereof with the relevant company, the risk of claims being pursued by persons who incurred the costs of construction of such infrastructure for the settlement thereof cannot be ruled out.

Such claims, if pursued against a Group company, could have an adverse impact on the operations, financial conditions and results of the Group.

### **Environmental risk**

The Group is subject to various environmental laws and regulations in Poland and is also required to obtain environmental permits from various authorities for its operations.

From 2016, Polish conventional energy generation facilities have been required to meet new stricter emission standards resulting from Directive 2010/75/EU of the European Parliament and of the Council of 24 November 2010 concerning industrial emissions. Compliance with environmental regulations may materially increase the Group's expenditure. The Group will also have to incur future expenditure in order to satisfy any potential new environmental requirements. Certain environmental permits required for the Group's operations require periodic renewal and the Group cannot predict whether it will be able to renew such permits or whether material changes in permit conditions will be imposed. Violations of these permits could result in plant shutdowns, fines and/or litigation being commenced against the Group. Finally, the availability of land for certain investments may be limited in the future owing to its inclusion into the Natura 2000 programme. It is possible that the geographical range of that programme will be expanded in the future, resulting in the need to change the location of certain of the Group's planned future investments.

All or any of the above factors may have an adverse effect on the operations, financial condition and results of the Group and/or the ability of the Issuer and the Guarantor to meet their obligations under the Notes and the Guarantee, respectively.

### ***Risk associated with the implementation of smart grid and advanced metering infrastructure***

Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in electricity expresses a preference for smart grids as the direction for the development of electricity grids. Smart grids aim to provide a supply of electricity that is economically efficient, while at the same time improving the stability and security of supplies.

Pursuant to the abovementioned directive, the President of the ERO has required the five biggest DSOs to install smart balancing meters in MV/LV stations. The number of meters installed should cover a minimum of 80 per cent. of end receivers by 2018 which is a challenging target, and failure to meet this target could have adverse consequences for the Group. In the long-term, the intention is for these meters to minimise, amongst other things, the duration of low voltage energy supply interruptions.

The Group has taken action relating to the implementation of the smart grid concept. However, this comes with certain risks. The most significant risks relate to the possible reluctance of customers to adopt innovative solutions and the issues surrounding necessary amendments in the regulatory framework that would support the implementation of the smart grid concept. These risks could result in the loss of end customers and/or further uncertainty in the regulatory framework, each of which could affect the Group's operations and/or financial condition.

The Energy Law includes an obligation on distribution companies to implement smart metering by the end of 2020. This may negatively influence the price of the necessary infrastructure.

ENERGA-OPERATOR has begun the process of implementing AMIs on a large scale to relevant customers. The goal of AMIs is to provide customers and other utility companies with real-time data on power consumption and allow customers to make informed decisions about energy consumption based on the price at the time of consumption.

However, the implementation of the remote metering system carries a number of business, regulatory and technical risks. Whilst implementation of the AMIs may have a positive impact on the Group's distribution tariffs, the implementation will be expensive. As this is an innovative project, recommended standards have not yet been established, which means there is an increased risk of operation difficulties and potential customer dissatisfaction during implementation.

These factors may have an adverse effect on the operations, financial condition and results of the Group and/or the ability of the Issuer and the Guarantor to meet their obligations under the Notes and the Guarantee, respectively.

### ***Certain provisions of the support scheme for RES could be found to constitute unlawful state aid***

Aid granted under the support schemes provided for in the Act on RES will be compatible with the internal market provided that, while conducting the auctions, the Polish government (represented by the President of the ERO) complies with the requirements set out in Regulation 651 or the EEAG. For example, Regulation 651 applies if the aid for the production of electricity from renewable sources does not exceed EUR 15 million per beneficiary per project or EUR 150 million per year in the event that the competitive bidding process under Article 42 of Regulation 651 is applied taking into account the combined budget of all such aid schemes for the promotion of electricity from renewable sources in Poland. The EEAG aims to promote a competitive bidding process by imposing conditions on the giving of aid depending on whether it is appropriate and proportional, and with regard to any incentives it may provide and any negative impacts such aid may have on competitive trade. In addition, any state aid must not have the effect of providing windfall profits for beneficiaries. The European Commission has stated that in the period 2020-2030, "established renewable energy sources will become grid competitive, implying that subsidies and exemptions from balancing responsibilities should be phased out in a digressive way". Therefore an assessment aimed at checking whether an entity taking part in the auction system could potentially obtain aid incompatible with the internal market will have to be performed to review the terms and conditions of a specific auction, rather than just a review of the Act on RES.

The Group is not aware of any official assessment of the general compatibility of the Act on RES with Regulation 651 or the EEAG.

In addition, it cannot be ruled out that in the future the European Commission may come to the conclusion that the current support system for multi-fuel combustion plants (although limited), dedicated

multi-fuel combustion plants and hydro-generation introduced in Poland constitutes an aid scheme providing beneficiaries with aid incompatible with the internal market. Consequently, there is a risk that some of the Group's earlier transactions in relation to green certificates will be treated as transactions involving unlawful state aid. There can also be no assurance that any future scheme implemented in Poland will not be considered to be state aid.

There is also a risk that the European Commission could conclude that the new support system to be introduced by the Act on RES, or some elements of that system, are incompatible with the internal market, in which case any future transactions in which the PGE Group receives funding as a result of that Act might also be treated as involving unlawful State aid. In either case it could result in an obligation on the Group to return such aid received with interest. This could have an adverse effect on the Group's business, financial results, financial condition and prospects, and consequently, on the value of the Notes and on the ability of the Issuer and the Guarantor to make payments under the Notes and under the Guarantee.

***The support scheme for cogeneration under the Energy Law could be found to constitute unlawful state aid***

In previous years, the Group's co-generation plants benefited from a highly efficient generation support scheme. Under the applicable regulations, this scheme was based on producing and trading certificates of origin (yellow certificates for installations fired with gaseous fuels or with a total installed capacity below 1 MW and red certificates for units fired with fuels other than gas and with a total installed capacity of more than 1 MW) and operated until 31 December 2012. On 30 April 2014, this support scheme was restored until the end of 2018. Due to the nature of the scheme, there is a risk that the European Commission may consider the scheme to be unlawful state aid. The provisions of Polish and EU laws regarding state aid are not always clear. There is a risk that some of the Group's previous, current or future transactions in relation to yellow certificates and red certificates could constitute or be found to constitute unlawful state aid. This could result in an obligation to return any funds received plus interest. This could have a material adverse effect on the Group's business, financial results, financial condition and prospects, and consequently, on the value of the Notes and on the ability of the Issuer and the Guarantor to make payments under the Notes and under the Guarantee (See "*Regulatory Environment – Cogeneration*").

## **RISKS RELATING TO THE MARKET**

### ***Risks relating to macroeconomic conditions***

The Group's operations are focused on Poland. As a public utility, the Group's results of operations are significantly affected by the macroeconomic situation in Poland, which may be adversely affected by changes in regional and global financial conditions.

In particular, the Group's operations are affected by factors such as the level of Poland's GDP growth, the growth of industrial production, the rate of inflation, currency exchange rates (for example changes in the EUR to PLN exchange rate, and the PLN to USD exchange rate), the level of interest rates, yields on Polish State Treasury bonds, fuel prices (including prices of hard coal, natural gas and biomass), the unemployment rate, changes in consumer affluence levels, and the Polish state's fiscal and monetary policy.

A lack of stability and difficulties in the financial markets, such as those experienced from time to time since the global financial crisis, may limit the availability of external financing. Limited access to external financing or an increase in its associated costs may in turn have an impact on the Group's ability to implement its investment programme and strategy. An adverse macroeconomic situation may also increase the risk of insolvency for the Group's business clients, which could lead to difficulties in recovering debts owed to the Group, as well as to the loss of significant clients.

Such adverse circumstances could have a material adverse effect on the Group's business, financial results, financial condition and prospects and, consequently, on the value of the Notes and on the Issuer's and the Guarantor's ability to make payments under the Notes and the Guarantee.

### ***Risks relating to liberalisation of the electricity market***

The Group is exposed to significant and increasing competition in the electricity and energy markets in Poland.

Given the ongoing development of the retail energy market in Poland, the increasing activity of energy sellers and a growing number of customers who change their energy supplier, the Group is exposed to the risk of losing existing customers in the retail market and the risk of decreased margins achieved on sales to existing retail customers.

The Group faces risks associated with the actions of competitors and the entry of new entities into the market. The ongoing liberalisation of the energy market in Poland, changing legal requirements and restrictions with regard to competition, the changing value and volatility of the market and the number and size of current and potential competitors are all factors affecting competition.

The Group cannot anticipate all of the various risks and opportunities that may arise from the ongoing liberalisation of the Polish energy market. The complete implementation of the liberalisation process is intended to eliminate regulated retail tariffs, which is expected to further increase competition. The ongoing changes to the Polish energy market could adversely impact the operations, financial condition and results of the Group and/or the ability of the Issuer and the Guarantor to meet their obligations under the Notes and the Guarantee, respectively.

### ***Risk of not meeting electricity sales to end customers***

The Group's generation capacity is limited when compared with the volume of its electricity sales to end customers. For example, during 2015, the Group's electricity generation amounted to 4.1 TWh compared to retail sales of 16.8 TWh. As a result, the Group has to procure electricity on the open market and is exposed to changes in the market prices of energy. Given the limited natural hedge of energy sales from its own generation, the Group's prices could (at times of limited open market availability) be less competitive compared to other integrated energy groups with greater generation capacity, which could result in the loss of customers and market share and have a negative impact on the Group's earnings.

### ***The Group's failure to maintain pace with technological changes in the rapidly evolving energy sector***

The technologies used in the energy sector have changed in the past, and may continue to change and evolve, rapidly in the future. Techniques for generating electricity are constantly improving and becoming

more complex. In order for the Group to maintain its competitiveness and expand its business, it must effectively adjust to changes in technology. In particular, technologies related to power generation and electricity distribution are constantly being updated and modified. If the Group is unable to modernise its technologies quickly, it could face increased pressure from competitors who are better able to do so and, as a result, lose customers. The Group could also lose opportunities to expand its operations in existing and new markets as a result of any failure to integrate new technologies in its operations. As a result, the Group's failure to respond to current and future technological changes in the energy sector in an effective and timely manner could have a material adverse effect on the Group's business, financial condition, prospects or results of operations.

## **RISKS RELATING TO THE OPERATIONS OF THE GROUP**

### ***Risk of a decrease in the demand for electricity***

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

A decrease in the demand for electricity that results from a drop in the rate of commercial growth, could result in significant commercial customers delaying payments owed to the Group. This could have a negative impact on the Group's cash flow and financial condition and its ability to cover fixed costs. Additionally, one of the factors used in determining the value of tariffs is forecasted demand for electricity. If actual demand is lower than forecast, there may be a risk that the Group will not be able to generate enough revenue to meet the costs justified by the tariffs.

The process of approval of a tariff is based on the agreement of the amount of costs and supplies of electrical energy in the individual tariff groups. An inaccurate forecast is reflected in regulated income (including fixed costs) not being recovered. The most significant factor that results in regulated income not being recovered is a decrease in low-voltage supplies to recipients.

The above circumstances could have a material adverse effect on the activity, results or financial condition of the Group.

### ***Risk of high dependence of the Group's revenue on the effective performance of the equipment used by the Group in the operation of its power plants and electricity distribution networks***

The Group's business and ability to generate revenue depend on the availability and operating performance of the equipment necessary to operate its power plants and electricity distribution networks. Mechanical failures or other defects of equipment, or accidents that result in non-performance or underperformance of a power plant or electricity distribution network, may have a direct impact on the revenues and profitability of the Group's activities.

The cost to the Group of these failures or defects is reduced to the extent that the Group may have the benefit of warranties or guarantees provided by equipment suppliers that cover the costs of repair or replacement of defective components or mechanical failures, or where the losses are covered by insurance. However, there can be no assurance that any liquidated damages or insurance proceeds would fully compensate the Group for the shortfall and resulting decrease in revenues, or that such suppliers will be able or willing to fulfill such warranties and guaranties, which in some cases may result in costly and time-consuming litigation or other proceedings.

Furthermore, industrial installations such as those operated by the Group are potentially hazardous both to health, life and property, particularly in the event of any accidents or malfunction of equipment, machinery or facilities.

Any significant expenses resulting from failures, defects or accidents relating to the Group's operating equipment and infrastructure, could have a material adverse effect on its business, financial condition, prospects or results of operations.

### ***Risk of unfavourable meteorological and hydrological conditions negatively affecting the financial condition and results of the Group***

Earnings from the Generation Segment depend on meteorological and hydrological conditions, in particular rainfall and winter snowfall which both impact water levels in the rivers on which the Group's hydro power plants are located. In usual winter meteorological conditions in Poland, hydro power plants produce a sustainable level of 700 GWh to 800 GWh of power annually. During the course of the last 40 years, the average level of power generation by the main hydro power plant in Włocławek run by ENERGA Wytwarzanie is 721 GWh per annum. Unfavourable hydrological conditions in any year could therefore negatively affect the operations, generation output and financial condition of the Group and the ability of the Issuer and the Guarantor to meet their obligations under the Notes and the Guarantee, respectively.

### ***Risk of an interruption in the supply of energy through distribution grids to recipients***

Interruptions in the supply of energy through distribution grids arises as a result of breakdown of equipment, caused by, among other things, wear and tear, third party actions and destruction of energy lines as a result of unfavourable weather conditions, or certain other factors which may be outside the relevant Group company's control.

Weather conditions, in particular fluctuations in air temperature, result in seasonal variations in the demand for electricity and affect the technical conditions of distribution and transmission which in turn, can have an economic impact on the Group. Low temperatures causing an increase in demand for electricity for heating can cause damage to installations and devices (such as lines transmitting electricity). High temperatures, which also cause an increase in the demand for electrical cooling systems can also limit the transmission capacity of the electricity system. Weather conditions, in particular wind and rainfall, also materially influence the production of electricity from RES connected to the distribution grid. The unstable production of renewable sources also adversely affects the energy balance in the distribution grid in which the Group operates.

Extremely low temperatures resulting in, amongst other things, icing of lines, heavy rainfall, strong gusts of wind and other phenomena can disrupt the distribution and transmission of electricity and can result in interruptions in the supply of electricity to large groups of recipients.

During the last few years, mass breakdowns have occurred in the power grids of ENERGA – OPERATOR as a result of bad weather conditions. The breakdowns significantly affected the duration of the disruptions in the supply of electricity to recipients, which is reflected in the Group's SAIDI index.

Interruptions in the supply of electricity may have adverse effects in the form of additional obligations, safety precautions and fines and other sanctions being imposed on the distribution grid operator, if the public authorities or other responsible entities hold the operator liable for the occurrence of such breakdowns. Breakdowns may also result in additional costs, such as repair, reinstatement and maintenance costs, compensation payments and fines.

Furthermore, in order to maintain the distribution of energy, a distribution operator must undertake regular overhauls, repairs and upgrades of its infrastructure and assets. These actions require considerable financial outlay and involve periodic shutdowns of equipment and installations. The risk of delays or inability to perform particular works caused by, among other things, the uncertainty as to whether sufficient funds will be obtained in order to carry out works in a timely manner, protests by ecological and/or environmental organisations and owners of the land on which the distribution infrastructure is installed, strikes, increases in the costs of investment, delays of contractors in fulfilling orders and difficulties in obtaining required permits, cannot be ruled out.

The above circumstances could have a material adverse effect on the activity, results or financial condition of the Group.

### ***The Group's operations are dependent on the TSO's actions regarding the transmission grid***

The operation of the Group's distribution grids is dependent, to a large extent, on the condition of the transmission grid. There is a risk that deficiencies in the condition of the transmission grid and the failure of the TSO to expand and upgrade the grid may result in failures and outages of the Polish transmission grid. This, in turn, may lead to failures and outages of the Group's distribution grids and/or generation assets. There is also a risk that the Group's ability to make certain investments in new electricity generation units will be hindered by the TSO's failure to expand and upgrade the transmission system. As a result, the TSO's failure to adequately maintain the transmission grid could have a material adverse effect on the Group's business, financial condition or results of operations.

Pursuant to the Energy Law, the TSO is obliged to ensure that its grid network is capable of supplying energy in a continuous and reliable manner, maintaining the quality requirements in force. The issues related to the maintenance of the quality parameters of the energy supplied to the DSO's grid network are regulated in the transmission services agreement, which stipulates that the TSO is liable for failing to maintain those parameters.

The current plan of development of the transmission grid network envisages a number of investments in the grid by 2020 and 2025, including a significant strengthening of the grid network where ENERGA-

OPERATOR operates. The Group is co-operating with the TSO on the development of the transmission grid network and a 110 kV grid network in the area where ENERGA – OPERATOR operates aimed to ensure the optimum planning of the development of the grid network.

However, joint investment planning does not entirely guarantee that all the needs of ENERGA – OPERATOR will be met, especially if the TSO encounters problems carrying out its line investments. Any failure by the TSO to make all its planned investments could negatively affect the ability of the Group to supply all of the power generated by it to the transmission grid.

***Risk of interruption of the supply of fuels to the Group's production units and risk of fuel price increases***

The production of electricity and heat by the Group's production units depends on the supply of hard coal and biomass. Disruptions in fuel supplies may be caused by, *inter alia*, natural factors (such as natural disasters and difficult atmospheric conditions affecting transport), social factors (for example, strikes), economic and political factors (for example, export restrictions, sector restructuring, reductions in the generation of nuclear energy as discussed below, the imposition of unfavourable conditions of transport or supply) and legal factors (such as changes to laws regarding mining or classification of RES). The limitation of, or interruptions in, the supply of fuel may result in the limitation or total stoppage of the supply of electricity and heat, depending on the scale of such interruption.

Hard coal from domestic producers accounts for the largest share in the Group's burnt fuel. Problems arising in the renegotiation of coal supply contracts or fuel charges under longer-term coal supply contracts or any changes in suppliers may result in increased hard coal supply costs to the Group which could have an adverse impact on the Group's financial position and profitability.

Any limitation on the development of nuclear energy may result in the increase of coal prices on the global markets, including the Polish market. Higher costs may limit the amount of coal the Group is able to purchase which in turn would pose a threat to the availability of fuels for the Group and its ability to comply with the statutory requirements regarding mandatory fuel reserves in the utility-scale power industry.

Given that in 2015 the Group's fuel costs were 36 per cent. of its total generation costs, fluctuations in fuel costs have a material impact on the Group's expenditure and its financial condition.

All or any of the above factors may have an adverse effect on the operations, financial condition and results of the Group and/or the ability of the Issuer and the Guarantor to meet their obligations under the Notes and the Guarantee, respectively.

***Risks related to the operation of Ostrołęka B***

Ostrołęka B's key generation units are centrally-dispatched and the TSO can fully control their operation. The TSO can suspend or limit the generation of electricity or increase it above the level planned by the Group, which may result in the Group making less efficient use of this generation asset. There is a potential risk that the volume of the electricity generation operations implemented by the TSO could be lower and that such operations may not provide an adequate return on capital for the Group. Because Ostrołęka B operates at the instruction of the TSO in the 'must run' system, it is difficult for the Group to plan and forecast the consumption of fuels at the plant and, if the required reserves are not maintained, a substantial fine could be imposed by the President of the ERO.

The efficiency and continuity of Ostrołęka B's technological processes may also be limited by *force majeure* events and extreme weather conditions such as floods, shortage of water in the local river used to cool the installation, thunderstorms, gales and storms, earthquakes and earth slides, snowfall, extremely low or high air temperatures and fires. Although the Group adopts measures aimed at maintaining the efficiency and continuity of the plant's technological processes in the event of the occurrence of extremely unfavourable events or conditions (or a combination thereof), these measures may prove to be insufficient to ensure such efficiency and continuity. Further, due to its location and systemic importance, any limitations in the plant's efficiency, continuity and output may put the safety of the National Power System at risk and result in considerable financial losses being suffered by the Group along with serious reputational damage.



The Group has taken out insurance against the effects of extreme weather conditions and technological breakdowns at Ostrołęka B. It also has in place a security plan designed to protect it from, among other things, terrorist attacks, as required by law. However, the Group can give no assurance that any of these measures will be sufficient to preserve the technological processes at Ostrołęka B or to cover any losses experienced by the Group if the plant's operations are materially disrupted. Any disruption of the plant could have a material adverse effect on the Group's business, financial condition and results of operations.

#### ***Risks relating to operation of the Group's hydropower plants***

The operation of a hydropower plant involves a number of risks, including:

- environmental contamination, for example through the discharge of oil or other pollutants;
- damage caused to the plant by debris in the water, including ice in severe winter periods; and
- serious operational problems and risk of flooding caused by ice floats and ice jams.

The occurrence of any of the above risks at any of the Group's hydropower plants may result in significant expenditure being incurred by the Group and disruptions to its business and as a result adversely affect the Group's business, results or financial condition.

In addition, one of the Group's hydro power plants, the Włocławek Hydropower Plant, which was built in 1963-1970, was designed based on the assumption that within 10-15 years an additional hydropower plant would become operational downstream from the Włocławek Hydropower Plant, which has not materialised. In order to permanently secure the Włocławek Hydropower Plant, the Group believes that it is necessary to dam up and stabilise the water table of the downstream water in accordance with the conditions specified in the original project assumptions by way of the construction of another dam on the river. To achieve this goal, one of the key projects constituting the Group's investment programme for the years 2016- 2025 is the Vistula project. The Vistula project assumes the construction of the second dam on the Vistula river further north from Włocławek. A failure by the Group to complete the Vistula project, for example as a result of a lack of funding or cooperation with local authorities, could have a material adverse effect on the operation of the Włocławek Hydropower Plant which in turn could have a significant impact on the Group's financial condition.

#### ***Risk associated with strategic investments including Ostrołęka C***

Strategic investments carried out by the Group are focused on increasing and modernising production capacity and developing electricity grids. Currently planned investments will involve expenditure amounting to approximately PLN 20.6 billion over the 2016-2025 period. This will require the Group to obtain external funding. As strategic investments are spread out over time, there is a risk that the cost of obtaining funding will increase.

In light of the specific features of the market, in particular possible changes to legal regulations impacting the operation of the energy sector, changes in the prices of energy raw materials and disruption in the global financial markets causing an increase in interest rates and foreign exchange rates, there is also a risk that the anticipated financial impact of investments may be negatively affected.

The launch of strategic investments requires corporate consents and administrative decisions. The protracted periods for obtaining the necessary administrative decisions may cause delays in the implementation of strategic investments or if consent is not given it may prevent the execution of strategic investments. The Public Procurement Law may also prolong the implementation of strategic investments and increase the risk of a dispute between contractors.

Suspending the implementation of strategic investments could have an adverse effect on the performance of the Group's strategy, and hence on its financial results.

On 8 December 2016, ENERGA entered into an Investment Agreement with Enea S.A. and Elektrownia Ostrołęka SA regarding the execution of the Ostrołęka C project. The agreement relates to the preparation, construction and operation of a 1,000 MW coal-fired power unit. The anticipated capital expenditure is PLN 5.5 – 6 billion. Significant construction projects are complex and there can be no assurance that the project will be completed on time or on budget. Any delay in the completion of the project could have a material adverse impact on the potential revenue and financial condition of the

Group. Further, even if completed on time and budget, there is a wide range of factors that could impact the future revenue currently anticipated to be generated by the new plant. In addition, any withdrawal by Enea S.A. from the project might negatively affect the completion of the whole project and in wider terms could have a material adverse affect on the Group's business, financial condition and results of operations.

***Risk related to the inability to obtain future financing, including debt financing, to fund the Group's investment programme***

The Group intends to finance its operations, including its planned investments, with its own funds as well as external financing. The Group has significant capital expenditure investment plans. Such expenditure is budgeted to exceed cash generated from operations in the next few years and the Group is therefore likely to have a negative operating cash flow between 2017 and 2020. The additional expenditure is expected to be covered by external financing and, as a result, the Group's leverage is expected to increase in future years. Any failure to finance such expenditure, or any significant increase in expenditure could have a material adverse effect on the financial condition, prospects and operation of the Group.

It cannot be ruled out that in the future the Group may not be able to obtain new financing at the desirable level or on acceptable terms or at all.

To secure this funding, the Group plans to diversify its sources of debt capital. In addition to the Group's Euro Medium Term Note Programme, the Group established in October 2012 a PLN 4 billion Bonds Programme directed at the Polish capital market. Further, the Group has obtained investment loans from international financial institutions such as the EIB, EBRD and NIB and certain other commercial banks. To finance its working capital requirements, the Group plans to continue using working capital loans obtained from the Polish banking sector. The Group actively monitors and manages the risks associated with financing its capital expenditure programme by taking into consideration the financial covenants imposed on the Group as a result of its entry into various finance agreements and rating requirements in the finance agreements. These covenants include both leverage and debt service cover ratios and any breach in the future of these ratios could result in the Group having to renegotiate its covenants and, in a worst case scenario, some or all of the Group's debt being accelerated. The failure by the Group to raise debt financing at levels which it expects from time to time will adversely impact the Group's ability to fund its operations across the Group which in turn could have a significant impact on its financial condition.

Additionally ENERGA has received credit ratings from Fitch and Moody's. Independent credit rating agencies, including Fitch and Moody's, may at any time lower the ratings or announce a negative outlook in relation to the ratings or withdraw the ratings altogether. Each of the above may increase the Group's costs of external financing, limit its access to capital markets and negatively influence its ability to sell products and enter into business transactions, especially long-term. This may affect the Group's liquidity and its ability to obtain financing (including refinancing of existing debts) for investments and have a material adverse effect on its business, results of operations, financial condition or development prospects.

Furthermore, given the current shareholding structure of the Group, ENERGA's credit ratings from Fitch and from Moody's are also linked to the credit ratings of the Republic of Poland. Therefore, a downgrade in the creditworthiness of the Republic of Poland might have similar effects to the ones described in the above paragraph.

***Risk of problems and delays in constructing or connecting its electricity generation facilities***

The Group faces risks related to the construction of its electricity generation facilities, including risks related to the availability of equipment from reliable suppliers, the availability of building materials and key components, the availability of key personnel, including qualified engineering personnel, delays in construction timetables and completion of projects within budget and to required specifications. The Group may also encounter various other impediments such as adverse weather conditions, difficulties in connecting to electricity transmission grids, construction defects, delivery failures by suppliers, unexpected delays in obtaining zoning and other permits and authorisations or legal actions brought by third parties. The occurrence of any such obstacles or others not currently anticipated by the Group may result in delays in the completion of a project and unforeseen construction costs or budget overruns, which in turn could have a material adverse effect on the Group's business, financial condition, prospects or results of operations.

***Risks related to fluctuations in the price of materials, including steel***

The Group's operations are capital intensive because the production of energy and its distribution requires the construction of adequate infrastructure. Depending on the technology and type of infrastructure, from 5 per cent. to as much as 70 per cent. of the cost of construction is related to the purchase of materials, equipment and parts, the price of which depends on many factors beyond the Group's control. Any increase in the price of these materials, equipment or components translates into an increase in the cost of energy production and may decrease the profitability of proposed development projects as well as adversely affect the operations, financial condition and results of the Group and/or the ability of the Issuer and the Guarantor to meet their obligations under the Notes and the Guarantee, respectively.

***Imposing fees for the use of water by the energy industry may have a material adverse effect on the Group's financial condition***

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

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

***Risk related to possible impairment issues***

At least once every quarter, the Group evaluates whether there is an indication of damage or impairment to tangible non-current assets. The analysis includes, but is not limited to, external factors (such as changes in the technological, market, economic or legal environment in which the Group operates, or in the markets where the Group's assets are used) and internal factors (such as changes in the use and

usefulness of an asset, any damage sustained by it and lower returns from any particular asset). Where relevant, the Group conducts suitable tests for impairment of tangible non-current assets.

As a result of: (i) negative macroeconomic developments; (ii) changes in the electricity market (especially pertaining to an observable decrease in electricity prices as well as its components along with the deterioration of long-term forecasts for significant market variables affecting the Group's profitability); (iii) regulatory changes (including, in particular, those related to the methodology of tariff calculations, further changes to the national system of support for the production of energy from RES, and changes to the law regarding wind power projects and planned capacity market regulations); and (iv) changes in commercial and internal operational workings of certain Group companies (including, but not limited to, increased costs, reclassifying business areas and decommissioning certain investments), the current fair value of some of the Group's assets may be lower than their balance-sheet value.

This could result in an adverse effect on the activity, results, financial standing and prospects of the Group.

In relation to its 2016 financial statements, the Group has announced an estimated PLN 132 million impairment loss on assets in Ostrołęka B. The main reason for this impairment loss is the current and projected future low prices of electricity. Following this impairment loss, the book value of Ostrołęka B in the Group's consolidated balance sheet would be PLN 586 million. The estimate is subject to change and the final amount of the impairment will be presented in the consolidated 2016 report to be published on 30 March 2017.

#### ***Risk related to the main shareholder***

The Polish State Treasury is the dominant shareholder of ENERGA. As at the date of this Prospectus, it holds in total 51.52 per cent. of the shares in ENERGA. Voting rights do not correspond to the shareholding amount; each series AA share represents one voting right, and each series BB share (owned by the Polish State Treasury) represents two voting rights. In view of the entry into force of the Act on the Rules of Managing State Property and new rules concerning the disposal of shares belonging to the State Treasury, it is likely that this shareholding percentage will remain the same for the foreseeable future (and is not likely to change by operation of law). The State Treasury as the majority shareholder can exert an influence on the decisions of ENERGA's Management Board with respect to dividend payment recommendations. As controlling shareholder, the State Treasury may use its influence to secure dividend payments that are higher than they otherwise might be, which could weaken the financial condition of the Group and impact the ability of the Issuer and the Guarantor to make payments under the Notes and the Guarantee. Furthermore, the current attitude of the State Treasury with respect to dividends is to tie the amount of dividends payable to its assessment of the implementation of the Group's investment programme, as a result of which the Group's independence with respect to the implementation of its strategy is limited.

Further information on the implications of the State Treasury being the main shareholder on the Supervisory Board are described in the Business Description (see "*ENERGA - Management Corporate – Governance*").

In addition, if the State Treasury was to sell all or part of its shareholding, whether by privatisation or otherwise, any new controlling shareholder might pursue a strategy that differs from that of the Group at the date of this Prospectus. Any politically motivated influence or instability in corporate governance matters relating to the Group could have a material adverse effect on the Group's business, financial condition and the results of operations. The Group is currently involved in potential investments in the coal industry (see "*Investments and Capital Expenditure – Investment in PGG*"). It is possible that the Group may be requested to make further investments in the coal industry in the future. Such investments may involve acquiring entities or operations that carry significant financial and other liabilities. Such investments may involve acquiring entities or operations that carry significant financial and other liabilities. The Group can give no assurance that the financial results of any investment associated with the above-mentioned investments would not adversely affect its business.

#### ***Risk associated with corporate supervision***

The Group is also subject to additional corporate supervision under the Act on Crisis Management of 2007 and the Act on Special Prerogatives of the Minister in Charge of Energy and Their Exercise in

Certain Companies and/or Groups of Companies Operating in the Electrical Energy, Crude Oil and Gas Fuel Industries of 2010. These Acts confer powers on the minister in charge of energy in respect of: (i) obtaining information on the Group's business operations; (ii) access to the Group's documentation; and (iii) the right to object to any disposals of assets of primary importance to the Group, its liquidation or other related decisions. Such powers, in particular those described in (iii) above, could affect the implementation of the management's strategy with respect to the business and the running of the Group's business as the management sees fit.

***Risk concerning the dispersed character of compliance systems within the Group***

Currently there is no unified compliance system within the Group.

In relation to ENERGA itself, compliance-related activity is handled by a number of different risk departments. In addition, particular subsidiaries have different compliance systems which may lead to a lack of a unified approach with respect to similar problems. The Group is, however, in the process of implementing a Group-wide compliance system handled through a coordinated compliance department. Until such time as a unified compliance system is implemented, there remains a risk that there may be a negative impact on the Group's business or operation.

***Risk associated with the structure of the Group***

Polish law has no comprehensive regulations concerning the cooperation of companies within a capital group. Polish law only recognises the business interest of an individual company and has difficulty recognising the overarching business interests of a capital group. As a result, intra-group transactions often require justification proving that any given action was taken in the best interest of each of the companies involved. In light of this, there is a risk associated with ineffective and inefficient management of a group of companies with capital ties to each other. This in turn can have an adverse effect on the operations, financial results and condition of the Group as a whole.

ENERGA directly and indirectly holds shares in several subsidiaries. The companies forming the Group provide services connected with ENERGA's core business, as well as other activities undertaken by it and not connected with electricity generation, the purpose of which is to increase the operational effectiveness of the Group's activities, to control and limit costs and to increase the competitiveness of the products and services on the electricity market.

It may be that the Group has to undertake restructuring measures from time to time in order to facilitate operational effectiveness across the Group. The Group cannot provide any assurance that such restructuring will be implemented effectively and in a timely manner or that any failure to do so will not adversely impact the operations, financial condition and results of the Group and/or the ability of the Issuer and the Guarantor to meet their obligations under the Notes and the Guarantee, respectively.

Notwithstanding the Group's risk management system, due to the Group's complex structure (including the fact that there is currently no centralised compliance function for the Group) there is a risk that the ENERGA Management Board may not be aware of all risks and issues that individual Group companies may have at any given time.

***Risk of the loss of key management and qualified employees***

Growth in the Polish economy has intensified competition for highly qualified employees with extensive relevant professional experience. This competition is especially high with respect to professionals within the energy sector.

ENERGA is subject to the Compensation Restrictions Act of 9 June 2016 as a result of being a company in which the State Treasury is the majority shareholder. According to this Act, the remuneration for the Management Board can be set above the limits indicated in the Act but only if there is appropriate justification. As a result of the limitations stemming from the Compensation Restrictions Act, ENERGA is generally not in a position to provide compensation for members of the Management Board that is higher than the average remuneration given by other companies in the market of comparable size. These restrictions may influence decisions of key management members of ENERGA if they were to receive offers from companies in the private sector which were able to offer better remuneration. Moreover, the labour regulations in force with respect to the Group restrict, to a certain extent, its ability to create a more flexible employment policy, which may also create an obstacle to finding suitable personnel and

cause Group employees to move to other companies or competitors that offer better terms of employment. Such losses, or the inability to hire key employees, may adversely impact the operations, results or prospects of the Group and/or the ability of the Issuer and the Guarantor to meet their obligations under the Notes and the Guarantee, respectively.

***Risks related to third-party action***

The Group's operations may be disrupted by unforeseen events such as terrorist attacks, vandalism or sabotage. Such losses may affect the Group's real estate, installations and equipment, financial assets or key employees. Unforeseen events may also cause additional operating costs such as higher insurance premiums. They may also result in the Group's inability to obtain insurance protection against certain types of risk. Each of these risks may have an adverse effect on the operations, financial condition and results of the Group and/or the ability of the Issuer and the Guarantor to meet their obligations under the Notes and the Guarantee, respectively.

***Risks related to the Group's cash receivables***

The Group has material receivables amounting to PLN 1,890 million (EUR 436 million) as at 30 September 2016, the majority of which is for energy deliveries. As at the date of this Prospectus, some of these receivables for energy deliveries are overdue by more than 90 days. Although the Group has been taking steps to recover such receivables, including negotiating repayment arrangements with debtors, filing court claims as appropriate and, in extreme cases, filing motions for the declaration of the debtor's bankruptcy (as at 30 September 2016, PLN 180 million, (EUR 42 million) of the Group's receivables were subject to court enforcement proceedings), it is impossible to predict the outcome of negotiations and bankruptcy and settlement proceedings. It is also, therefore, impossible to determine how much the Group may be able to recover from such claims. The Group may have problems with the sale, if any, of such receivables. The Group's failure to recover a substantial part of the receivables may adversely impact the operations, financial condition and results of the Group and/or the ability of the Issuer and the Guarantor to meet their obligations under the Notes and the Guarantee, respectively.

***Risks related to the financial standing of key customers***

The insolvency of key customers could result in difficulty recovering amounts owed by them to the Group, and also cause the loss of important customers, which may adversely impact the operations, financial condition and results of the Group and/or the ability of the Issuer and the Guarantor to meet their obligations under the Notes and the Guarantee, respectively.

***Risks related to losses and expenditures not covered by insurance***

The Group faces numerous operational risks in its production and distribution activities, which may result in losses which may not be covered by insurance.

The Group has insurance contracts that have been formulated specifically for it and are tailored to its requirements considering the broad range of its activities. These include non-standard property insurance, third-party liability insurance, directors' and officers' liability insurance, communication insurance, terrorism insurance and development insurance. The terms and conditions of the Group's insurance policies may provide for the payment of amounts that are less than the actual value of the damage it has experienced, including as a result of agreed deductibles and exclusions. No assurance can be given that in all cases amounts paid under any insurance policy will be sufficient to cover all of the potential losses incurred by the Group. Therefore, the Group may be required to cover financial losses arising from the above-mentioned or other factors out of its own funds. This risk may have an adverse effect on the operations, financial condition and results of the Group and/or the ability of the Issuer and the Guarantor to meet their obligations under the Notes and the Guarantee, respectively.

***Risk associated with tax penalties and/or sanctions***

The tax system in Poland is subject to relatively frequent and significant changes, the effect of which is uncertainty over the interpretation and application of many tax provisions. The changes in tax legislation and uncertainty regarding its interpretations by the tax authorities and competent courts, combined with the relatively long statute of limitation with respect to tax obligations and sanctions for tax arrears, not only makes proper assessment of tax provisions difficult but also may result in an increased risk of a violation of tax provisions by the Group resulting in additional tax amounts and/or penalties being

payable by the Group. Payment of such amounts may adversely affect the Group's financial condition and results of operation.

***Risk associated with the influence of trade unions on the process of creating rights and protecting the interests of employees***

Currently, approximately 30 company and inter-company trade union organisations, affiliating nearly 5,000 employees of the Group (i.e. approximately 56 per cent. of the total number of employees), operate at ENERGA and other Group companies. By law, trade unions have a guaranteed influence on the process of creating the regulations concerning the rights and interests of the employees. Trade unions are also entitled to conduct collective disputes with employers (including strikes) concerning the rights and interests of the employees and trade unions.

The Social Agreement of 19 July 2007 and the Intra-Company Collective Bargaining Agreement are in force for most of the employees within the Group. Amongst other matters, these grant the trade unions the right to be consulted and the right for them to be involved in negotiations with employers regarding planned actions of employers concerning the rights and interests of the employees, such as internal restructuring processes. The necessity of consulting and/or negotiating with the trade unions regarding certain actions means that the process of implementing management decisions may be delayed or even require alteration. The Social Agreement of 19 July 2007 also provides for special protection against termination of the employment relationship (the so called "employment guarantee"), established for a fixed period of time until 1 August 2017 (as of the date of this Prospectus, negotiations regarding a new social agreement to replace the existing one have not yet begun). Should a similar arrangement be negotiated for future periods, this could considerably limit the Group's ability to reduce headcount or limit labour costs, and any process of doing so may increase costs in the short term. As a result, the Group's ability to decrease costs and increase efficiency through employment restructuring is limited by social agreements in place.

Trade union activity can result in strikes or demonstrations, which could have a material adverse impact on the operations of the Group's various companies.

***Risk surrounding the lack of integrity and the reliability of IT systems***

The complexity of the Group's structure and its operation and the diversity of its IT systems carry a risk of a lack of coordination and cooperation between individual systems. The non-streamlined management of systems could limit the possibility of developing effective standards to create and develop such systems, resulting in inefficiencies in data handling.

There are many changes, updates and integration features with respect to the Group's IT systems which are being carried out across the Group and the broad scope of those changes carries a risk that new IT solutions may not necessarily achieve the planned cohesion and technological and cost-related interdependence that the Group had expected.

There are also general concerns in the energy sector regarding the security and integrity of data which is handled through an energy company's IT system. This is exacerbated by the energy sector's increasing dependence on IT systems and the quantity of data collected and processed by those systems which make it essential to ensure the highest degree of reliability of those systems and the security of the data held in them.

Potential events posing a risk to the continuity of the operation of IT systems and confidentiality of data include the risk of a breakdown of the systems and cyber attacks on the systems.

There are several risks related to grid management. The electric grid is highly dependent on computer-based control systems. Any failure of the electric grid would have a significant and devastating impact on the economy of whole country regions. The control systems are also exposed to cyber risk.

There are also risks related to power plant operations. Power plant control systems are especially vulnerable to risks surrounding hardware disintegration and the difficulty of sourcing spare parts on the market to replace and/or upgrade affected hardware. This is compounded by the fact that there is also a shortage of hardware and IT specialists that have the skills to maintain the systems to the standards required.

Finally, the lack of integrity of particular IT systems might cause difficulties in maintaining the full functionality of invoicing systems and result in end users not receiving invoices on time or in the correct amount.

Each of the above factors poses risks to the operations of the Group and if they were to occur, could have a material adverse effect on the activity, results or financial condition of the Group.

#### ***Foreign exchange and interest rate risks***

A significant proportion of the Group's external financing is raised in currencies other than PLN (predominantly in EUR), while the Group's revenue is predominantly earned in PLN. As a result, the Group's borrowings expose it to certain foreign currency and interest rate risks. To address these risks, the Group has entered into hedging arrangements that are designed to reduce the Group's exposure to these risks. There can be no assurance, however, that such hedges will always eliminate the associated risks being hedged and any failure to put in place adequate hedges in the future could adversely impact the operations, financial condition and results of the Group and/or the ability of the Issuer and the Guarantor to meet their obligations under the Notes and the Guarantee, respectively.

#### ***Risks arising from pending or threatened litigation***

A number of different court actions, regulatory investigations and proceedings are currently pending against the Group and further actions or proceedings may be instituted in the future. The disputes are, for the most part, related to contractual interpretation and obligations (including payment obligations) arising thereunder. It cannot be ruled out that the outcome of a current or future legal dispute or proceedings, most of which are difficult to predict, may significantly impair the Group's business activities and/or reputation or that the Group suffers a loss that exceeds the provisions set aside or any relevant insurance cover

#### **Factors that may affect the Issuer's ability to fulfil its obligations under Notes issued under the Programme**

##### ***The Issuer is a financing entity***

The Issuer is a company fulfilling financing needs within the Group, entering into financing arrangements (including the issuance of the Notes under the Programme), lending the proceeds inter alia to the companies in the Group and entering into certain ancillary arrangements. The Issuer's business activity is focused on financial investments on behalf of the Group.

The Issuer's most material assets are the Guarantor's obligations to repay amounts lent to the Guarantor by the Issuer. Therefore, the Issuer is subject to all risks to which the Guarantor is subject, to the extent that such risks could limit the Guarantor's ability to satisfy, in full and on a timely basis, its obligations under or in connection with the Guarantee of Notes issued under the Programme.

##### ***The Issuer's centre of main interest is in the Kingdom of Sweden***

The Issuer has its registered office in the Kingdom of Sweden. As a result there is a rebuttable presumption that its centre of main interest ("**COMI**") is in the Kingdom of Sweden and consequently that any main insolvency proceedings applicable to it would be governed by Swedish law. In the decision by the European Court of Justice in relation to Eurofood IFSC Limited, the European Court of Justice restated the presumption in Council Regulation (EC) No. 1346/2000 of 29 May 2000 on insolvency proceedings that the place of a company's registered office is presumed to be the company's COMI and stated that the presumption can only be rebutted if "factors which are both objective and ascertainable by third parties enable it to be established that an actual situation exists which is different from that which locating it at the registered office is deemed to reflect". As the Issuer has its registered office in the Kingdom of Sweden, has a Swedish director, is registered for tax in the Kingdom of Sweden and has a Swedish corporate services provider, the Issuer and the Guarantor do not believe that factors exist that would rebut this presumption, although this would ultimately be a matter for the relevant court to decide, based on the circumstances existing at the time when it was asked to make that decision.



## **FACTORS WHICH ARE MATERIAL FOR THE PURPOSE OF ASSESSING THE MARKET RISKS ASSOCIATED WITH NOTES ISSUED UNDER THE PROGRAMME**

### ***Risks related to the Guarantee***

The Guarantee is limited as to its duration and is of a limited maximum amount, each as described under Condition 3(a) of the Notes. The Guarantor will not be obliged to make any payment in respect of the Notes or Coupons, or pursuant to the Guarantee, if a claim is made after the expiry of the Guarantee. Similarly, the Guarantor would not be obliged to make payment pursuant to the Guarantee to the extent that, and at such time as, the aggregate amounts claimed exceed the maximum amount permitted under the terms of the Guarantee. In such circumstances, Noteholders could receive less than their anticipated principal, interest or other amounts in respect of the Notes or nothing at all.

### ***Risks related to Notes generally***

Set out below is a description of material risks relating to the Notes generally:

#### ***Modification, waivers and substitution***

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

#### ***European Monetary Union***

If the Republic of Poland joins the European Monetary Union prior to the maturity of the Notes, there is no assurance that this would not adversely affect investors in the Notes. It is possible that prior to the maturity of the Notes the Republic of Poland may become a participating Member State and that the Euro may become the lawful currency of the Republic of Poland. In that event, (i) all amounts payable in respect of any Notes denominated in Polish zloty may become payable in Euro, (ii) the law may allow or require such Notes to be re-denominated into Euro and additional measures to be taken in respect of such Notes and (iii) there may no longer be available published or displayed rates for deposits in Polish zloty used to determine the rates of interest on such Notes or changes in the way those rates are calculated, quoted and published or displayed. The introduction of the Euro in the Republic of Poland could also be accompanied by a volatile interest rate environment, which could adversely affect investors in the Notes.

#### ***Change of law***

The Terms and Conditions of the Notes are based on English law in effect as at the date of issue of the relevant Notes. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of issue of the relevant Notes and any such change could materially adversely impact the value of any Notes affected by it.

#### ***Integral multiples of less than €100,000***

In relation to any issue of Notes which have a denomination consisting of the minimum Specified Denomination of €100,000 plus a higher integral multiple of another smaller amount, it is possible that the Notes may be traded in amounts in excess of €100,000 (or its equivalent) that are not integral multiples of €100,000 (or its equivalent). In such a case, a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the minimum Specified Denomination in their account with the relevant clearing system would not be able to sell the remainder of such holding without first purchasing a principal amount of Notes at or in excess of the minimum Specified Denomination such that its holding amounts to a Specified Denomination. Further, a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes at or in excess of the minimum Specified Denomination such that it holds an amount at least equal to a Specified Denomination.

If such Notes in definitive form are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

#### *Withholding tax*

The Notes may be subject to withholding taxes in circumstances where the Issuer is not obliged to make gross up payments and this would result in holders receiving less interest than expected and could significantly adversely affect their return on the Notes.

Investors who are in any doubt as to their position should consult their professional advisors.

#### *General Anti-Abuse Rule risk*

On 19 May 2016, the Polish Parliament passed an act implementing a General Anti-Abuse Rule (the "GAAR"), which came into force on 15 July 2016. The GAAR enables the Ministry of Finance to challenge taxpayers' actions which have been acknowledged by the Ministry of Finance as tax avoidance. The act implementing the GAAR may affect transactions entered into solely or mainly for tax reasons, including transactions entered into for the purpose of avoiding, decreasing or delaying the tax payable in connection with such transactions (a so-called "tax benefit"). Tax avoidance may be achieved by using a structure that involves intermediaries, despite a lack of economic justification of such involvement. If the relevant transaction or structure is acknowledged as tax avoidance, the Ministry of Finance will calculate the tax liability of the relevant taxpayer as if this liability resulted from an 'adequate' transaction of similar economic consequences or by ignoring the tax avoidance activity, which may result in a higher tax liability becoming due and payable. Whilst the Guarantor and the Group are not aware of any particular risk arising out of the GAAR, potential applicability of the GAAR may cause tax liabilities which could have an adverse effect on the business, financial results, financial condition and prospects of the Group and, consequently, on the value of the Bonds, and on the ability of the Issuer and the Guarantor to make payments under the Bonds, under the Guarantee and/or under any instrument through which proceeds from the Bonds are transferred from the Issuer to the Guarantor. In addition, in the event that, due to any change in, or amendment to, Polish laws or regulations (or any change in the application or official interpretation thereof) that becomes effective after the issue date of the first Tranche of any Series of Notes (including, without limitation, as a result of the GAAR), the Guarantor would be obliged to increase the amounts payable in respect of the Notes or under the Guarantee due to any withholding or deduction for, or on account of, any Taxes (as defined in Condition 8) imposed or levied by or on behalf of the Republic of Poland or any political subdivision or any authority thereof or therein having power to tax, or the Guarantor has or will become obliged to make any such withholding or deduction with respect to any payment by the Guarantor pursuant to an inter-company loan to the Issuer, the Issuer may redeem all outstanding Bonds in accordance with Condition 6(c).

### **RISKS RELATED TO THE MARKET GENERALLY**

Set out below is a description of material market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

#### *The secondary market generally*

Notes may have no established trading market when issued and one may never develop. If a market for the Notes does develop, it may not be liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

#### *Exchange rate risks and exchange controls*

The Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the

Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (i) the Investor's Currency-equivalent yield on the Notes, (ii) the Investor's Currency equivalent value of the principal payable on the Notes and (iii) the Investor's Currency equivalent market value of the Notes. Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

#### *Interest rate risks*

Investment in Fixed Rate Notes involves the risk that if market interest rates subsequently increase above the rate paid on the Fixed Rate Notes, this will adversely affect the value of the Fixed Rate Notes.

#### *Credit ratings may not reflect all risks*

One or more independent credit rating agencies may assign credit ratings to the Issuer, the Guarantor or an issue of Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. Whether or not a rating in relation to any Tranche of Notes will be treated as having been issued by a credit rating agency established in the European Union and registered under the CRA Regulation (the registration can be checked at ESMA website: <http://www.esma.europa.eu/page/List-registered-and-certified-CRAs>) will be disclosed in the relevant Final Terms (or Pricing Supplement, in the case of Exempt Notes). In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Union and registered under the CRA Regulation and such registration has not been withdrawn or suspended, subject to transitional provisions that apply in certain circumstances whilst the registration application is pending and such registration is not refused. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

## **RISKS RELATED TO THE STRUCTURE OF A PARTICULAR ISSUE OF NOTES**

A range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common such features.

### *Notes subject to optional redemption by the Issuer*

An optional redemption feature is likely to limit the market value of Notes. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period. The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

### *Fixed/Floating Rate Notes*

Fixed/Floating Rate Notes are Notes which may bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Issuer's ability to convert the interest rate will affect the secondary market in, and the market value of, such Notes since the Issuer may be expected to convert the rate when it is likely to result in a lower overall cost of borrowing for the Issuer. If the Issuer converts from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing market rates.

### *Notes issued at a substantial discount or premium*

The market values of securities issued at a substantial discount (such as Zero Coupon Notes) or premium to their nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for more conventional interest-bearing securities. Generally, the longer the remaining term of such securities, the greater the price volatility as compared to more conventional interest-bearing securities with comparable maturities.

## OVERVIEW OF THE PROGRAMME

*The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Prospectus and, in relation to the terms and conditions of any particular Tranche of Notes, the relevant Final Terms (or Pricing Supplement, in the case of Exempt Notes).*

*This Overview constitutes a general description of the Programme for the purposes of Article 22.5(3) of Commission Regulation (EC) No 809/2004 implementing Directive 2003/71/EC (the "**Prospectus Regulation**").*

<b>Issuer</b>	ENERGA Finance AB (publ)
<b>Guarantor</b>	ENERGA SA
<b>Description</b>	Guaranteed Euro Medium Term Note Programme
<b>Size</b>	Up to Euro 1,000,000,000 (or the equivalent in other currencies at the date of issue) aggregate nominal amount of Notes outstanding at any one time.
<b>Arrangers</b>	BNP Paribas  J.P. Morgan Securities plc
<b>Dealers</b>	BNP Paribas  J.P. Morgan Securities plc  The Issuer may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Tranches or in respect of the whole Programme. References in this Prospectus to " <b>Permanent Dealers</b> " are to the persons listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and references to " <b>Dealers</b> " are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches.
<b>Fiscal Agent and Registrar</b>	BNP Paribas Securities Services, Luxembourg Branch
<b>Additional Paying Agent</b>	BNP Paribas Securities Services, Luxembourg Branch
<b>Method of Issue</b>	The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a " <b>Series</b> ") having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each a " <b>Tranche</b> ") on the same or different issue dates.
<b>Issue Price</b>	Notes may be issued at their nominal amount or at a discount or premium to their nominal amount as specified in the relevant Final Terms or, in the case of Exempt Notes, Pricing Supplement.
<b>Form of Notes</b>	The Notes may be issued in bearer form (" <b>Bearer Notes</b> ") or in registered form (" <b>Registered Notes</b> ") only. Each Tranche of Bearer Notes will be represented on issue by a temporary Global Note if (i) definitive Notes are to be made available to Noteholders following the expiry of 40 days after their issue date or (ii) such Notes have an initial maturity of more than one year and are being issued in compliance with the D Rules (as defined in " <b>Selling Restrictions</b> " below), otherwise such

Tranche will be represented by a permanent Global Note. Registered Notes will be represented by Certificates, one Certificate being issued in respect of each Noteholder's entire holding of Registered Notes of one Series. Certificates representing Registered Notes that are registered in the name of a nominee for one or more clearing systems are referred to as "**Global Certificates**".

**Clearing Systems**

Clearstream, Luxembourg, Euroclear and, in relation to any Tranche, such other clearing system as may be agreed between the Issuer, the Fiscal Agent and the relevant Dealer.

**Initial Delivery of Notes**

On or before the issue date for each Tranche, if the relevant Global Note is a NGN or the relevant Global Certificate is held under the NSS, the Global Note or Global Certificate will be delivered to a Common Safekeeper for Euroclear and Clearstream, Luxembourg. On or before the issue date for each Tranche, if the relevant Global Note is a CGN or the relevant Global Certificate is not held under the NSS, the Global Note representing Bearer Notes or the Global Certificate representing Registered Notes may (or, in the case of Notes listed on the Luxembourg Stock Exchange, shall) be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Global Notes or Global Certificates relating to Notes that are not listed on the Luxembourg Stock Exchange may also be deposited with any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Issuer, the Fiscal Agent and the relevant Dealer. Registered Notes that are to be credited to one or more clearing systems on issue will be registered in the name of nominees or a common nominee for such clearing systems.

**Currencies**

Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the Issuer, the Guarantor and the relevant Dealers.

**Maturities**

Subject to compliance with all relevant laws, regulations and directives, any maturity between one and fifteen years.

**Specified Denomination**

Definitive Notes will be in such denominations as may be specified in the relevant Final Terms (or Pricing Supplement, in the case of Exempt Notes) save that in the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in an EEA State in circumstances which require the publication of a prospectus under the Prospectus Directive, the minimum specified denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Notes).

**Fixed Rate Notes**

Fixed interest will be payable in arrear on the date or dates in each year specified in the relevant Final Terms (or Pricing Supplement, in the case of Exempt Notes).

**Floating Rate Notes**

Floating Rate Notes will bear interest determined separately for each Series as follows:

- (a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc.; or
- (b) by reference to LIBOR or EURIBOR as adjusted for any

applicable margin.

Interest periods will be specified in the relevant Final Terms (or Pricing Supplement, in the case of Exempt Notes).

<b>Zero Coupon Notes</b>	Zero Coupon Notes (as defined in " <i>Terms and Conditions of the Notes</i> ") may be issued at their nominal amount or at a discount to it and will not bear interest.
<b>Interest Periods and Interest Rates</b>	The length of the interest periods for the Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period.
<b>Redemption</b>	The relevant Final Terms (or Pricing Supplement, in the case of Exempt Notes) will specify the redemption amounts payable.
<b>Optional/Early Redemption</b>	The Final Terms (or Pricing Supplement, in the case of Exempt Notes) prepared in respect of each issue of Notes will state whether such Notes may be redeemed prior to their stated maturity at the option of the Issuer (and whether or not for tax reasons) and/or the holders (and whether or not in the event of a change of control).
<b>Status of Notes</b>	The Notes and the Guarantee will, subject to the negative pledge, constitute unsubordinated and unsecured obligations of the Issuer and the Guarantor, respectively, all as described in " <i>Terms and Conditions of the Notes – Status</i> ".
<b>Guarantee</b>	<p>The payment obligations of the Guarantor under the Guarantee shall at all times rank at least equally with all other unsecured and unsubordinated indebtedness of the Guarantor, present and future.</p> <p>The Guarantee will expire on 31 December 2033 and will be valid in respect of all sums expressed to be payable by the Issuer from time to time in respect of Notes and Coupons up to a maximum amount (when aggregated with all other amounts guaranteed under the Guarantee at any time) not exceeding €1,250,000,000 (or its equivalent in other currencies). Subject to the foregoing, the Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Notes and the Coupons.</p> <p>The Guarantor's obligations in respect of the Guarantee are contained in a Deed of Guarantee dated 15 November 2012, as supplemented by a Supplemental Deed of Guarantee dated 16 February 2017 (together, the "<b>Deed of Guarantee</b>").</p>
<b>Negative Pledge</b>	See " <i>Terms and Conditions of the Notes – Negative Pledge</i> ".
<b>Cross Acceleration</b>	See " <i>Terms and Conditions of the Notes – Events of Default</i> ".
<b>Ratings</b>	<p>Tranches of Notes will be rated or unrated. Where a Tranche of Notes is to be rated, such rating will be specified in the relevant Final Terms (or Pricing Supplement, in the case of Exempt Notes).</p> <p>A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.</p>
<b>Withholding Tax</b>	All payments of principal and interest in respect of the Notes will be made free and clear of withholding taxes of the Kingdom of Sweden or

the Republic of Poland, as the case may be, unless the withholding is required by law. In such event, due interest should be respectively increased by the amount of withholding tax in such a manner that the Issuer or the Guarantor shall, subject to customary exceptions, pay to the Noteholder the amounts as would have been received by it had no such withholding been required, all as described in "*Terms and Conditions of the Notes – Taxation*".

**Governing Law**

English.

**Listing and Admission to Trading**

Application has been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be listed on the Official List and to admit them to trading on the Luxembourg Stock Exchange's regulated market or as otherwise specified in the relevant Final Terms (or Pricing Supplement, in the case of Exempt Notes) and references to "**listing**" shall be construed accordingly. As specified in the relevant Pricing Supplement, a Series of Notes may be unlisted.

**Selling Restrictions**

Including the United States, the Public Offer Selling Restriction under the Prospectus Directive (in respect of Notes having a specified denomination of less than €100,000 or its equivalent in any other currency as at the date of issue of the Notes), the United Kingdom, the Kingdom of Sweden, the Republic of Poland and Japan. See "*Subscription and Sale*".

The Issuer is Category 2 for the purposes of Regulation S under the Securities Act and will apply to the Notes.

The Notes will be issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(D) (the "**D Rules**") unless (i) the relevant Final Terms (or Pricing Supplement, in the case of Exempt Notes) states that Notes are issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(C) (the "**C Rules**") or (ii) the Notes are issued other than in compliance with the D Rules or the C Rules but in circumstances in which the Notes will not constitute "registration required obligations" under the United States Tax Equity and Fiscal Responsibility Act of 1982 ("**TEFRA**"), which circumstances will be referred to in the relevant Final Terms or Pricing Supplement as a transaction to which TEFRA is not applicable.



## DOCUMENTS INCORPORATED BY REFERENCE

The following information shall be deemed to be incorporated by reference in, and to form part of, this Prospectus:

1. English language translations of the audited non-consolidated annual accounts (including the notes thereto) prepared in accordance with Swedish GAAP accounting standards of the Issuer in respect of the year ended 31 December 2015, along with the original Swedish version and the corresponding auditors report as separate documents, are each available at:

<https://ir.energa.pl/en/ir/investor-relations-web-site/for-bondholders/eurobond-issue-2/2015-annual-report-of-energa-finance-ab-publ->

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2. English language translations of the audited non-consolidated annual accounts (including the Notes thereto) prepared in accordance with Swedish GAAP accounting standards of the Issuer in respect of the year ended 31 December 2016, along with the original Swedish version and the corresponding auditors report as separate documents, are each available at:

<http://www.ir.energa.pl/en/ir/investor-relations-web-site/for-bondholders/eurobond-issue-2/2016-annual-report-of-energa-finance-ab>

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3. English language translations of the audited consolidated financial statements prepared in accordance with IFRS accounting standards (including the notes thereto) of the Guarantor in respect of the year ended 31 December 2014, along with the corresponding auditor's report as a separate document, are each available at:

<https://ir.energa.pl/en/pr/293742/consolidated-2014-financial-results>

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4. English language translations of the audited consolidated financial statements prepared in accordance with IFRS accounting standards (including the notes thereto) of the Guarantor in respect of the year ended 31 December 2015, along with the corresponding auditor's report as a separate document, are each available at:

<https://ir.energa.pl/en/pr/311019/consolidated-2015-financial-results>

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Copies of the documents specified above as containing information incorporated by reference in this Prospectus may be inspected, free of charge, at the registered office of the Guarantor at Al. Grunwaldzka 472, 80-309 Gdańsk, Poland, and the Guarantor's website:

[https://ir.energa.pl/657/en/releases/3412?from\\_y=2016&from\\_m=1&from\\_d=1&to\\_y=2016&to\\_m=12&to\\_d=31](https://ir.energa.pl/657/en/releases/3412?from_y=2016&from_m=1&from_d=1&to_y=2016&to_m=12&to_d=31).

Documents incorporated by reference in this Prospectus will be published on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)).

Any documents themselves incorporated by reference in the documents incorporated by reference in this Prospectus shall not form part of this Prospectus. Any information contained in any of the documents specified above which is not incorporated by reference in this Prospectus is either not relevant to investors or is covered elsewhere in this Prospectus.

## PRESENTATION OF FINANCIAL INFORMATION OF THE GROUP

This Prospectus includes the following financial information with respect to the Group: (i) reviewed condensed consolidated interim financial information of the Group for the nine-month periods ended 30 September 2016 and 2015 (the "**Interim Financial Statements**") – included in the Prospectus on pages 165 to 201; (ii) audited consolidated financial statements of the Group for the year ended 31 December 2015 which are incorporated by reference in this Prospectus (the "**2015 Financial Statements**"); and (iii) audited consolidated financial statements of the Group for the year ended 31 December 2014 which are incorporated by reference to this Prospectus (the "**2014 Financial Statements**", and , together with the 2015 Financial Statements and the Interim Financial Statements, the "**Consolidated Financial Statements**").

The Interim Financial Statements have been reviewed and the 2015 Financial Statements were audited by PricewaterhouseCoopers sp. z o.o., Al. Armii Ludowej 14, 00-638 Warsaw, Poland.

The 2014 Financial Statements were audited by KPMG Audyt Sp.z.o.o. ul. Chłodna 51, XVIp. 00 – 867 Warsaw.

The 2015 and 2014 Financial Statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ("**EU IFRS**").

Interim Financial Statements have been prepared in accordance with International Accounting Standard IAS 34 "Interim Financial Reporting" as adopted by the EU.

### **Change of presentation of comparative financial data**

In the 2015 Financial Statements, the Group changed the presentation of selected items in its consolidated statement of financial position and its consolidated statement of cash flows. The comparative data was also adjusted so as to reflect for the changes in presentation introduced in the current year.

The changes referred to above are described in detail in Note 9.28 to the 2015 Financial Statements. Such changes had no impact on the profit and equity of the Group in 2015 and 2014.

The information presented in this Prospectus has been provided on the restated basis.

### **Change of auditors**

At the meeting held on 20 December 2016, the Supervisory Board decided to engage KPMG as the Guarantor's independent auditor for the fiscal year ending 31 December 2017 and 31 December 2018.

### **Non-IFRS Information and alternative performance measures**

This section provides further information relating to alternative performance measures ("**APMs**") for the purposes of the guidelines published by the European Securities and Markets Authority. Certain of the financial measures included in the "*Business Description of the Group*" below can be characterised as APMs and set out below are clarifications as to the meaning of such measures.

This Prospectus includes EBITDA figures which are non-IFRS measures and are APMs. EBITDA measures should not be used instead of, or considered as alternatives to, the Group's consolidated historical financial results based on EU IFRS. The non-IFRS measures relate to the reporting periods and are not meant to be predictive of future results. EBITDA as presented in this Prospectus is not defined under, or presented in accordance with, EU IFRS.

The Management uses EBITDA because it believes that EBITDA is commonly used by lenders, investors and analysts. The Group's use of the term EBITDA and its method of calculating EBITDA may vary from other companies' use and calculation of such term. EBITDA should not be considered as an alternative to profit before tax as defined by EU IFRS or to cash flows from operating activities (or any other performance measure determined in accordance with EU IFRS) or as an indicator of operating performance or as a measure of our liquidity. In particular, EBITDA should not be considered as a measure of discretionary cash available to the Group to invest in the growth of the Group's businesses. EBITDA has certain limitations as an analytical tool, and should not be considered in isolation, or as a

substitute for financial information as reported under EU IFRS. Investors should not place undue reliance on this data.

EBITDA in this Prospectus is presented, for each period, as: profit/(loss) before tax, adjusted by the share of profit of associates, financial income and financial costs plus amortisation and depreciation and impairment losses on non-financial non-current assets (mainly property, plant and equipment, intangible assets and goodwill). As disclosed in note 9. of the Group's interim financial statements prepared in accordance with IAS 34 for the nine-month period ended 30 September 2016, the EBITDA calculation method changed in 2016; starting from, and including, 2016 the EBITDA calculation includes adjustments relating to impairment losses on non-financial non-current assets. This modification aims to enhance transparency and simplify analyses by ensuring comparability for the key parameter in the industry in which the Group operates. For the purposes of this Prospectus, EBITDA for all periods is presented on a revised calculation basis.

No statement in this Prospectus is intended as a profit/EBITDA forecast and no statement in this Prospectus should be interpreted to mean that the earnings of the Group for the current or future years would necessarily match or exceed the historical published earnings of the Group.

The table below presents Reconciliation of EBITDA to the Net profit for the period of the Group for respective periods:

	<i>First nine months</i>		<i>Year ended 31 December</i>	
	<u>2016</u>	<u>2015</u>	<u>2015</u>	<u>2014</u>
<b>EBITDA</b>	1529	1726	2216	2357
Income tax	(75)	(167)	(212)	(239)
Net profit/(loss) on discontinued operations	0	0	0	(3)
Financial income	47	48	59	115
Financial costs	(222)	(215)	(287)	(313)
Share of profit/(loss) of associates	(60)	0	0	0
Amortisation and depreciation	704	678	916	861
Impairment losses on non-financial non-current assets	441	11	20	50
<b>Net profit for the period</b>	<b>74</b>	<b>703</b>	<b>840</b>	<b>1006</b>

## TERMS AND CONDITIONS OF THE NOTES

*The following is the text of the terms and conditions that, subject to completion in accordance with the provisions of Part A of the relevant Final Terms (or Pricing Supplement, in the case of Exempt Notes), shall be applicable to the Notes in definitive form (if any) issued in exchange for the Global Note(s) representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of Part A of the Final Terms or (ii) these terms and conditions as so completed, shall be endorsed on such Bearer Notes or on the Certificates relating to such Registered Notes. All capitalised terms that are not defined in these Conditions will have the meanings given to them in Part A of the relevant Final Terms (or Pricing Supplement, in the case of Exempt Notes). Those definitions will be endorsed on the definitive Notes or Certificates, as the case may be. References in these Conditions to "Notes" are to the Notes of one Series only, not to all Notes that may be issued under the Programme.*

The Notes are issued pursuant to a fiscal agency agreement (as amended or supplemented as at the Issue Date, the "**Agency Agreement**") dated 16 February 2017 between ENERGA Finance AB (publ) (the "**Issuer**"), ENERGA (the "**Guarantor**"), BNP Paribas Securities Services, Luxembourg Branch as fiscal agent and the other agents named in it and with the benefit of a deed of covenant (as amended or supplemented as at the Issue Date, the "**Deed of Covenant**") dated 16 February 2017 executed by the Issuer and the Guarantor in relation to the Notes and a deed of guarantee dated 15 November 2012, as supplemented by a supplemental deed of guarantee dated 16 February 2017 (together, the "**Deed of Guarantee**") executed by the Guarantor in relation to the Notes. The fiscal agent, the paying agents, the registrar, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the "**Fiscal Agent**", the "**Paying Agents**" (which expression shall include the Fiscal Agent), the "**Registrar**", the "**Transfer Agents**" and the "**Calculation Agent(s)**". The Noteholders (as defined below) and the holders of the interest coupons (the "**Coupons**") relating to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the "**Talons**") (the "**Couponholders**") are deemed to have notice of all of the provisions of the Agency Agreement applicable to them.

As used in these terms and conditions (the "**Conditions**"), "**Tranche**" means Notes which are identical in all respects.

The final terms for this Note (or the relevant provisions thereof) are set out in Part A of the Final Terms attached to or endorsed on this Note which completes these Conditions or, if this Note is a Note which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive (an "**Exempt Note**"), the final terms (or the relevant provisions thereof) are set out in Part A of the Pricing Supplement and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the Conditions, replace or modify the Conditions for the purposes of this Note.

Copies of the Agency Agreement, the Deed of Covenant and the Deed of Guarantee are available for inspection at the specified offices of each of the Paying Agents, the Registrar and the Transfer Agents.

### 1. **Form, Denomination and Title**

The Notes are issued in bearer form ("**Bearer Notes**") or in registered form ("**Registered Notes**") in each case in the Specified Denomination(s) shown hereon, provided that, in the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a Prospectus under the Prospectus Directive, the minimum Specified Denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes).

This Note is a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note or a combination of any of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis shown hereon.

Bearer Notes are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Zero Coupon Notes in which case references to "**interest**"

(other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable.

Registered Notes are represented by registered certificates ("**Certificates**") and, save as provided in Condition 2(c), each Certificate shall represent the entire holding of Registered Notes by the same holder.

Title to the Bearer Notes and the Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the "**Register**"). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes, whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

In these Conditions, "**Noteholder**" means the bearer of any Bearer Note or the person in whose name a Registered Note is registered (as the case may be), "**holder**" (in relation to a Note, Coupon or Talon) means the bearer of any Bearer Note, Coupon or Talon or the person in whose name a Registered Note is registered (as the case may be) and capitalised terms have the meanings given to them hereon, the absence of any such meaning indicating that such term is not applicable to the Notes.

## 2. **No Exchange of Notes and Transfers of Registered Notes**

### (a) ***No Exchange of Notes***

Registered Notes may not be exchanged for Bearer Notes. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes may not be exchanged for Registered Notes.

### (b) ***Transfer of Registered Notes***

One or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Noteholders. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.

### (c) ***Exercise of Options or Partial Redemption in Respect of Registered Notes***

In the case of an exercise of an Issuer's or Noteholders' option in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the

enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

(d) ***Delivery of New Certificates***

Each new Certificate to be issued pursuant to Conditions 2(b) or 2(c) shall be available for delivery within three business days of receipt of the form of transfer, Exercise Notice or Change of Control Put Notice (as defined in Condition 6(e) or 6(f), as the case may be) and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer, Exercise Notice, Change of Control Put Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the form of transfer, Exercise Notice, Change of Control Put Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Agent (as defined in the Agency Agreement) the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(d), "**business day**" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(e) ***Transfer Free of Charge***

Transfers of Notes and Certificates on registration, transfer, partial redemption or exercise of an option shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).

(f) ***Closed Periods***

No Noteholder may require the transfer of a Registered Note to be registered (i) during the period of 15 days ending on the due date for redemption of such Note, (ii) during the period of 15 days before any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 6(d), (iii) after any such Note has been called for redemption or (iv) during the period of seven days ending on (and including) any Record Date.

3. **Guarantee and Status**

(a) ***Guarantee***

The Guarantor has, subject as provided below, unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Notes and the Coupons (the "**Guarantee**"). The Guarantee will expire on 31 December 2033 and will be valid in respect of all sums expressed to be payable by the Issuer from time to time in respect of Notes and Coupons up to a maximum amount (when aggregated with all other amounts guaranteed under the Guarantee at any time) not exceeding €1,250,000,000 (or its equivalent in other currencies). The Guarantor's obligations in that respect are contained in the Deed of Guarantee.

(b) ***Status of Notes and Guarantee***

The Notes and Coupons constitute direct, unconditional, unsubordinated and (subject to Condition 4) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Notes and the Coupons and of the Guarantor under the Guarantee shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4, at all times rank at least equally with all other direct, unconditional, unsecured and unsubordinated indebtedness and monetary obligations of the Issuer and the Guarantor respectively, present and future.

4. **Negative Pledge**

So long as any Note or Coupon remains outstanding (as defined in the Agency Agreement) neither the Issuer nor the Guarantor will, and the Guarantor will ensure that none of its Material Subsidiaries will, create or have outstanding any mortgage, charge, lien, pledge or other security interest (a "**Security Interest**"), other than a Permitted Security Interest, upon the whole or any part of its present or future business, undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness, or to secure any guarantee or indemnity in respect of any Relevant Indebtedness, without at the same time or prior thereto according to the Notes and the Coupons or to the Guarantee, as the case may be, the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity or such other security as shall be approved by an Extraordinary Resolution (as defined in the Agency Agreement) of the Noteholders.

In this Condition:

- a) "**Group**" means the Guarantor and its Subsidiaries taken as a whole;
- b) "**Material Subsidiary**" means at any time a Subsidiary of the Guarantor:
  - i. whose gross revenues (consolidated in the case of a Subsidiary which itself has Subsidiaries) or whose total assets (consolidated in the case of a Subsidiary which itself has Subsidiaries) represent in each case (or, in the case of a Subsidiary acquired after the end of the financial period to which the then latest audited consolidated accounts of the Guarantor and its Subsidiaries relate, are equal to) not less than 10 per cent. of the consolidated gross revenues or, as the case may be, consolidated total assets, of the Guarantor and its Subsidiaries taken as a whole, all as calculated respectively by reference to the then latest audited accounts (consolidated or, as the case may be, unconsolidated) of such Subsidiary and the then latest audited consolidated accounts of the Guarantor and its Subsidiaries, provided that in the case of a Subsidiary of the Guarantor acquired after the end of the financial period to which the then latest audited consolidated accounts of the Guarantor and its Subsidiaries relate, the reference to the then latest audited consolidated accounts of the Guarantor and its Subsidiaries for the purposes of the calculation above shall, until consolidated accounts for the financial period in which the acquisition is made have been prepared and audited as aforesaid, be deemed to be a reference to such first-mentioned accounts as if such Subsidiary had been shown in such accounts by reference to its then latest relevant audited accounts, adjusted as deemed appropriate by the Guarantor;
  - ii. to which is transferred the whole or substantially the whole of the undertaking and assets of a Subsidiary of the Guarantor which immediately prior to such transfer is a Material Subsidiary, provided that the transferor Subsidiary shall upon such transfer forthwith cease to be a Material Subsidiary and the transferee Subsidiary shall cease to be a Material Subsidiary pursuant to this subparagraph ii on the date on which the consolidated accounts of the Guarantor and its Subsidiaries for the financial period current at the date of such transfer have been prepared and audited as aforesaid but so that such transferor Subsidiary or such transferee Subsidiary may be a Material Subsidiary on or at any time after the date on which such consolidated accounts have been prepared and audited as aforesaid by virtue of the provisions of subparagraph i above or, prior to or after such date, by virtue of any other applicable provision of this definition; or
  - iii. to which is transferred an undertaking or assets which, taken together with the undertaking or assets of the transferee Subsidiary, generated (or, in the case of the transferee Subsidiary being acquired after the end of the financial period to which the then latest audited consolidated accounts of the Guarantor and its Subsidiaries relate, generate gross revenues equal to) not less than 10 per cent. of the consolidated gross revenues, or represent (or, in the case aforesaid, are



equal to) not less than 10 per cent. of the consolidated total assets, of the Guarantor and its Subsidiaries taken as a whole, all as calculated as referred to in subparagraph (i) above, provided that the transferor Subsidiary (if a Material Subsidiary) shall upon such transfer forthwith cease to be a Material Subsidiary unless immediately following such transfer its undertaking and assets generate (or, in the case aforesaid, generate gross revenues equal to) not less than 10 per cent. of the consolidated gross revenues, or its assets represent (or, in the case aforesaid, are equal to) not less than 10 per cent. of the consolidated total assets, of the Guarantor and its Subsidiaries taken as a whole, all as calculated as referred to in subparagraph (i) above, and the transferee Subsidiary shall cease to be a Material Subsidiary pursuant to this subparagraph (iii) on the date on which the consolidated accounts of the Guarantor and its Subsidiaries for the financial period current at the date of such transfer have been prepared and audited but so that such transferor Subsidiary or such transferee Subsidiary may be a Material Subsidiary on or at any time after the date on which such consolidated accounts have been prepared and audited as aforesaid by virtue of the provisions of subparagraph (i) above or, prior to or after such date, by virtue of any other applicable provision of this definition,

all as more particularly defined in the Agency Agreement.

A report by two Directors of the Guarantor that in their opinion a Subsidiary of the Guarantor is or is not or was or was not at any particular time or throughout any specified period a Material Subsidiary, shall, in the absence of manifest error, be conclusive and binding on all parties.

**"Permitted Security Interest"** means a Security Interest which is created to secure or provide for the payment of Relevant Indebtedness in connection with any Project Financing provided that the assets or revenues subject to such Security Interest are (i) assets which are used or to be used in or in connection with the project to which such Project Financing relates or (ii) revenues or claims which arise from the operation, failure to meet specifications, exploitation, sale or loss of, or damage to, such assets;

- (c) **"Project Financing"** means any indebtedness incurred solely to finance a project or the restructuring or expansion of an existing project, in each case for the acquisition, construction, development or exploitation of any assets pursuant to which the person or persons to whom such indebtedness is or may be owed by the relevant borrower (whether or not a member of the Group) (i) expressly agrees or agree that the principal source of repayment of such funds will be the assets of the project and the revenues generated by such project (or by such restructuring or expansion thereof) and (ii) has, or have, no other recourse whatsoever to any member of the Group (or its assets and/or revenues) for the repayment of, or a payment of, any sum relating to such indebtedness;
- (d) **"Relevant Indebtedness"** means any indebtedness which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities which for the time being are, or are intended to be or capable of being, quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market; and
- (e) **"Subsidiary"** means any entity whose financial statements at any time are required by law or in accordance with generally accepted accounting principles to be fully consolidated with those of the Issuer or the Guarantor, as the case may be.

5. **Interest and other Calculations**

(a) ***Interest on Fixed Rate Notes***

Each Fixed Rate Note bears interest on its outstanding nominal amount from and including the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(f).

(b) ***Interest on Floating Rate Notes***

(i) ***Interest Payment Dates***

Each Floating Rate Note bears interest on its outstanding nominal amount from and including the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(f). Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, Interest Payment Date shall mean each date which falls the number of months or other period shown hereon as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

(ii) ***Business Day Convention***

If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment; (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day; (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day; or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(iii) ***Rate of Interest for Floating Rate Notes***

The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified hereon and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified hereon.

(A) ***ISDA Determination for Floating Rate Notes***

Where ISDA Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this subparagraph (A), "**ISDA Rate**" for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (x) the Floating Rate Option is as specified hereon;
- (y) the Designated Maturity is a period specified hereon; and
- (z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified hereon.

For the purposes of this sub-paragraph (A), "**Floating Rate**", "**Calculation Agent**", "**Floating Rate Option**", "**Designated Maturity**", "**Reset Date**" and "**Swap Transaction**" have the meanings given to those terms in the ISDA Definitions.

(B) *Screen Rate Determination for Floating Rate Notes*

- (x) Where Screen Rate Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

- (1) the offered quotation; or
- (2) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified hereon as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided hereon.

- (y) If the Relevant Screen Page is not available or if sub-paragraph (x)(1) above applies and no such offered quotation appears on the Relevant Screen Page, or, if sub-paragraph (x)(2) above applies and fewer than three such offered quotations appear on the Relevant Screen Page, in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent.

- (z) If paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

(c) ***Zero Coupon Notes***

Where a Note the Interest Basis of which is specified to be Zero Coupon is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 6(b)(i)).

(d) ***Accrual of Interest***

Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (both before and after judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8).

(e) ***Margin, Maximum/Minimum Rates of Interest and Redemption Amounts and Rounding***

- (i) If any Margin is specified hereon (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or to the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 5(b) above by adding (if a positive number) or subtracting (if a negative number) the absolute value of such Margin subject always to the next paragraph.
- (ii) If any Maximum or Minimum Rate of Interest or Redemption Amount is specified hereon, then any Rate of Interest or Redemption Amount shall be subject to such maximum or minimum, as the case may be.
- (iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes "**unit**" means the lowest amount of such currency that is available as legal tender in the country or countries of such currency.

(f) ***Calculations***

The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified hereon, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.

(g) ***Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts***

The Calculation Agent shall, as soon as practicable on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount to be notified to the Fiscal Agent, the Issuer, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest

Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 10, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition 5(g) but no publication of the Rate of Interest or the Interest Amount so calculated need be made. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

(h) **Definitions**

In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

**"Business Day"** means:

- (i) in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or
- (ii) in the case of euro, a day on which the TARGET System is operating (a **"TARGET Business Day"**); and/or
- (iii) in the case of a currency and/or one or more Business Centres, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres;

**"Day Count Fraction"** means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or an Interest Accrual Period, the **"Calculation Period"**):

- (i) if **"Actual/Actual"** or **"Actual/Actual - ISDA"** is specified hereon, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (ii) if **"Actual/365 (Fixed)"** is specified hereon, the actual number of days in the Calculation Period divided by 365;
- (iii) if **"Actual/365 (Sterling)"** is specified hereon, the actual number of days in the Calculation Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (iv) if **"Actual/360"** is specified hereon, the actual number of days in the Calculation Period divided by 360;

- (v) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y<sub>1</sub>**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y<sub>2</sub>**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M<sub>1</sub>**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M<sub>2</sub>**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D<sub>1</sub>**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

"**D<sub>2</sub>**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D<sub>1</sub> is greater than 29, in which case D<sub>2</sub> will be 30;

- (vi) if "**30E/360**" or "**Eurobond Basis**" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y<sub>1</sub>**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y<sub>2</sub>**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M<sub>1</sub>**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M<sub>2</sub>**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D<sub>1</sub>**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

"**D<sub>2</sub>**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D<sub>2</sub> will be 30;

- (vii) if "**30E/360 (ISDA)**" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y<sub>1</sub>**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y<sub>2</sub>**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M<sub>1</sub>**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M<sub>2</sub>**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D<sub>1</sub>**" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D<sub>1</sub> will be 30; and

"**D<sub>2</sub>**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D<sub>2</sub> will be 30

- (viii) if "**Actual/Actual-ICMA**" is specified hereon:

- (A) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and
- (B) if the Calculation Period is longer than one Determination Period, the sum of:
  - (x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and
  - (y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where:

"**Determination Period**" means the period from and including a Determination Date in any year to but excluding the next Determination Date; and

"**Determination Date**" means the date(s) specified as such hereon or, if none is so specified, the Interest Payment Date(s);



**"Euro-zone"** means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended;

**"Interest Accrual Period"** means the period beginning on and including the Interest Commencement Date and ending on but excluding the first Interest Period Date and each successive period beginning on and including an Interest Period Date and ending on but excluding the next succeeding Interest Period Date;

**"Interest Amount"** means:

- (i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified hereon, shall mean the Fixed Coupon Amount or Broken Amount specified hereon as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and
- (ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period;

**"Interest Commencement Date"** means the Issue Date or such other date as may be specified hereon;

**"Interest Determination Date"** means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such hereon or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro;

**"Interest Period"** means the period beginning on and including the Interest Commencement Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date;

**"Interest Period Date"** means each Interest Payment Date unless otherwise specified hereon;

**"ISDA Definitions"** means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date;

**"Rate of Interest"** means the rate of interest payable from time to time in respect of this Note and that is either specified or calculated in accordance with the provisions hereon;

**"Reference Banks"** means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Calculation Agent or as specified hereon;

**"Reference Rate"** means the rate specified as such hereon;

**"Relevant Screen Page"** means such page, section, caption, column or other part of a particular information service as may be specified hereon;

**"Specified Currency"** means the currency specified as such hereon or, if none is specified, the currency in which the Notes are denominated; and

"**TARGET System**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereto.

(i) ***Linear Interpolation***

Where Linear Interpolation is specified hereon in respect of an Interest Period, the Rate of Interest for such Interest Period shall be calculated by the Calculation Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified hereon) or the relevant Floating Rate Option (where ISDA Determination is specified hereon), one of which shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Period and the other of which shall be determined as if the Designated Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Period provided however that if there is no rate available for a period of time next shorter or, as the case may be, next longer, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

"**Designated Maturity**" means, in relation to Screen Rate Determination, the period of time designated in the Reference Rate.

(j) ***Rating Step-up/Step-down***

(i) If Ratings Step-up/Step-down is specified hereon, the rate of interest payable on the Notes will be subject to adjustment from time to time in the event, *inter alia*, of a Step Up Rating Change or a Step Down Rating Change, as follows:

- (A) subject to paragraph (C) below, for so long as the Notes are assigned a credit rating from any Rating Agency of BBB-/Baa3 (or equivalent) or better, and from and including the first Interest Payment Date following the date of a Step Down Rating Change to a credit rating of BBB-/Baa3 (or equivalent) or better, the rate of interest payable on the Notes shall be the Initial Interest Rate. For the avoidance of doubt, the rate of interest payable on the Notes shall remain at the Initial Interest Rate notwithstanding any further increase in the rating assigned to the Notes above BBB-/Baa3 (or equivalent);
- (B) subject to paragraph (C) below, from and including the first Interest Payment Date (1) following the date of a Step Down Rating Change or a Step Up Rating Change to a credit rating of BB+/Ba1 (or equivalent) or below or (2) following the date on which there is no credit rating assigned to the Notes by any Rating Agency, the rate of interest payable on the Notes shall be the Initial Interest Rate plus the applicable Step-up Margin specified hereon (together, the "**Increased Rate of Interest**"). For the avoidance of doubt, the rate of interest payable on the Notes shall remain at the Increased Rate of Interest notwithstanding any further decrease in the rating of the Notes below BB+/Ba1 (or equivalent); and
- (C) if no credit rating is assigned to the Notes by any Rating Agency or if a Step Up Rating Change to a credit rating of BB+/Ba1 (or equivalent) or below occurs and, subsequently, a Step Down Rating Change to a credit rating of BBB-/Baa3 (or equivalent) or better occurs during the same Interest Period, the rate of interest payable on the Notes shall neither be increased nor decreased as a result of either such event.

(ii) For so long as any of the Notes are outstanding, the Issuer shall use all reasonable efforts to ensure the existence of a solicited Rating from at least one Rating Agency.

- (iii) Notwithstanding any other provision of this Condition 5(j), there shall be no adjustment in the rate of interest applicable to the Notes (1) on the basis of any rating assigned to the Notes by any rating agency other than on a basis solicited by or on behalf of the Issuer even if at the relevant time such rating is the only rating then assigned to the Notes and (2) at any time after notice of redemption has been given by the Issuer pursuant to Condition 6.
- (iv) There shall be no limit on the number of times that adjustments to the rate of interest payable on the Notes may be made pursuant to this Condition 5(j) during the term of the Notes, provided always that at no time during the term of the Notes will the rate of interest payable on the Notes be less than the Initial Interest Rate or more than the Increased Rate of Interest.
- (v) In the event the rate of interest payable on the Notes is the (1) Increased Rate of Interest, any Maximum Rate of Interest or Minimum Rate of Interest specified hereon shall be increased by the Step-up Margin specified hereon and (2) Initial Interest Rate as a result of a Step Down Rating Change, the Maximum Rate of Interest and the Minimum Rate of Interest shall be restored to the Maximum Rate of Interest and the Minimum Rate of Interest specified hereon.
- (vi) If the rating designations employed by any of Fitch, Moody's or S&P are changed from those which are described in this Condition 5(j), or if a rating is procured from a Substitute Rating Agency, the Issuer shall determine, the rating designations of Fitch, Moody's or S&P or such Substitute Rating Agency (as appropriate) as are most equivalent to the prior rating designations of Fitch, Moody's or S&P and this Condition 5(j) shall be read accordingly.
- (vii) The Issuer will cause the occurrence of an event giving rise to an adjustment in the rate of interest payable on the Notes pursuant to this Condition 5(j) to be notified to the Fiscal Agent and notice thereof to be given in accordance with Condition 14 as soon as possible after the occurrence of the relevant event but in no event later than the fifth Business Day in Luxembourg thereafter.

Defined terms used in this Condition 5(j) have the meanings given to them in Condition 6(f). In addition, in this Condition 5(j):

**"Initial Interest Rate"** means the initial Rate of Interest either specified or calculated in accordance with the provisions hereon;

**"Step Down Rating Change"** means the public announcement by any Rating Agency assigning a credit rating to the Notes of an increase in, or confirmation of, the rating of the Notes or, as the case may be, of a credit rating being applied, provided, in each case, that at any time where there is a rating assigned to the Notes by more than one Rating Agency a Step Down Rating Change shall occur upon the relevant public announcement by the last Rating Agency to announce an increase in the rating assigned to the Notes; and

**"Step Up Rating Change"** means the public announcement by any Rating Agency assigning a credit rating to the Notes of a decrease in, or confirmation of, the rating of the Notes or, as the case may be, of a credit rating being applied, provided, in each case that at any time where there is a rating assigned to the Notes by more than one Rating Agency a Step Up Rating Change shall occur upon the relevant public announcement by the first Rating Agency to announce a decrease in the rating assigned to the Notes.

(k) ***Calculation Agent***

The Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for them hereon and for so long as any Note is outstanding (as defined in the Agency Agreement). Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the **"Calculation Agent"** shall be construed as each Calculation Agent performing its respective duties under these

Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Accrual Period or to calculate any Interest Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer shall appoint a leading bank or financial institution engaged in the interbank market that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

6. **Redemption, Purchase and Options**

(a) ***Final Redemption***

Unless previously redeemed or purchased and cancelled as provided below, each Note shall be finally redeemed on the Maturity Date specified hereon at its Final Redemption Amount as specified hereon (such Final Redemption Amount shall be no less than at par).

(b) ***Early Redemption***

(i) ***Zero Coupon Notes***

- (A) The Early Redemption Amount payable in respect of any Zero Coupon Note upon redemption of such Note pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10 shall be the Amortised Face Amount (calculated as provided below) of such Note unless otherwise specified hereon.
- (B) Subject to the provisions of sub-paragraph (C) below, the Amortised Face Amount of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown hereon, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.
- (C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10 is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (B) above, except that such sub-paragraph shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph shall continue to be made (both before and after judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(c).

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown hereon which will be either (i) 30/360 (in which case the numerator will be equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and

the denominator will be 360) or (ii) Actual/360 (in which case the numerator will be equal to the actual number of days from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 360) or (iii) Actual/365 (in which case the numerator will be equal to the actual number of days from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 365).

(ii) *Other Notes*

The Early Redemption Amount payable in respect of any Note (other than Notes described in (i) above), upon redemption of such Note pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10, shall be the Final Redemption Amount unless otherwise specified hereon.

(c) ***Redemption for Taxation Reasons***

The Notes may be redeemed at the option of the Issuer in whole, but not in part, on any Interest Payment Date (if this Note is a Floating Rate Note) or, at any time, (if this Note is not a Floating Rate Note), on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), at their Early Redemption Amount (as described in Condition 6(b)) (together with interest accrued to the date fixed for redemption), if:

- (i) as a result of any change in, or amendment to, the laws or regulations of the Kingdom of Sweden (in the case of payment by the Issuer) or the Republic of Poland (in the case of payment by the Guarantor) or, in each case, any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes, (a) the Issuer (or, if the Guarantee were called, the Guarantor) has or will become obliged to pay additional amounts as provided or referred to in Condition 8 or (b) the Guarantor has or will become obliged to make any withholding or deduction for, or on account of, any Taxes (as defined in Condition 8) imposed, levied, collected, withheld or assessed by or within the Republic of Poland or any authority therein or thereof having power to tax with respect to any amount paid by the Guarantor, under an instrument through which proceeds from the Notes are transferred from the Issuer to the Guarantor (an "**Inter-company Loan**"), to the Issuer in order to enable the Issuer to make a payment of principal or interest in respect of the Notes; and
- (ii) such obligation cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which (I) (in the case of (i)(a) above) the Issuer (or the Guarantor, as the case may be) would be obliged to pay such additional amounts were a payment in respect of the Notes (or the Guarantee, as the case may be) then due or (II) (in the case of (i)(b) above) that Guarantor would be obliged to make any such withholding or deduction with respect to any amount paid by the Guarantor under an Inter-company Loan in order to enable the Issuer to make a payment of principal or interest in respect of the Notes, were such a payment then due.

Prior to the publication of any notice of redemption pursuant to this Condition 6(c), the Issuer shall deliver to the Fiscal Agent a certificate signed by two Directors of the Issuer (or the Guarantor, as the case may be) stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent

to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer (or the Guarantor, as the case may be) has or will become obliged to pay such additional amounts (in the case of (i)(a) above) or to make any such withholding or deduction (in the case of (i)(b) above) as a result of such change or amendment.

(d) ***Redemption at the Option of the Issuer***

If a Call Option is specified hereon, the Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Noteholders (or such other notice period as may be specified hereon) redeem all or, if so provided, some of the Notes on any Optional Redemption Date. Any such redemption of Notes shall be at their Optional Redemption Amount together with interest accrued to the date fixed for redemption. Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified hereon and no greater than the Maximum Redemption Amount to be redeemed specified hereon.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition 6(d).

In the case of a partial redemption the notice to Noteholders shall also contain the certificate numbers of the Bearer Notes, or in the case of Registered Notes shall specify the nominal amount of Registered Notes drawn and the holder(s) of such Registered Notes, to be redeemed, which shall have been drawn in such place and in such manner as may be fair and reasonable in the circumstances, taking account of prevailing market practices, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

(e) ***Redemption at the Option of Noteholders***

If a Put Option is specified hereon, the Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Issuer (or such other notice period as may be specified hereon) redeem such Note on the Optional Redemption Date(s) at its Optional Redemption Amount together with interest accrued to the date fixed for redemption.

To exercise such option the holder must deposit (in the case of Bearer Notes) such Note (together with all unmatured Coupons and unexchanged Talons) at the specified office of any Paying Agent or surrender (in the case of Registered Notes) the Certificate representing such Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly signed and completed option exercise notice ("**Exercise Notice**") in the form (for the time being current) obtainable from the specified office of any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the notice period. No Note or Certificate so surrendered and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

(f) ***Change of Control***

If a Change of Control Put Event is specified hereon and a Change of Control Put Event occurs, the holder of any such Note will have the option (a "**Change of Control Put Option**") (unless prior to the giving of the relevant Change of Control Put Event Notice (as defined below) the Issuer has given notice of redemption under Condition 6(c)) to require the Issuer to redeem that Note on the Change of Control Put Date (as defined below) at its principal amount together with interest accrued to (but excluding) the Change of Control Put Date.

A "**Change of Control Put Event**" will be deemed to occur if:

- (i) 50 per cent., or more, of the issued share capital of the Guarantor ceases to be in the direct or indirect ownership or control of the Republic of Poland or such amount of shares in the capital of the Guarantor as carry 49.9 per cent., or more, of the voting rights normally exercisable at a general assembly of the Guarantor

ceases to be in the direct or indirect ownership or control of the Republic of Poland (each such event being a "**Change of Control**"); and

(ii) on the date of the first Relevant Potential Change of Control Announcement, the Notes carry:

- (A) an Investment Grade credit rating (*Baa3/BBB-, or their respective equivalents, or better*), from any Rating Agency assigned at the invitation of the Issuer (or where there is no rating from any Rating Agency assigned at the invitation of the Issuer, the then Investment Grade credit rating (if any) from any Rating Agency assigned of its own volition) and such rating is, within the Change of Control Period, either downgraded to a non-investment grade credit rating (*Ba1/BB+, or their respective equivalents, or worse*) (a "**Non-Investment Grade Rating**") or withdrawn and is not, within the Change of Control Period, subsequently (in the case of a downgrade) upgraded to an Investment Grade credit rating or (in the case of withdrawal) reinstated at an Investment Grade credit rating by such Rating Agency;
- (B) a Non-Investment Grade Rating from any Rating Agency assigned at the invitation of the Issuer (or where there is no rating from any Rating Agency assigned at the invitation of the Issuer, the then Non-Investment Grade Rating (if any) from any Rating Agency assigned of its own volition) and such rating is, within the Change of Control Period, either downgraded by one or more rating categories (*from Baa1 to Baa2 or such similar lowering*) or withdrawn and is not, within the Change of Control Period, subsequently (in the case of a downgrade) upgraded to its earlier credit rating or better or (in the case of withdrawal) reinstated at its earlier credit rating or better by such Rating Agency; or
- (C) no credit rating and the Notes are not assigned an Investment Grade credit rating within the Change of Control Period,

provided that if, at the time of the occurrence of the Change of Control the Notes carry a credit rating from more than one Rating Agency, at least one of which is Investment Grade, then sub-paragraph (A) above will apply; and

(iii) in making any decision to downgrade or withdraw a credit rating pursuant to paragraphs (A) and (B) above or not to assign an Investment Grade credit rating as described in paragraph (c) above, the relevant Rating Agency announces publicly or confirms in writing to the Issuer that such decision(s) resulted, either in whole or in part, from an event or circumstance comprised in or arising as a result of, or in respect of, the occurrence of the Change of Control or the Relevant Potential Change of Control Announcement.

Promptly upon the Issuer becoming aware that a Change of Control Put Event has occurred, the Issuer shall give notice (a "**Change of Control Put Event Notice**") to the Noteholders in accordance with Condition 14 specifying the nature of the Change of Control Put Event and the procedure for exercising the Change of Control Put Option.

To exercise the Change of Control Put Option, the holder of a Bearer Note must deliver such Note to the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the period (the "**Change of Control Put Period**") of 30 days after a Change of Control Put Event Notice is given, accompanied by: (a) a duly signed and completed notice of exercise in the form (for the time being current) obtainable from the specified office of any Paying Agent (a "**Change of Control Put Notice**"); and (b) all Coupons appertaining thereto maturing after the date which is seven days after the expiration of the Change of Control Put Period (the "**Change of Control Put Date**"). If the holder fails to deliver a relevant Coupon, the Paying Agent will require payment from or on behalf of the Noteholder of an amount

equal to the face value of any such missing Coupon. Any amount so paid will be reimbursed to the Noteholder against presentation and surrender of the relevant missing Coupon (or any replacement therefore issued pursuant to Condition 12) at any time after such payment, but before the expiry of the period of five years from the date on which such Coupon would have become due, but not thereafter. The Paying Agent to which such Note and Change of Control Put Notice are delivered will issue to the Noteholder concerned a non-transferable receipt in respect of the Note so delivered. Payment in respect of any Note so delivered will be made, if the holder duly specified a bank account in the Change of Control Put Notice to which payment is to be made, on the Change of Control Put Date by transfer to that bank account and, in every other case, on or after the Change of Control Put Date against presentation and surrender or (as the case may be) endorsement of such receipt at the specified office of any Paying Agent. A Change of Control Put Notice, once given, shall be irrevocable. For the purposes of these Conditions, receipts issued pursuant to this Condition 6(f) shall be treated as if they were Notes.

To exercise the Change of Control Put Option, the holder of a Registered Note must deposit the Certificate evidencing such Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly signed and completed Change of Control Put Notice obtainable from the Registrar or any Transfer Agent within the Change of Control Put Period. No Certificate so deposited and option so exercised may be withdrawn without the prior consent of the Issuer. Payment in respect of any Certificate so deposited will be made, if the holder duly specified a bank account in the Change of Control Put Notice to which payment is to be made, on the Change of Control Put Date by transfer to that bank account and, in every other case, by cheque drawn on a Bank and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register.

The Issuer shall redeem or purchase (or procure the purchase of) the relevant Notes on the Change of Control Put Date unless previously redeemed (or purchased) and cancelled.

If 75 per cent. or more in principal amount of the Notes then outstanding have been redeemed or purchased pursuant to this Condition 6(f), the Issuer may, on giving not less than 30 nor more than 60 days' notice to the Noteholders (such notice being given within 30 days after the Change of Control Put Date), redeem or purchase (or procure the purchase of), at its option, all but not some only of the remaining outstanding Notes at their principal amount, together with interest accrued to (but excluding) the date fixed for such redemption or purchase.

If the rating designations employed by any of Moody's, Fitch or S&P are changed from those which are described in paragraph (ii) of the definition of "*Change of Control Put Event*" above, or if a rating is procured from a Substitute Rating Agency, the Issuer shall determine the rating designations of Moody's, Fitch or S&P or such Substitute Rating Agency (as appropriate) as are most equivalent to the prior rating designations of Moody's, Fitch or S&P and this Condition 6(f) shall be construed accordingly.

In this Condition 6(f):

**"Change of Control Period"** means the period commencing on the date of the Relevant Potential Change of Control Announcement and ending 90 days after the Change of Control (or such longer period for which the Notes are under consideration (such consideration having been announced publicly within the period ending 90 days after the Change of Control) for rating review or, as the case may be, rating by a Rating Agency, such period not to exceed 60 days after the public announcement of such consideration);

**"Investment Grade"** means a rating of Baa3 or better by Moody's (or its equivalent under any successor rating categories of Moody's); a rating of BBB- or better by S&P (or its equivalent under any successor rating categories of S&P); a rating of BBB- or better by Fitch (or its equivalent under any successor rating categories of Fitch); or the



equivalent Investment Grade credit rating from any additional Rating Agency or Rating Agencies;

**"Rating Agency"** means Moody's Investors Service Ltd. ("**Moody's**"), Fitch Ratings Ltd. ("**Fitch**") or Standard & Poor's Ratings Services ("**S&P**") or any of their respective successors or any rating agency (a "**Substitute Rating Agency**") substituted for any of them by the Issuer from time to time; and

**"Relevant Potential Change of Control Announcement"** means any public announcement or statement by the Issuer, any actual or potential bidder or any adviser acting on behalf of any actual or potential bidder relating to any potential Change of Control where, within 180 days of the date of such announcement or statement, a Change of Control occurs.

(g) ***Purchases***

Each of the Issuer, the Guarantor or their Subsidiaries (as defined in the Agency Agreement) may at any time purchase Notes (provided that all unmatured Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price. Such Notes may be held, reissued, resold or, at the option of the Issuer, the Guarantor or the relevant Subsidiary, surrendered to the Fiscal Agent for cancellation. Any Notes so purchased, while held by or on behalf of the Issuer, the Guarantor or any of their Subsidiaries, shall not entitle the holder to vote at any meetings of the Noteholders and shall not be deemed to be outstanding for the purposes of the Conditions.

(h) ***Cancellation***

All Notes purchased by or on behalf of the Issuer, the Guarantor or any of their Subsidiaries may be surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Coupons and all unexchanged Talons to the Fiscal Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the Registrar and, in each case, if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all unmatured Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer and the Guarantor in respect of any such Notes shall be discharged.

7. **Payments and Talons**

(a) ***Bearer Notes***

Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the relevant, Notes (in the case of all payments of principal and, in the case of interest, as specified in Condition 7(f)(vi) or Coupons (in the case of interest, save as specified in Condition 7(f)(vi), as the case may be, at the specified office of any Paying Agent outside the United States by a cheque payable in the relevant currency drawn on, or, at the option of the holder, by transfer to an account denominated in such currency with, a Bank. "**Bank**" means a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System.

(b) ***Registered Notes***

- (i) Payments of principal in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.
- (ii) Interest on Registered Notes shall be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment

thereof (the "**Record Date**"). Payments of interest on each Registered Note shall be made in the relevant currency by cheque drawn on a Bank and mailed to the holder (or to the first-named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank.

(c) ***Payments in the United States***

Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.

(d) ***Payments Subject to Laws***

All payments are subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 8) any law implementing an intergovernmental approach thereto. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(e) ***Appointment of Agents***

The Fiscal Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent initially appointed by the Issuer and the Guarantor and their respective specified offices are listed below. The Fiscal Agent, the Paying Agents, the Registrar, Transfer Agents and the Calculation Agent(s) act solely as agents of the Issuer and the Guarantor and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuer and the Guarantor reserve the right at any time to vary or terminate the appointment of the Fiscal Agent, any other Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, provided that the Issuer shall at all times maintain (i) a Fiscal Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) one or more Calculation Agent(s) where these Conditions so require, (v) Paying Agents having specified offices in at least two major European cities and (vi) such other agents as may be required by any other stock exchange on which the Notes may be listed.

In addition, the Issuer and the Guarantor shall forthwith appoint a Paying Agent in New York City in respect of any Bearer Notes denominated in U.S. dollars in the circumstances described in paragraph (c) above.

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders.

(f) ***Unmatured Coupons and unexchanged Talons***

(i) Upon the due date for redemption of Bearer Notes which comprise Fixed Rate Notes, such Notes should be surrendered for payment together with all

unmatured Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 15 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 9).

- (ii) Upon the due date for redemption of any Bearer Note comprising a Floating Rate Note, unmatured Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.
- (iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.
- (iv) Where any Bearer Note that provides that the related unmatured Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.
- (v) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.

(g) ***Talons***

On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Fiscal Agent in exchange for a further Coupon sheet (and, if necessary, another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 9).

(h) ***Non-Business Days***

If any date for payment in respect of any Note or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this Condition 7(h), "**business day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as "Financial Centres" hereon and:

- (i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency; or
- (ii) (in the case of a payment in euro) which is a TARGET Business Day.

8. **Taxation**

All payments of principal and interest by or on behalf of the Issuer or the Guarantor in respect of the Notes and the Coupons or under the Guarantee shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed, levied, collected, withheld or assessed by or within the Kingdom of Sweden or the Republic of Poland or any authority therein or thereof having power to tax (each, a "**Taxing Jurisdiction**"), unless such withholding or deduction is required by law. In that event, the Issuer or, as the case may be, the Guarantor shall pay such additional amounts as shall result in receipt by the Noteholders and the Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable with respect to any Note or Coupon:

(a) ***Other connection***

To, or to a third party on behalf of, a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of his having some connection with a Taxing Jurisdiction other than the mere holding of the Note or Coupon; or

(b) ***Presentation more than 30 days after the Relevant Date***

Presented (or in respect of which the Certificate representing it is presented) for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting it for payment on the thirtieth such day.

As used in these Conditions, "**Relevant Date**" means, in respect of any Note or Coupon, the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the Note (or related Certificate) or Coupon being made in accordance with these Conditions, such payment will be made, provided that payment is in fact made upon such presentation. References in these Conditions to (i) "**principal**" shall be deemed to include any premium payable in respect of the Notes, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 6, (ii) "**interest**" shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 5 and (iii) "**principal**" and/or "**interest**" shall be deemed to include any additional amounts that may be payable under this Condition 8.

9. **Prescription**

Claims against the Issuer and / or the Guarantor for payment in respect of the Notes and Coupons (which for this purpose shall not include Talons) shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

10. **Events of Default**

If any of the following events ("**Events of Default**") occurs, the holder of any Note may give written notice to the Fiscal Agent at its specified office that such Note is immediately repayable, whereupon the Early Redemption Amount of such Note together (if applicable) with accrued interest to the date of payment shall become immediately due and payable:

(a) ***Non-Payment***

Default is made in the payment on the due date of interest or principal in respect of any of the Notes and the default continues for a period of five days in the case of interest; or

(b) ***Breach of Other Obligations***

The Issuer or the Guarantor does not perform or comply with any one or more of its other obligations in respect of the Notes or the Guarantee which default is incapable of remedy or, if capable of remedy, is not remedied within 30 days after notice of such default shall have been given to the Issuer or the Guarantor by any Noteholder; or

(c) ***Cross-Acceleration***

- (i) any other present or future indebtedness of the Issuer or the Guarantor or any Material Subsidiary (as defined in Condition 4) for or in respect of moneys borrowed or raised becomes due and payable prior to its stated maturity by reason of any actual or potential event of default or the like (howsoever described), or
- (ii) any such indebtedness is not paid when due or, as the case may be, within any originally applicable grace period, or
- (iii) the Issuer or the Guarantor or any Material Subsidiary fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this Condition 10(c) have occurred equals or exceeds €75,000,000 or its equivalent (on the basis of the middle spot rate for the relevant currency against the euro as quoted by any leading bank on the day on which this Condition 10(c) operates); or

(d) ***Enforcement Proceedings***

A distress, attachment, execution or other legal process is levied, enforced or sued out on or against the whole or a substantial part of the property, assets or revenues of the Issuer or the Guarantor or any Material Subsidiary and is not discharged or stayed within 90 days; or

(e) ***Security Enforced***

Any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or the Guarantor or any Material Subsidiary becomes enforceable (such encumbrance(s), either alone or when aggregated with other such encumbrances, relating to a payment or other obligations of a value equal to or exceeding €75,000,000, or its equivalent (on the basis of the middle spot rate for the relevant currency against the euro as quoted by any leading bank on the day on which this Condition 10(e) operates) and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, manager or other similar person); or

(f) ***Insolvency***

Any of the Issuer or the Guarantor or any Material Subsidiary is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or a material part of (or of a particular type of) its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or any part of (or of a particular type of) the debts of the Issuer, the Guarantor or any Material Subsidiary; or

(g) ***Winding-up***

An order is made or an effective resolution passed for the winding-up or dissolution or administration of the Issuer or the Guarantor or any Material Subsidiary, or the Issuer or the Guarantor or any Material Subsidiary shall apply or petition for a winding-up or administration order in respect of itself or ceases to carry on all or substantially all of its

business or operations, in each case except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by an Extraordinary Resolution (as defined in the Agency Agreement) of the Noteholders or (ii) in the case of Material Subsidiary, whereby the undertaking and assets of the Material Subsidiary are transferred to or otherwise vested in the Guarantor or another Material Subsidiary; or

(h) ***Seizure etc.***

Any step is taken by any person with a view to the seizure, compulsory acquisition or expropriation of all or a material part of the assets of the Issuer, the Guarantor or any Material Subsidiary; or

(i) ***Ownership***

The Issuer ceases to be wholly-owned and controlled by the Guarantor; or

(j) ***Authorisation and Consents***

Any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order to (i) enable the Issuer and the Guarantor lawfully to enter into, exercise their respective rights and perform and comply with their respective obligations under the Notes and the Guarantee, (ii) ensure that those obligations are legally binding and enforceable and (iii) make the Notes and the Guarantee admissible in evidence in the courts of the Kingdom of Sweden, the Republic of Poland or England is not taken, fulfilled or done; or

(k) ***Illegality***

It is or will become unlawful for the Issuer or the Guarantor to perform or comply with any one or more of its obligations under any of the Notes or the Guarantee; or

(l) ***Analogous Events***

Any event occurs that under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs; or

(m) ***Guarantee***

The Guarantee is not (or is claimed by the Guarantor not to be) in full force and effect.

11. **Meeting of Noteholders and Modifications**

(a) ***Meetings of Noteholders***

The Agency Agreement contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Agency Agreement) of a modification of any of these Conditions. Such a meeting may be convened by Noteholders holding not less than 10 per cent. in nominal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be two or more persons holding or representing a clear majority in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the nominal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to amend the dates of maturity or redemption of the Notes or any date for payment of interest or Interest Amounts on the Notes, (ii) to reduce or cancel the nominal amount of, or any premium payable on redemption of, the Notes, (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes, (iv) if a Minimum and/or a Maximum Rate of Interest or Redemption Amount

is shown hereon, to reduce any such Minimum and/or Maximum, (v) to vary any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount or the Optional Redemption Amount, including the method of calculating the Amortised Face Amount, (vi) to vary the currency or currencies of payment or denomination of the Notes, (vii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution, or (viii) to modify or cancel the Guarantee, in which case the necessary quorum shall be two or more persons holding or representing not less than 75 per cent. or at any adjourned meeting not less than 25 per cent. in nominal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on all Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

The Agency Agreement provides that a resolution in writing signed by or on behalf of the holders of not less than 90 per cent. in nominal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) ***Modification of Agency Agreement***

The Issuer and the Guarantor shall only permit any modification of, or any waiver or authorisation of any breach or proposed breach of or any failure to comply with, the Agency Agreement, if to do so could not reasonably be expected to be prejudicial to the interests of the Noteholders.

(c) ***Substitution***

The Issuer, or any previous substituted company, may at any time, without the consent of the Noteholders or the Couponholders, substitute for itself as principal debtor under the Notes, the Coupons and the Talons, any company (the "**Substitute**") that is the Guarantor or a Subsidiary (as defined in the Agency Agreement) of the Guarantor, provided that no payment in respect of the Notes or the Coupons is at the relevant time overdue. The substitution shall be made by a deed poll (the "**Deed Poll**"), to be substantially in the form scheduled to the Agency Agreement as Schedule 8, and may take place only if (i) the Substitute shall, by means of the Deed Poll, agree to indemnify each Noteholder and Couponholder against any tax, duty, assessment or governmental charge that is imposed on it by (or by any authority in or of) the jurisdiction of the country of the Substitute's residence for tax purposes and, if different, of its incorporation with respect to any Note, Coupon, Talon, the Deed of Guarantee or the Deed of Covenant and that would not have been so imposed had the substitution not been made, as well as against any tax, duty, assessment or governmental charge, and any cost or expense, relating to the substitution, (ii) where the Substitute is not the Guarantor, the obligations of the Substitute under the Deed Poll, the Notes, Coupons, Talons and Deed of Covenant shall be unconditionally guaranteed by the Guarantor by means of the Deed of Guarantee, (iii) all action, conditions and things required to be taken, fulfilled and done (including the obtaining of any necessary consents) to ensure that the Deed Poll, the Notes, Coupons, Talons and Deed of Covenant represent valid, legally binding and enforceable obligations of the Substitute, and in the case of the Deed Poll and the Deed of Guarantee of the Guarantor have been taken, fulfilled and done and are in full force and effect, (iv) the Substitute shall have become party to the Agency Agreement, with any appropriate consequential amendments, as if it had been an original party to it, (v) legal opinions addressed to the Noteholders shall have been delivered to them (care of the Fiscal Agent) from a lawyer or firm of lawyers with a leading securities practice in each jurisdiction referred to in paragraph (i) above and in England as to the fulfilment of the preceding conditions of this paragraph (iii) and the other matters specified in the Deed Poll and (vi) the Issuer shall have given at least 14 days' prior notice of such substitution to the Noteholders, stating that copies, or pending execution the agreed text, of all documents in relation to the substitution that are referred to above, or that might otherwise reasonably be regarded as material to Noteholders,

shall be available for inspection at the specified office of each of the Paying Agents. References in Condition 10 to obligations under the Notes shall be deemed to include obligations under the Deed Poll, and, where the Deed Poll contains a guarantee, the events listed in Condition 10 shall be deemed to include that guarantee not being (or being claimed by the guarantor not to be) in full force and effect.

12. **Replacement of Notes, Certificates, Coupons and Talons**

If a Note, Certificate, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Fiscal Agent (in the case of Bearer Notes, Coupons or Talons) and of the Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note, Certificate, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes, Certificates, Coupons or further Coupons) and otherwise as the Issuer may require. Mutilated or defaced Notes, Certificates, Coupons or Talons must be surrendered before replacements will be issued.

13. **Further Issues**

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further notes having the same terms and conditions as the Notes (so that, for the avoidance of doubt, references in these Conditions to "**Issue Date**" shall be to the first issue date of the Notes) and so that the same shall be consolidated and form a single series with such Notes, and references in these Conditions to "**Notes**" shall be construed accordingly.

14. **Notices**

Notices to the holders of Registered Notes shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. Notices to the holders of Bearer Notes shall be valid if published in a daily newspaper of general circulation in London (which is expected to be the *Financial Times*). So long as any Notes are listed on the Luxembourg Stock Exchange, notices shall also be published either on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)) or in a daily newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*). If any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the date of the first publication as provided above.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Notes in accordance with this Condition 14.

15. **Currency Indemnity**

Any amount received or recovered in a currency other than the currency in which payment under the relevant Note or Coupon is due (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the insolvency, winding-up or dissolution of the Issuer or the Guarantor or otherwise) by any Noteholder or Couponholder in respect of any sum expressed to be due to it from the Issuer or the Guarantor shall only constitute a discharge to the Issuer or the Guarantor, as the case may be, to the extent of the amount in the currency of payment under the relevant Note or Coupon that the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If the amount received or recovered is less than the amount expressed to be due to the recipient under any Note or Coupon, the Issuer, failing whom the Guarantor, shall indemnify it



against any loss sustained by it as a result. In any event, the Issuer, failing whom the Guarantor, shall indemnify the recipient against the cost of making any such purchase. For the purposes of this Condition 15, it shall be sufficient for the Noteholder or Couponholder, as the case may be, to demonstrate that it would have suffered a loss had an actual purchase been made. These indemnities constitute a separate and independent obligation from the Issuer's and the Guarantor's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Noteholder or Couponholder and shall continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note or Coupon or any other judgment or order.

16. **Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

17. **Governing Law and Jurisdiction**

(a) ***Governing Law***

The Notes, the Coupons and the Talons and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

(b) ***Jurisdiction***

The Courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with any Notes, Coupons or Talons and accordingly any legal action or proceedings arising out of or in connection with any Notes, Coupons or Talons ("**Proceedings**") may be brought in such courts. Each of the Issuer and the Guarantor irrevocably submits to the jurisdiction of the courts of England and waives any objection to Proceedings in such courts on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. These submissions are made for the benefit of each of the holders of the Notes, Coupons and Talons and, to the extent allowed by law, shall not affect the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

(c) ***Service of Process***

Each of the Issuer and the Guarantor irrevocably appoints Law Debenture Corporate Services Limited as their agent in England to receive, for it and on its behalf, service of process in any Proceedings in England. Such service shall be deemed completed on delivery to such process agent (whether or not, it is forwarded to and received by the Issuer or the Guarantor). If for any reason such process agent ceases to be able to act as such or no longer has an address in London, each of the Issuer and the Guarantor irrevocably agrees to appoint a substitute process agent and shall immediately notify Noteholders of such appointment in accordance with Condition 14. Nothing shall affect the right to serve process in any manner permitted by law.

(d) ***Waiver of Immunity***

To the extent permitted by applicable law, the Issuer and the Guarantor each hereby irrevocably and unconditionally waive, with respect to the Notes, the Coupons and the Guarantee, any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence and irrevocably and unconditionally consents to the giving of any relief or the issue of any process, including, without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any Proceedings.

## SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

### 1. **Initial Issue of Notes**

If the Global Notes or the Global Certificates are stated in the relevant Final Terms (or Pricing Supplement, in the case of Exempt Notes) to be issued in NGN form or to be held under the NSS (as the case may be), the Global Notes or the Global Certificates (as the case may be) will be delivered on or prior to the original issue date of the Tranche to a Common Safekeeper. Depositing the Global Notes or the Global Certificates with the Common Safekeeper does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue, or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

Global notes which are issued in CGN form and Global Certificates which are not held under the NSS may be delivered on or prior to the original issue date of the Tranche to a Common Depositary (as defined below).

If the Global Note is a CGN, upon the initial deposit of a Global Note with a common depositary for Euroclear and Clearstream, Luxembourg (the "**Common Depositary**") or registration of Registered Notes in the name of any nominee for Euroclear and Clearstream, Luxembourg and delivery of the related Global Certificate to the Common Depositary, Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid. If the Global Note is a NGN, the nominal amount of the Notes shall be the aggregate amount from time to time entered in the records of Euroclear or Clearstream, Luxembourg. The records of such clearing system shall be conclusive evidence of the nominal amount of Notes represented by the Global Note and a statement issued by such clearing system at any time shall be conclusive evidence of the records of the relevant clearing system at that time.

Notes that are initially deposited with the Common Depositary may also be credited to the accounts of subscribers with (if indicated in the relevant Final Terms or Pricing Supplement, as the case may be) other clearing systems through direct or indirect accounts with Euroclear and Clearstream, Luxembourg held by such other clearing systems. Conversely, Notes that are initially deposited with any other clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream, Luxembourg or other clearing systems.

### 2. **Relationship of Accountholders with Clearing Systems**

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other permitted clearing system (an "**Alternative Clearing System**") as the holder of a Note represented by a Global Note or a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg or any such Alternative Clearing System (as the case may be) for his share of each payment made by the Issuer to the bearer of such Global Note or the holder of the underlying Registered Notes (as the case may be) and in relation to all other rights arising under the Global Notes or Global Certificates, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg, or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are represented by such Global Note or Global Certificate and such obligations of the Issuer will be discharged by payment to the bearer of such Global Note or the holder of the underlying Registered Notes (as the case may be) in respect of each amount so paid.

### 3. **Exchange**

#### 3.1 ***Temporary Global Notes***

Each temporary Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date:

- (i) if the relevant Final Terms (or Pricing Supplement, in the case of Exempt Notes) indicates that such Global Note is issued in compliance with the C Rules or in a

transaction to which TEFRA is not applicable (as to which, see "*Overview of the Programme – Selling Restrictions*"), in whole, but not in part, for the Definitive Notes defined and described below; and

- (ii) otherwise, in whole or in part upon certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement for interests in a permanent Global Note or, if so provided in the relevant Final Terms (or Pricing Supplement, in the case of Exempt Notes), for Definitive Notes.

### 3.2 ***Permanent Global Notes***

Each permanent Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not, except as provided under paragraph 3.4 below, in part for Definitive Notes:

- (i) if the permanent Global Note is held on behalf of Euroclear or Clearstream, Luxembourg or an Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so; or
- (ii) if principal in respect of any Notes is not paid when due, by the holder giving notice to the Fiscal Agent of its election for such exchange.

In the event that a Global Note is exchanged for Definitive Notes, such Definitive Notes shall be issued in Specified Denomination(s) only. A Noteholder who holds a principal amount of less than the minimum Specified Denomination will not receive a definitive Note in respect of such holding and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

### 3.3 ***Permanent Global Certificates***

If the relevant Final Terms (or Pricing Supplement, in the case of Exempt Notes) state that the Notes are to be represented by a permanent Global Certificate on issue, the following will apply in respect of transfers of Notes held in Euroclear or Clearstream, Luxembourg or an Alternative Clearing System. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Notes may be withdrawn from the relevant clearing system.

Transfers of the holding of Notes represented by any Global Certificate pursuant to Condition 2(b) may only be made in part:

- (i) if the relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or
- (ii) if principal in respect of any Notes is not paid when due; or
- (ii) with the consent of the Issuer,

provided that, in the case of the first transfer of part of a holding pursuant to paragraph 3.3(i) or 3.3(ii) above, the Registered Holder has given the Registrar not less than 30 days' notice at its specified office of the Registered Holder's intention to effect such transfer.

### 3.4 ***Partial Exchange of Permanent Global Notes***

For so long as a permanent Global Note is held on behalf of a clearing system and the rules of that clearing system permit, such permanent Global Note will be exchangeable in part on one or more occasions for Definitive Notes if principal in respect of any Notes is not paid when due.

### 3.5 ***Delivery of Notes***

If the Global Note is a CGN, on or after any due date for exchange, the holder of a Global Note may surrender such Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Fiscal Agent. In exchange for any Global Note, or the part thereof to be exchanged, the Issuer will (i) in the case of a temporary Global Note exchangeable for a permanent Global Note, deliver, or procure the delivery of, a permanent Global Note in an aggregate nominal amount equal to that of the whole or that part of a temporary Global Note that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a permanent Global Note to reflect such exchange or (ii) in the case of a Global Note exchangeable for Definitive Notes, deliver, or procure the delivery of, an equal aggregate nominal amount of duly executed and authenticated Definitive Notes or, if the Global Note is a NGN, the Issuer will procure that details of such exchange be entered *pro rata* in the records of the relevant clearing system. In this Prospectus, "**Definitive Notes**" means, in relation to any Global Note, the definitive Bearer Notes for which such Global Note may be exchanged (if appropriate, having attached to them all Coupons in respect of interest that have not already been paid on the Global Note and a Talon). Definitive Notes will be security printed in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in the Schedules to the Agency Agreement. On exchange in full of each permanent Global Note, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Notes.

### 3.6 ***Exchange Date***

"**Exchange Date**" means, in relation to a temporary Global Note, the day falling after the expiry of 40 days after its issue date and, in relation to a permanent Global Note, a day falling not less than 60 days, or, in the case of failure to pay principal in respect of any Notes when due 30 days, after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Fiscal Agent is located and in the city in which the relevant clearing system is located.

## 4. **Amendment to Conditions**

The temporary Global Notes, permanent Global Notes and Global Certificates contain provisions that apply to the Notes that they represent, some of which modify the effect of the terms and conditions of the Notes set out in this Prospectus. The following is a summary of certain of those provisions:

### 4.1 ***Payments***

No payment falling due after the Exchange Date will be made on any Global Note unless exchange for an interest in a permanent Global Note or for Definitive Notes is improperly withheld or refused. Payments on any temporary Global Note issued in compliance with the D Rules before the Exchange Date will only be made against presentation of certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement. All payments in respect of Notes represented by a Global Note in CGN form will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Fiscal Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. If the Global Note is a CGN, a record of each payment so made will be endorsed on each Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Notes. Condition 7(e)(vii) and Condition 8(d) will apply to the Definitive Notes only. If the Global Note is a NGN or if the Global Certificate is held under the NSS, the Issuer shall procure that details of each such payment shall be entered *pro rata* in the records of the relevant clearing system and in the case of payments of principal, the nominal amount of the Notes recorded in the records of the relevant clearing system and represented by the Global Note or the Global Certificate will be reduced accordingly. Payments under a NGN will be made to its holder. Each payment so made will discharge the Issuer's obligations in respect thereof. Any failure to make the entries in the records of the relevant clearing system shall not affect such discharge. For the purpose of any payments made in respect of a Global Note, the relevant place of presentation shall be disregarded in the definition of "business day" set out in Condition 7(h).

All payments in respect of Notes represented by a Global Certificate will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the record date which shall be the Clearing System Business Day immediately prior to the date for payment, where Clearing System Business Day means Monday to Friday inclusive except 25 December and 1 January.

#### 4.2 ***Prescription***

Claims against the Issuer in respect of Notes that are represented by a permanent Global Note will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 8).

#### 4.3 ***Meetings***

The holder of a permanent Global Note or of the Notes represented by a Global Certificate shall (unless such permanent Global Note or Global Certificate represents only one Note) be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, the holder of a permanent Global Note shall be treated as having one vote in respect of each integral currency unit of the Specified Currency of the Notes. All holders of Registered Notes are entitled to one vote in respect of each integral currency unit of the Specified Currency of the Notes comprising such Noteholder's holding, whether or not represented by a Global Certificate.

#### 4.4 ***Cancellation***

Cancellation of any Note represented by a permanent Global Note that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the nominal amount of the relevant permanent Global Note.

#### 4.5 ***Purchase***

Notes represented by a permanent Global Note may only be purchased by the Issuer, the Guarantor or any of their respective subsidiaries if they are purchased together with the rights to receive all future payments of interest thereon.

#### 4.6 ***Issuer's Option***

Any option of the Issuer provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note shall be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of Notes drawn in the case of a partial exercise of an option and, accordingly, no drawing of Notes shall be required. In the event that any option of the Issuer is exercised in respect of some but not all of the Notes of any Series, the rights of accountholders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion) or any other Alternative Clearing System (as the case may be).

#### 4.7 ***Noteholders' Options***

Any option of the Noteholders provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note may be exercised by the holder of the permanent Global Note giving notice to the Fiscal Agent within the time limits relating to the deposit of Notes with a Paying Agent set out in the Conditions substantially in the form of the notice available from any Paying Agent, except that the notice shall not be required to contain the serial numbers of the Notes in respect of which the option has been exercised, and stating the nominal amount of Notes in respect of which the option is exercised and at the same time, where the permanent Global Note is a CGN, presenting the permanent Global Note to the Fiscal Agent, or to a Paying Agent acting on behalf of the Fiscal Agent, for notation. Where the Global Note is a NGN or where the Global Certificate is held under the NSS, the Issuer shall procure that details of such exercise

shall be entered *pro rata* in the records of the relevant clearing system and the nominal amount of the Notes recorded in those records will be reduced accordingly.

4.8 ***NGN nominal amount***

Where the Global Note is a NGN, the Issuer shall procure that any exchange, payment, cancellation, exercise of any option or any right under the Notes, as the case may be, in addition to the circumstances set out above shall be entered in the records of the relevant clearing systems and upon any such entry being made, in respect of payments of principal, the nominal amount of the Notes represented by such Global Note shall be adjusted accordingly.

4.9 ***Events of Default***

Each Global Note provides that the holder may cause such Global Note, or a portion of it, to become due and repayable in the circumstances described in Condition 10 by stating in the notice to the Fiscal Agent the nominal amount of such Global Note that is becoming due and repayable. If principal in respect of any Note is not paid when due, the holder of a Global Note or Registered Notes represented by a Global Certificate may elect for direct enforcement rights against the Issuer and the Guarantor under the terms of a Deed of Covenant executed as a deed by the Issuer and the Guarantor on 16 February 2017 to come into effect in relation to the whole or a part of such Global Note or one or more Registered Notes in favour of the persons entitled to such part of such Global Note or such Registered Notes, as the case may be, as accountholders with a clearing system. Following any such acquisition of direct rights, the Global Note or, as the case may be, the Global Certificate and the corresponding entry in the register kept by the Registrar will become void as to the specified portion or Registered Notes, as the case may be. However, no such election may be made in respect of Notes represented by a Global Certificate unless the transfer of the whole or a part of the holding of Notes represented by that Global Certificate shall have been improperly withheld or refused.

4.10 ***Notices***

So long as any Notes are represented by a Global Note and such Global Note is held on behalf of a clearing system, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note, except that so long as the Notes are listed on the Luxembourg Stock Exchange's regulated market and the rules of that exchange so require, notices shall also be published either on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)) or in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*).

## **USE OF PROCEEDS**

The net proceeds from the issue of each Tranche of Notes will be on-lent by the Issuer to the Guarantor or a Company within the Group and will be used for general corporate purposes, unless otherwise specified in the applicable Final Terms (or Pricing Supplement, in the case of Exempt Notes).

## DESCRIPTION OF THE ISSUER

### General

ENERGA Finance AB (publ) (the "**Issuer**"), was incorporated as a public limited liability company under the laws of the Kingdom of Sweden on 10 July 2012, with registration number 556898-6862. It is domiciled in the Kingdom of Sweden. The registered office of the Issuer is located at Norrlandsgatan 18, 111 43 Stockholm, Sweden and the telephone number is 46 8 545 322 70.

### Objects

The objects of the Issuer are set out in Article 3 of its Articles of Association, which states that "*... the object of the Issuer's business shall be to conduct financial activities primarily through the borrowing of funds by way of issuance of bonds and other financial instruments to institutional and private investors and through the direct lending of such funds to group companies and to conduct any other activities compatible therewith or to provide any related services. The Issuer shall not conduct activities that constitute operations which would require a license or permit from the Swedish Financial Supervisory Authority or any other authority.*"

The Issuer is not committed to any significant investments as at the date of this Prospectus. However, it is intended that the Issuer will continue to conduct its regular business activity related to financial investments, including investments in lending funds to the Guarantor and/or other Group companies under intercompany loan agreements.

### Capital stock

As at the date of this Prospectus, the Issuer is a wholly-owned subsidiary of the Guarantor. The Issuer has no subsidiaries.

The share capital of the Issuer is EUR 20,000,000 (divided into 20,000,000 fully paid-up ordinary shares).

### Management

The Issuer has a Board of Directors consisting of three members. The Board of Directors is responsible for managing the business of the Issuer in accordance with Swedish law and the Issuer's Articles of Association. The Board of Directors also represents the Issuer in its dealings with third parties and in court.

Administrative tasks are performed by a professional corporate service provider.

As at the date of this Prospectus, the members of the Board of Directors of the Issuer, whose business addresses are Norrlandsgatan 18, 111 43 Stockholm, Sweden, their functions and their principal activities outside the Issuer, where these are significant, are as follows:

<b>Name</b>	<b>Function</b>	<b>Principal activities within the Group</b>
Jarosław Goncerz .....	Chairman	Director of the Guarantor
Magnus Sundström.....	Member, Managing Director	None
Marcin Biniaś .....	Member	Director of the Guarantor

The members of the Board of Directors do not have any other activities outside the Issuer that are material in the context of the Issuer. There are no conflicts of interest between the duties of the persons listed above to the Issuer and their private interests or other duties.

### Fiscal year

The fiscal year of the Issuer is the calendar year.



## **Auditors**

The independent auditor of the Issuer is PricewaterhouseCoopers AB (Authorised public accountants), enterprise number 556067-4276, with business address Torgsgatan 21, 113 97 Stockholm, Sweden. PricewaterhouseCoopers AB carries out its activities in accordance with International Standards on Auditing (ISA) and recommendations issued by Föreningen Auktoriserade Revisorer (FAR) which is a professional institute for authorised public accountants in the Kingdom of Sweden.

## BUSINESS DESCRIPTION OF THE GROUP

### Overview

ENERGA is a joint stock company (*spółka akcyjna*), established in Poland, organised under the laws of Poland and registered with the Polish National Court Registry (*Krajowy Rejestr Sądowy*) maintained by the Regional Court of Gdańsk – Północ in Gdańsk, under no. 271591. Its registered head office is located at Al. Grunwaldzka 472, 80-309 Gdańsk, Poland, and the telephone number of its registered head office is + 48 58 778 83 00.

The Group is one of the four biggest energy groups in Poland in terms of revenues. The Group's activities are concentrated mainly in northern and central Poland.

The core business of the Group is: (i) generation; (ii) distribution; and (iii) sales, of electricity and heating, which together represented 91 per cent. of the Group's revenue in 2015 (92 per cent. in the nine months ended 30 September 2016). The Group's remaining revenue was principally generated from: the sale of certificates of energy origin; connection fees charged; the sale of lighting services; and the granting of leases.

As of the date of this Prospectus, ENERGA is majority owned by the State Treasury, which holds a 51.52 per cent. stake in the company with the remaining 48.48 per cent. owned by other investors, none of whom owns more than 5 per cent. As at 30 September 2016, the Group employed 8,721 people.

For the year ended 31 December 2015, the Group generated sales revenues of PLN 10,804 million (EUR 2,495 million), EBITDA of PLN 2,216 million (EUR 512 million) and a net profit of PLN 840 million (EUR 194 million). As at 30 September 2016, the Group had total assets of PLN 17,656 million (EUR 4,077 million) and total equity (net assets) of PLN 8,732 million (EUR 2,016 million). As of 30 September 2016, the Group was the fourth largest energy company in Poland in terms of revenue.

The most significant segment of the Group's operations is distribution which, in 2015, generated 76 per cent. of the Group's EBITDA (86 per cent. in the nine months ended 30 September 2016). The key Group company within this segment is ENERGA-OPERATOR. The Group's distribution network comprises 184 thousand kilometres of lines covering 75 thousand square kilometres, equal to approximately one-quarter of Poland's territory. As at 30 September 2016, the Group was one of the largest energy distributors in Poland in terms of the volume of energy distributed, with a 16.7 per cent. market share according to Group calculations based on ARE (Energy Market Agency) data. In 2015, 21.5 TWh of electricity was distributed through the Group's various distribution networks.

In 2015, the total volume of electricity sold by the Sales Segment was 25.7 TWh, of which 16.8 TWh was sold to 2.9 million end customers, 2.6 million of which were individual (households) customers, and the remaining 8.9 TWh was sold on the wholesale market. The key Group company within the Sales Segment is ENERGA-OBRÓT. During 2015, the Group's Sales Segment's contribution to the Group's consolidated EBITDA was 8 per cent. (4 per cent. in the nine months ended 30 September 2016).

As at 31 December 2015, the Group's total electricity generation production capacity amounted to 1.4 GW, which accounted for 3 per cent. of the total capacity installed in Poland. In 2015, the Group produced 4.1 TWh of electricity, of which 42 per cent. was generated from renewable sources (hydro, wind, biomass and solar) while 58 per cent. was generated by coal-fuelled plants.

The Group has 365 MWe of installed power capacity in its 46 hydroelectric power plants (including 157 MWe installed in the pumped-storage hydro power plant in Żydowo, which is not classified as RES) located mainly in northern Poland. The Group also operates five wind farms (Karcino, Karścino, Bystra, Myślino, and Parsówek) and two photovoltaic farms (PV Delta and PV Czernikowo) with installed power capacity of 211 and 5.4 Mwe, respectively. The Group also has a biomass-fired installation. Excluding the co-combustion of biomass, EBITDA attributable to renewable energy sources comprised 61 per cent. of the Group's Generation Segment EBITDA in 2015 (40 per cent. in the nine months ended 30 September 2016).

The Group's main generation asset is ENERGA Elektrownie Ostrołęka which has an installed capacity of 677 MWe/220 MWt. The Group also owns several CHP generation plants. Energy generation using conventional sources (including the co-combustion of biomass) generated 48 per cent. of the Group's Generation Segment EBITDA in 2015 (55 per cent. in the nine months ended 30 September 2016).

## History and Development of the Group

The process of the formation of the Group started before the current holding company, ENERGA, was founded and included, in particular, the consolidation of the companies within the so-called G-8 Group, which took place towards the end of 2004, resulting in the incorporation of Koncern Energetyczny ENERGA SA (currently ENERGA-OPERATOR). The G-8 Group comprised eight energy companies from northern and central Poland.

ENERGA was incorporated as a joint stock company (*spółka akcyjna*) in 2006 on the basis of a notarial deed dated 6 December 2006 (Rep. A no 20821/2006) as a holding company for the ENERGA Capital Group and was registered with the Polish National Court Registry (*Krajowy Rejestr Sądowy*) maintained by the Regional Court of Gdańsk-Północ in Gdańsk, on 8 January 2007.

ENERGA's founders were the State Treasury, ENERGA-OPERATOR (formerly Koncern Energetyczny ENERGA SA) and ENERGA Elektrownie Ostrołęka (formerly Zespół Elektrowni Ostrołęka SA) and its initial share capital was PLN 500,000.

The Group was founded in 2007 as a result of consolidating ENERGA-OPERATOR with ENERGA Elektrownie Ostrołęka, by contributing all of the State Treasury's shares in ENERGA-OPERATOR and ENERGA Elektrownie Ostrołęka to the increased share capital of ENERGA. Subsequently, in order to simplify the shareholding structure of ENERGA, the shares in ENERGA held by ENERGA-OPERATOR and ENERGA Elektrownie Ostrołęka were cancelled in June 2007 and the State Treasury became the sole shareholder of ENERGA.

Subsequent measures, relating mainly to ENERGA-OPERATOR, were undertaken as part of the reorganisation of the Group aimed at, amongst others, complying with the requirements of Directive 2003/54/EC of the European Parliament and of the EU Council of 26 June 2003 concerning common rules for the internal market in electricity and repealing Directive 96/92/EC and the Energy Law. The objective was to separate the trading in energy, customer service and other non-core operations of ENERGA-OPERATOR from its core business of energy distribution.

In 2007, energy trading was spun off from ENERGA-OPERATOR to ENERGA-OBRÓT by transferring a part of ENERGA-OPERATOR's business relating to its trading activities, to cover the newly created shares in the increased share capital of ENERGA-OBRÓT.

In 2008, a further reorganisation of the Group took place through the sale of a part of ENERGA-OPERATOR (relating to the operation of the customer services centres, to ENERGA Obsługa i Sprzedaż).

In 2009, ENERGA-OPERATOR was divided by way of a spin-off of assets not related to the distribution of electricity to ENERGA, including shares in several subsidiaries of ENERGA-OPERATOR, which constituted the next stage of the reorganisation of the Group.

In 2010, the lighting activity of the Group was consolidated. ENERGA Oświetlenie took over this part of the business from ENERGA-OPERATOR and Zakład Oświetlenia Drogowego Północ Sp. z o.o.

### **Group structure**

The core process of optimisation of the Group structure within the distribution and sales segments was completed in 2014. In 2015, most of the restructuring activities pertained to the generation segment.

Simplification of the structure of the Group is an on-going process, aimed at optimising the number of companies in the Group, streamlining operations and reducing the Group's costs. The sale or liquidation of companies whose activities are not in line with the Group's business model, mergers and transformation of entities resulting from the consolidation of individual operating segments and the establishment of new companies are dictated by specific business needs.

The following table shows the number of companies in the Group (as at 31 December)

Type	2014	2015	2016
Parent company (ENERGA) .....	1	1	1
Subsidiaries.....	49	47	43
Affiliates* .....	0	0	1
<b>TOTAL .....</b>	<b>50</b>	<b>48</b>	<b>45</b>

*\*Affiliates as defined in accordance with the Polish Commercial Companies Code*

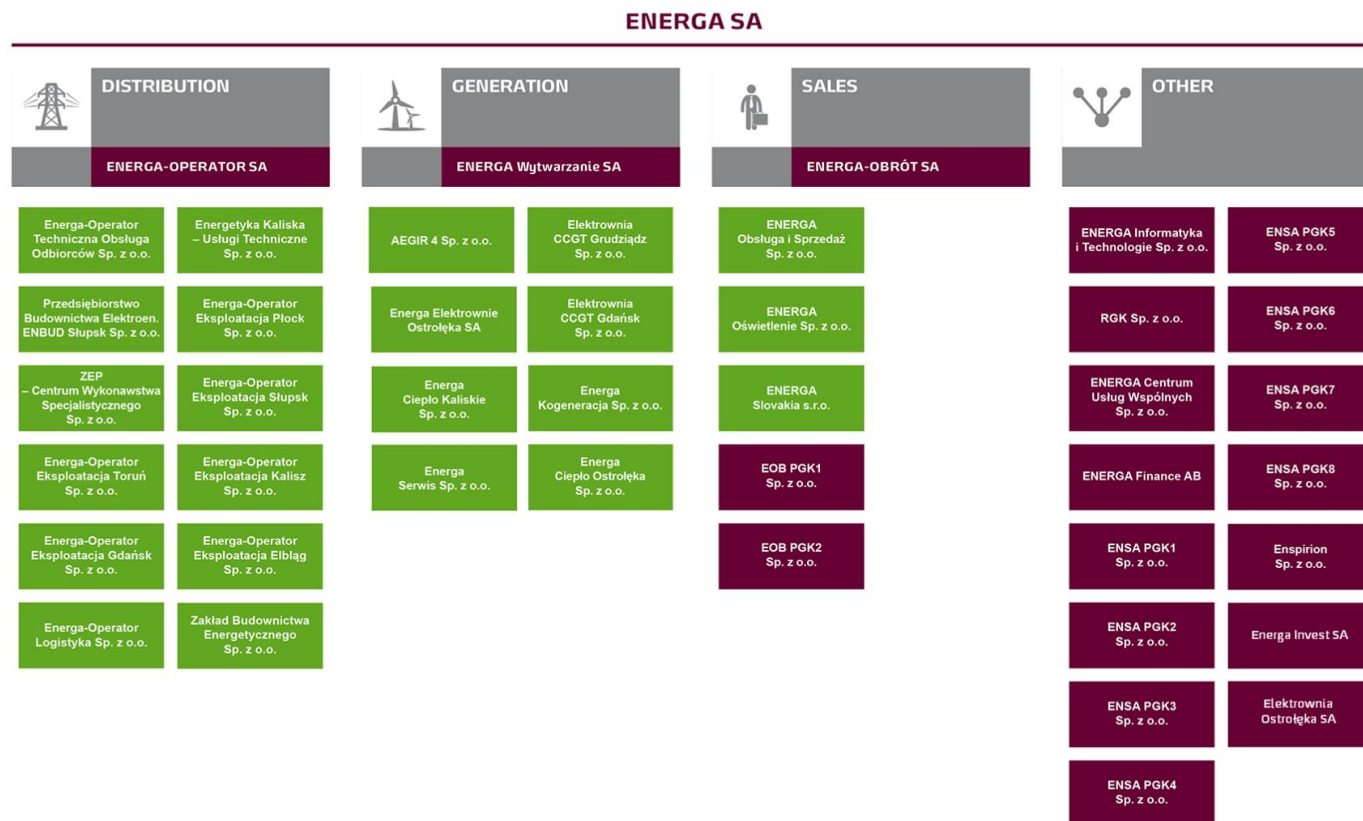
Following further minor reorganisations, as of 31 December 2016, the Group comprises ENERGA and its 43 subsidiaries. ENERGA principally operates through its three main subsidiaries, which are ENERGA-OPERATOR, ENERGA Wytwarzanie and ENERGA-OBRÓT. In 2015, the four key companies of the Group (ENERGA-OPERATOR, ENERGA-OBRÓT, ENERGA-WYTWARZANIE and ENERGA Elektrownie Ostrołęka). generated 86 per cent. of the Group's revenues before consolidation eliminations.

The diagram below illustrates the structure of the Group as at 31 December 2016:

## STRUCTURE OF THE ENERGA CAPITAL GROUP

Direct subsidiary  
of ENERGA SA

Indirect subsidiary  
of ENERGA SA



Source: ENERGA

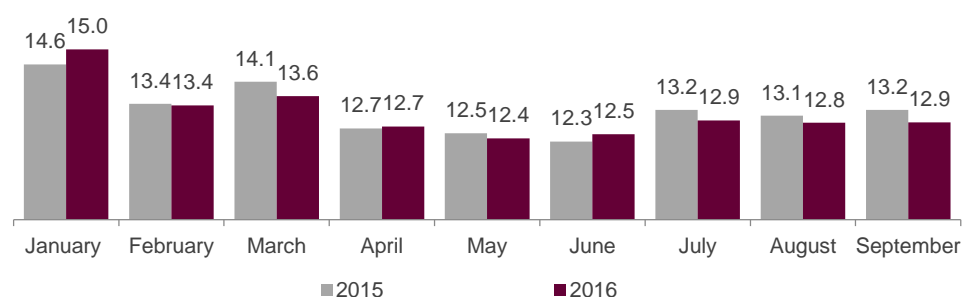
## Electricity market in Poland

The market environment in Poland is crucial for the Group's financial performance. In particular, factors which are relevant in to assessing market conditions include (1) the levels of production and consumption of electricity, (2) Poland's intersystem exchange, (3) electricity prices in Poland compared to its neighbouring countries, (4) property prices (5) fees for operating reserve and (6) the cost of emission allowances.

### *Domestic production and consumption of electricity*

Production of electricity in Poland, according to the data published by the TSO in the first nine months of 2016, reached 38.6 TWh, or 0.9 TWh less than in the corresponding period for the previous year (39.5 TWh). In each of the first nine months of 2016, the production level was similar in each successive month, just as it was the case in the same period of the previous year. The decline in production was driven by changes in net electricity flows between Poland and the systems in its neighbouring countries.

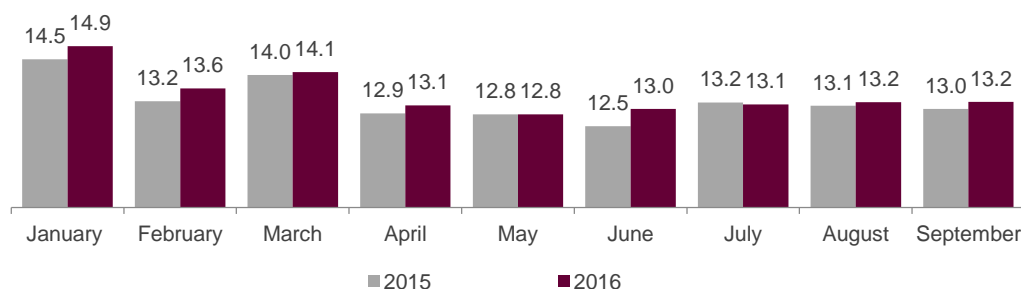
*Production of electricity in Poland in the first nine months of 2015 and 2016: (TWh)*



Source: TSO

Domestic consumption of electricity in Poland in the first nine months of 2016 was 39.5 TWh, which was 0.2 TWh more than in the same period of the previous year (39.3 TWh). The highest period to period monthly increase in electricity consumption, i.e. by 0.5 TWh, occurred in June.

*Consumption of electricity in Poland in the first nine months of 2015 and 2016: (TWh)*

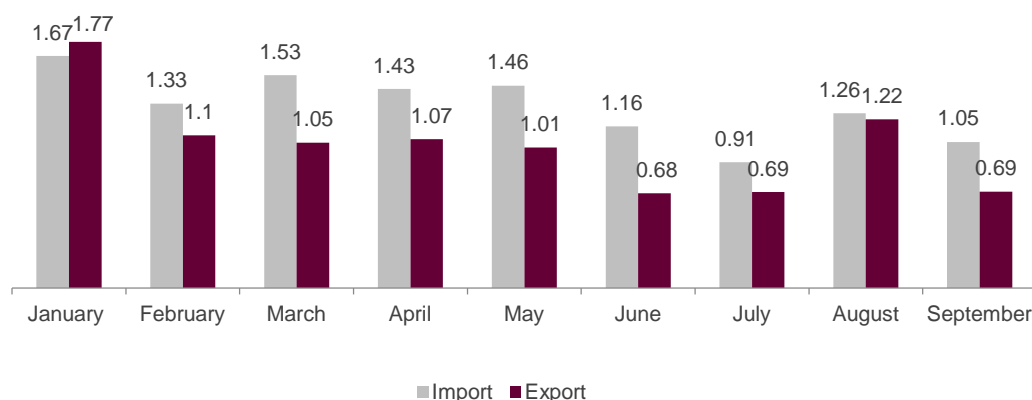


Source: PSE

### ***Poland's inter-system exchange***

The launch of the LitPol Link, a new interconnector between Poland and Lithuania and the Nordbalt interconnector between Lithuania and Sweden, coupled with a continuous increase in electricity imports from Ukraine led to a change in the direction of electricity flows during the first nine months of 2016 compared to the corresponding period of the previous year. As a result of these factors, during the first nine months of 2016 Poland was a net importer of electricity at 0.62 TWh, compared with net electricity exports of 0.26 TWh in the corresponding period of the previous year.

*Monthly volumes of intersystem exchange in Poland in the first nine months of 2016 (TWh)*



Source: TSO

### ***Energy prices in neighbouring countries***

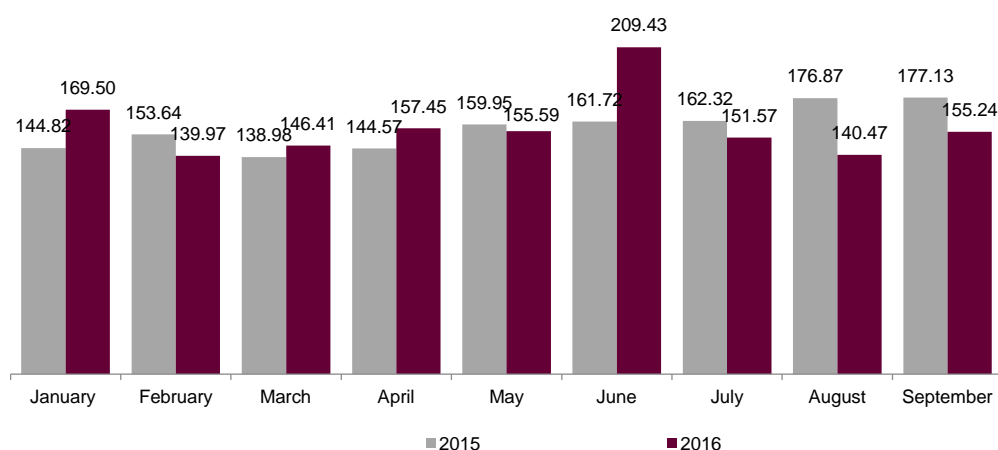
In order to compare energy prices in Poland to those in the neighbouring countries, SPOT market prices are commonly used as reference products. In the first nine months of 2016, average electricity prices in Poland were higher than they were in the neighbouring countries.

*Electricity prices on the SPOT market in Poland and in neighbouring countries in the first nine months of 2016*

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

In the first nine month of 2016, the average monthly level of the IRDN 24 index was 158.40 PLN/MWh, which was 0.63 PLN/MWh higher than during the corresponding period of 2015. The largest average monthly increase in prices in 2016 compared to 2015 was by 47.71 PLN/MWh or 29.5 per cent., in June and the largest drop in prices in 2016 compared to 2015 was by 36.40 PLN/MWh or 20.58 per cent., in August.

Monthly average prices on the IRDN 24 index during the first nine months of 2016 and 2015 (PLN/TWh)



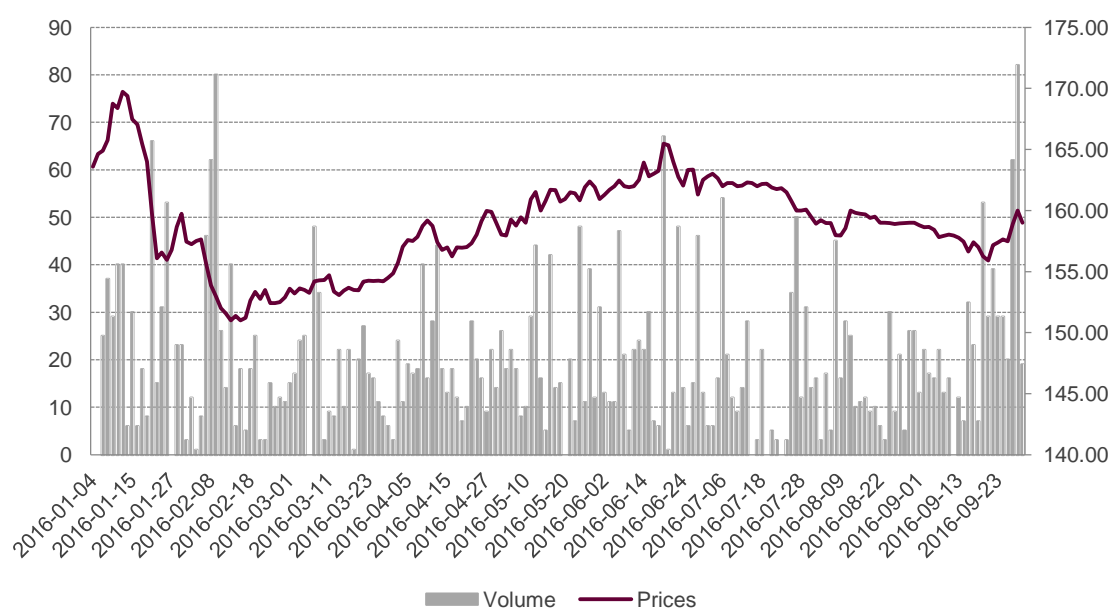
Source: TGE

In August 2016, the average SPOT market price (140.87 PLN/MWh) fell almost to the lowest level on the market, which happened in February of this year 139.97 PLN/MWh. In September, due to the high system losses suffering a seasonal increase and record high domestic demand for electricity and lower than expected windiness, the average price rose by 10.52 per cent. m/m to 155.24 PLN/MWh.

#### Electricity forward market in Poland

During the first nine months of 2016, the electricity forward market has been on an overall downward trend (with some volatility), as shown by the chart below, reaching the minimum of 155.91 PLN/MWh on 21 September 2016 before rising to 159.99 PLN/MWh on 29 September 2016.

Price of forward contracts – base with delivery in 2017 during the first nine months of 2016



Source: TGE



### Emission allowance market

In the beginning of 2016, there was a crash on the market for CO<sub>2</sub> emission allowances, which led to a decline in prices from above 8 EUR/ton in January 2015 to below 4 EUR/ton in the first days of September (3.93 EUR/t, which is the lowest level in 28 months). From mid-September, the market increased, ending the month at the level of 4.97 EUR/t.

*EUA emission allowance prices during the first nine months of 2016*



Source: Bloomberg

### Property rights market

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

Average levels of property rights indices listed on the Polish Power Exchange during the first three quarters of 2016

Index (type of certificate)	Average Index Value			Redemption Obligation (%)	Substitution Fee PLN
	Q1 2016 (PLN/ MWh) with 2016 index	Q2 2016 (PLN/ MWh) with 2016 index	Q3 2016 (PLN/ MWh) with 2016 index		
OZEX_A (green)	114.54	91.46	49.12	15.0 (14.35)**	300.00*
KGMX (yellow)	118.58	119.73	120.60	6.0*	125.00*
KECX (red)	10.80	10.74	10.63	23.2*	11.00*

\*\* redemption obligation in the first half of 2016 (15 per cent.), in the second half of 2016 this is broken down into: green 14.35 per cent., blue 0.65 per cent.

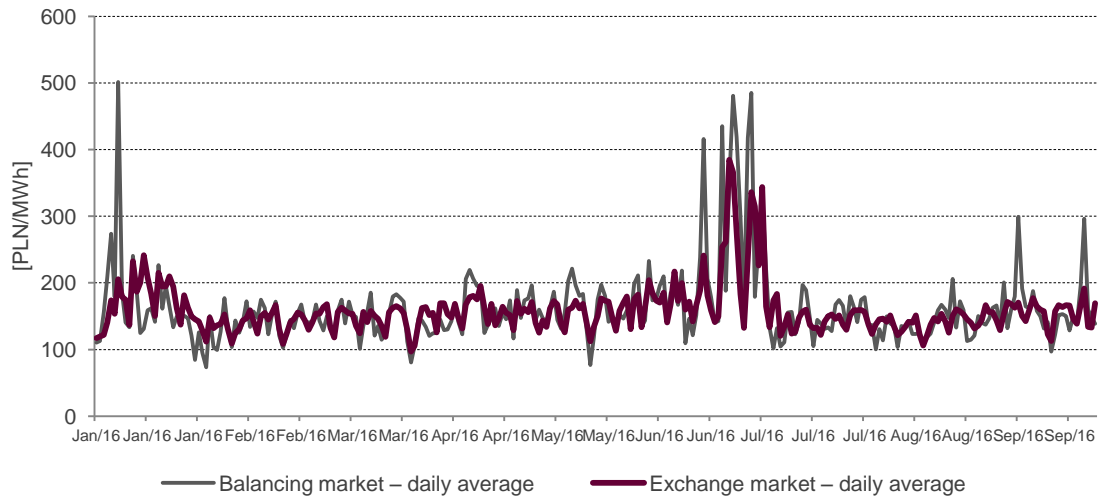
\* value of the substitution fee and redemption obligation in 2016

From the standpoint of the Group's generation structure (which maintains a high percentage of RES production) the quotations of the green property rights are the most important. In the first three quarters of 2016, the prices of RES property rights in session transactions kept falling, closing the third quarter at 32.69 PLN/MWh, which is the historic minimum for this instrument.

### Balancing Market

During the first nine months of 2016, electricity prices on the balancing market were mostly similar to day-ahead market prices. However, there were significant disparities in January, June and two days in September.

*Prices on the balancing market and SPOT (exchange) market during the first nine months of 2016*

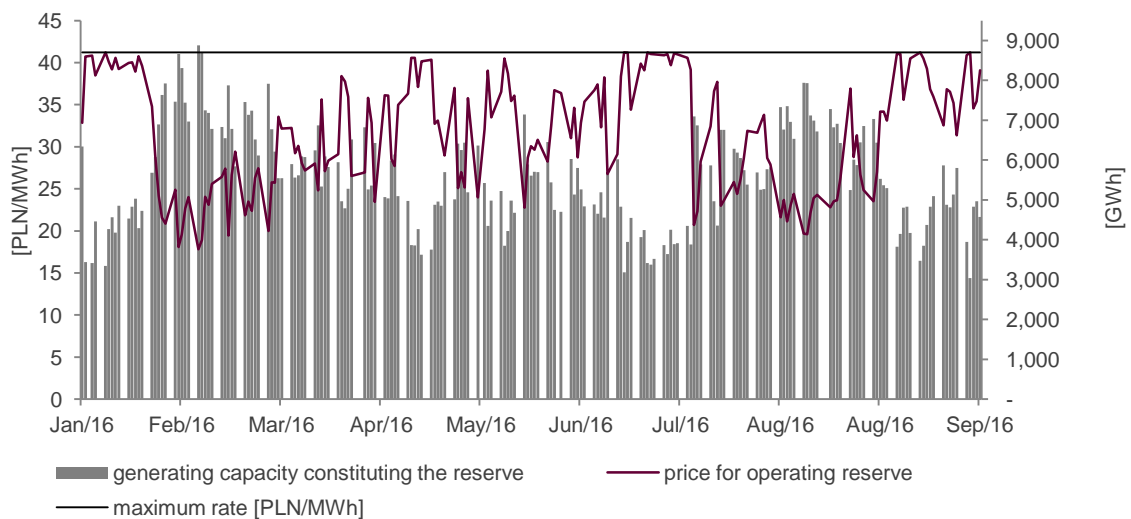


Source: TGE, PSE

### Operating reserve

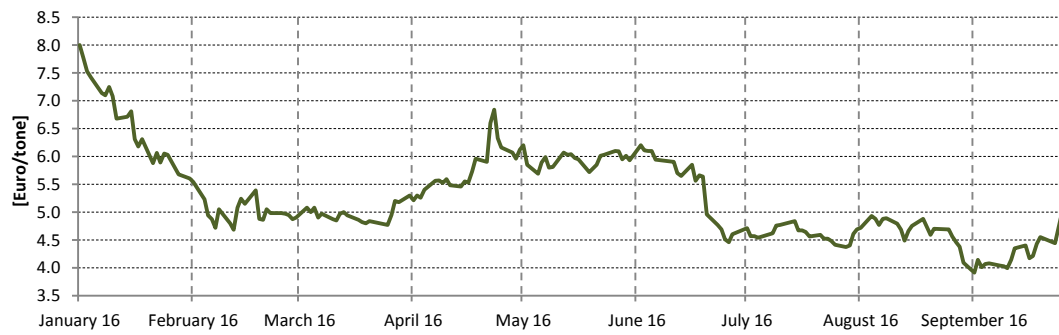
In 2016, the operating reserve service was continued, while its governing rules changed slightly compared to the previous year. The reference price was raised to 41.20 PLN/MWh. In addition, a monthly and annual settlement of the operating reserve were implemented in order to expend the remaining operating reserve capacity budget in the case that daily settlements do not exhaust it fully. In the third quarter of 2016, the average fee for the operating reserve service was PLN 30.94, which was PLN 3.55 less than in the corresponding period of the previous year.

### Prices and generating capacity constituting operating reserve during the first nine months of 2016



Source: TSO

### *Cost of Emission Allowances*



*Source: Bloomberg*

In the first nine months of 2016, the prices of EUAs averaged EUR 5.30/t. In the first three months a substantial decline took place. In April and May, the prices increased following a rebound on commodity markets. At the end of June 2016, a record price decline took place. This was accompanied by turbulence in financial markets following the Brexit referendum in the U.K. From July, the prices of allowances remained low, although they increased slightly during September.

## Strategy

### *Strategy – Overview*

The Group's strategic areas of business development and value creation relate to "Infrastructure" and "Customer". The aim is to secure the position of the Group as an innovative and customer-oriented utility group, with a stable business (assuming sufficiently predictable regulations). Within each of the two areas, certain strategic objectives and programmes have been proposed as discussed below.

The Group's overall objective is to generate annual EBITDA totalling PLN 2.4 billion by 2020 and PLN 3.0 billion by 2025. Achieving these objectives will depend on many variables, not least that market conditions are stable, and there can be no assurance that these objectives can or will be achieved.

#### 1. *Infrastructure*

***Developing modern energy infrastructure in a way that makes it possible to have a stable revenue base, dependent mainly on the quality of services provided rather than on current market conditions***

The Group aims to anticipate the future requirements of the Polish electrical power system, balancing the interests of all stakeholders of the Group. This is to be achieved through a continued focus on the regulated business and by relying on strategic partnerships in investment projects in order to build shareholder value.

In particular, four programmes are envisaged as follows:

##### 1. *Expanding the smart electricity distribution grid*

The key targets for this programme are:

- the introduction of 100 per cent. remotely operated metering systems (smart meters): 75 per cent. are to be introduced by 2020 and 100 per cent. by 2025; and
- meeting the requirements of the quality-based tariffs: namely SAIDI, SAIFI and targets related to connection time.

The Group is planning to expand its smart electricity distribution grid. The strategic plans pertaining to advanced metering infrastructure relate mostly to customer-oriented programmes, because a large part of the services and products that may be launched are dependent on the installation of smart meters. The dependability of power supplies in Group-operated distribution grids are vital to the financial outcomes from this part of the Group's business.

##### 2. *Fiber optic infrastructure*

The key target for this programme is providing broadband web access, mainly using existing assets. The Group has a broadband network in some of its operating areas. Its capacity is under utilised as it is used only to meet the Group's internal needs. The Group believes that it should be possible to commercialise the existing infrastructure and thereby generate additional revenue. ENERGA is currently investigating this possibility and aims to prepare a business plan by the end of 2017. The total length of the ENERGA Operator optic-fibre network is approximately 5,300 km and approximately 1,700 km is presently used for data transmission by the Group.

##### 3. *Expansion of infrastructure*

The key targets for this programme are:

- construction of a new coal-fired power unit of approximately 1,000 MWe in Ostrołęka; and

- maintaining and developing the current CHP business line in Ostrołęka.

The Group aims to be ready to commence construction of a new coal-fired unit (Ostrołęka C) in 2018 and to commission the unit by the end of 2023. The strategy is to ensure the project's profitability through participation in the expected capacity market mechanism and a favourable coal supply agreement. The fuel supply agreement has been signed in 2016. Therefore, once the capacity auction has been won, the general contractor of the plant may be formally selected and given a Notice to Proceed to the construction stage.

The Group also plans to construct a new biomass power unit in Kalisz, following a successful auction for electricity from RES. It also intends to invest in existing assets, including the Elbląg CHP plant. The Group anticipates that its average capital expenditure for the CHP business will be approximately PLN 50 million per annum up to and including 2025.

The Group's new strategy in conventional generation responds to both a challenge and an opportunity. The challenge is maintaining the security of electricity supply and the opportunity lies in the scope for growth development offered by the expected capacity market regulations.

#### 4. *Maintaining its strong position in RES*

The key targets for this programme are:

- commencing the Vistula project to construct the second step dam on the Vistula river; and
- increasing the installed capacity of RES by undertaking new projects of up to 50 MW by the end of 2020.

the Group is planning to secure an environmental decision to carry out the second step dam on the Vistula River in 2017 and hopes to obtain a construction permit by 2020; If the final environmental decision is issued in 2017, the Group expects to be able to commission the hydropower plant in 2026. The expected capacity is approximately 80 MW, to be determined in the construction permit.

## 2. *Customer*

The Group plans to roll out a new customer-oriented business model and to develop new business areas with a view to creating approximately 100 new products. The focus is on new sales channels, aligned to three customer segments: individual customers; business customers; and local government and public administration units.

A number of initiatives are envisaged in order to improve efficiency including new organisation of the sales, services and settlement processes (including integration with the processes used by partners and vendors by 2018) and implementing new IT solutions (primarily relating to service, billing and settlements with partners, subcontractors and clients by 2018).

## **Investments and Capital Expenditure**

### ***Investment in PGG***

On 28 April 2016, ENERGA Kogeneracja signed an Investment Agreement specifying the terms and conditions of a financial investment in PGG. PGG operates in coal extraction and production and offers extensive energy resources for the benefit of the Group's power generation entities. The parties to this agreement are ENERGA Kogeneracja, PGE Górnictwo i Energetyka Konwencjonalna S.A., PGNiG TERMIKA S.A., Węglukoks, Towarzystwo Finansowe "Silesia" Sp. z o.o., Fundusz Inwestycji Polskich Przedsiębiorstw FIZAN Polish Corporates Mutual Fund and PGG. PGG will conduct its operations on the basis of selected mining assets, which it will acquire from Kompania Węglowa S.A. (11 mines, four establishments and all the support, management and oversight functions in the KW Head Office will be transferred along with them).

The Agreement seeks to regulate: how the investment is to be made; the basis for collaboration with PGG; the rules for the operation of PGG and its corporate bodies; as well as the rules for the abovementioned parties to divest their investment in PGG. This Agreement requires the recapitalisation of PGG in three stages, with contributions from all investors amounting to a total of PLN 2,417 million.

Within the framework of recapitalising PGG, ENERGA Kogeneracja has undertaken to do the following:

- (a) pay PLN 361.1 million for the newly issued shares in PGG during the initial stage of recapitalisation, pursuant to which ENERGA Kogeneracja will subscribe for 15.7 per cent. of PGG's share capital;
- (b) pay PLN 83.3 million for newly issued shares in PGG during the second stage which (taking into consideration the recapitalisation by the other investors) will result in ENERGA Kogeneracja holding a total of 16.6 per cent. of PGG's share capital; and
- (c) pay PLN 55.6 million for newly issued shares in PGG during the third stage (which is scheduled to be completed by 1 November 2017), which (considering recapitalisation by the other investors) will result in ENERGA Kogeneracja holding a total of 17.1 per cent. of PGG's share capital.

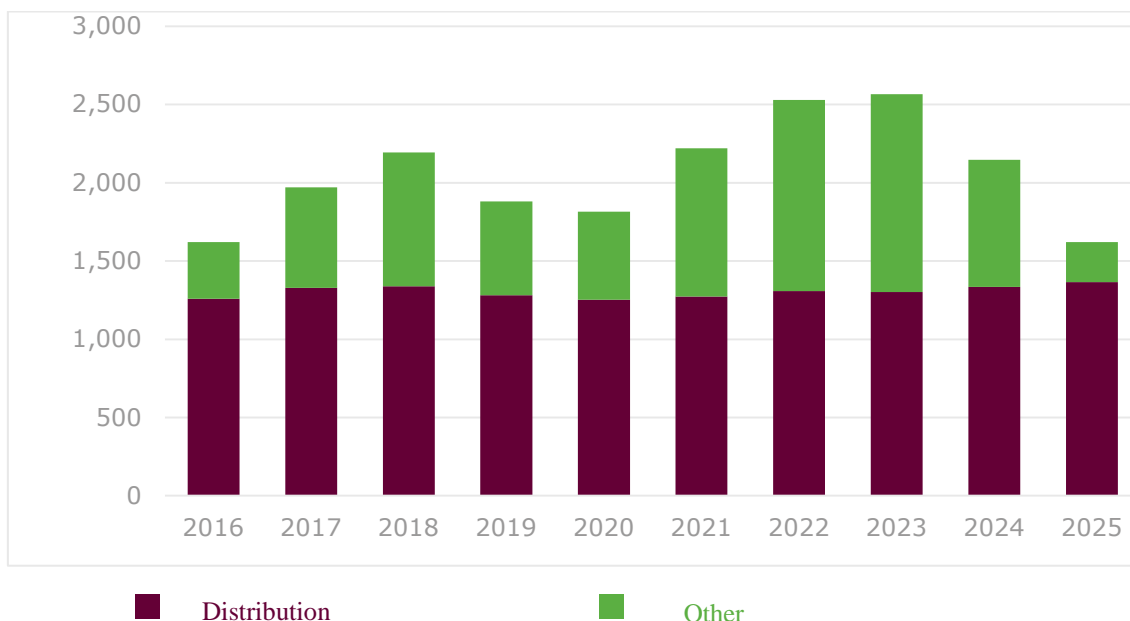
If PGG is able to meet the targets included in the agreed business plan, PGG may start to generate positive cash flow for its investors in 2017. According to ENERGA's estimates, the generated cash flow should make it possible to achieve a rate of return exceeding the cost of capital employed. The Agreement posits the usage of multiple ratios to monitor execution of the business plan. In particular, they pertain to profitability, liquidity, debt levels and PGG's operating efficiency. The Agreement contains clauses requiring the provision of regular information to the investors' representatives relating to compliance with the various ratios prescribed by the Agreement.

## Capital Expenditure

The Group currently plans PLN 20.6 billion in capital expenditures between 2016 and 2025.

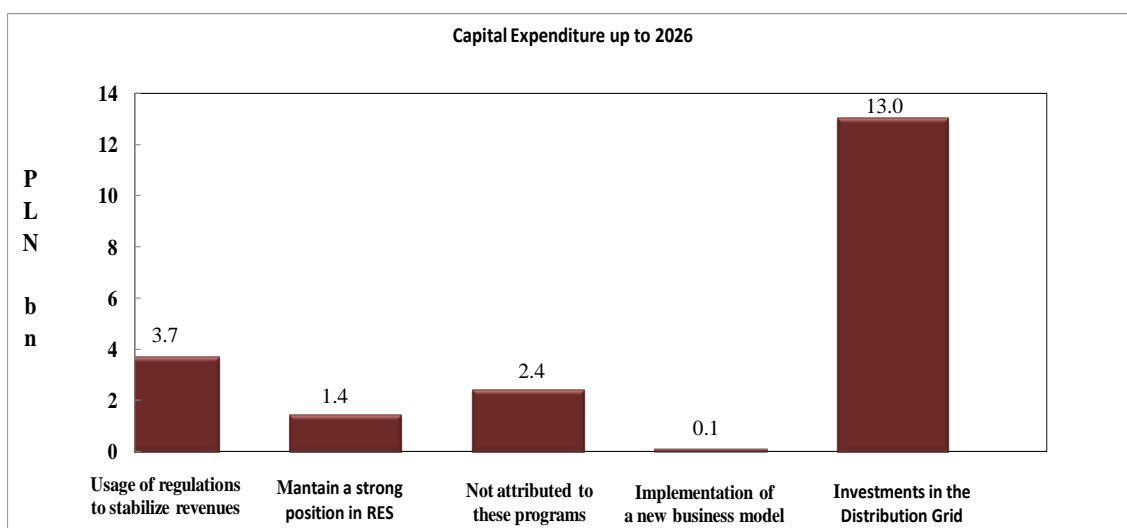
The following chart shows the planned capital expenditure for each year between 2016 and 2025

(PLN m)



The key strategic projects involve (a) expenditure of a total of up to PLN 6 billion on the development and field work relating to the Ostrołęka C power plant, (b) expenditure of a total of up to PLN 1 billion on the planning and development of the Vistula hydropower plant and (c) average capital expenditure of PLN 50 million each year on investments relating to the development, improvement and upgrade of its CHP business line.

The figure below sets out the Group's capital expenditures in light of its strategic aims



## **Competitive advantages**

Management believe that the Group has the following advantages over its competitors:

### ***Regulated business***

The Group, notwithstanding its generation and sales segments, is weighted towards the more attractively regulated electricity Distribution Segment. The Group is the third largest distribution system operator in Poland in terms of the volume of electricity distributed to end-customers. Based on the tariff approved by the ERO President, in the nine-month period ended 30 September 2016, the Group distributed 16.3 TWh of electricity to nearly 3 million end-customers. The Group's distribution business provides predictable and stable cash flows generated from business activities conducted in a geographic area which is a natural monopoly. In the year ended 31 December 2015, the distribution business accounted for 76 per cent. of EBITDA, as compared to, respectively, the 67 per cent., 53 per cent. and 30 per cent. contribution of the distribution business to EBITDA of the other major energy groups in Poland with distribution monopolies: Tauron, ENEA and PGE. Furthermore, the Group's business has seen a steady increase in RAB in recent years (PLN 10.6 billion in 2014 and PLN 11.5 billion in 2016), which contributes to the growth of the regulated revenue from the distribution of electricity.

### ***Diversified production mix***

ENERGA is the largest energy group in Poland in terms of the proportion of electricity generated from RES and Poland's market leader in terms of electricity generated from hydroelectric power plants. Electricity generated from RES represented 42 per cent. of the Group's total electricity generation in 2015 compared to 9.6 per cent., 6.5 per cent. and 4.3 per cent. of Tauron's, Enea's and PGE's total generation respectively. As at 31 December 2015, the RES assets had installed capacity of 559 MW (as at 30 September 2016 this was 505 MW), which in the year ended 31 December 2015 generated 1.7 TWh of electricity (gross), accounting for 11.3 per cent. of Poland's aggregate generation of green energy. The high volume of activity in low-emission energy sources significantly decreases the Group's exposure to the constant risks posed by regulatory changes with respect to environmental protection and fluctuations in the price of CO<sub>2</sub> emission allowances, which significantly affects other large energy groups in Poland.

### ***Strong position in the supply market***

The Group had approximately a 13.4 per cent. share in the sale of energy to end consumers in Poland in 2015, which makes it the third largest energy group in Poland on this basis. The Group's customer base of nearly three million coupled with its expansion plans, gives the Group an opportunity to capitalise on new product sales and optimise its sales process.

### ***Significant capital expenditure***

The Group's operations generate high and stable cash flows. EBITDA amounted to PLN 1,529 million in the nine-month period ended 30 September 2016 and to PLN 2,216 million in the year ended 31 December 2015, with the Distribution Segment contributing 86 per cent. and 76 per cent. of EBITDA, respectively. The Group expects that the stable revenues from operations (in particular the regulated revenue from operations in the electricity distribution segment), constitute a solid basis for the further development of operations and the implementation of investment programmes enhancing the Group's value for shareholders (financed with own funds and with the use of external financing). The Group's favourable financial condition is reflected in the investment grade ratings assigned by two independent rating agencies: Moody's and Fitch. The Group's capital expenditures mainly focus on increasing the reliability of its distribution assets. As a result of this focus, the SAIDI index declined from 286 minutes per customer in 2015 to 228 minutes per customer for the year ended 31 December 2016, with network losses decreasing from 6.4 per cent. for the year ended 31 December 2015 to 4.1 per cent. for the year ended 31 December 2016. The Group also became one of the first participants to implement the advanced metering infrastructure (AMI) on a large scale to create the basis for the construction of a smart grid, increasing operational efficiency and profitability and enhancing the reliability and quality of supply as well as services to customers.



### ***Prudent financial policy***

The Group diversifies its debt capital sources. Aside from its EUR 1 billion Guaranteed Euro Medium Term Note Programme, the Group established, in October 2012, a PLN 4 billion Bonds Programme directed at investors from the Polish capital markets and it has also obtained investment loans from international financial institutions including the EIB, EBRD, NIB and commercial banks. The Group actively monitors and manages the risks associated with financing its large capital expenditure programme taking into consideration the level of financial covenants imposed on the Group by the various finance agreements to which it is a party and rating requirements in the finance agreements to which it is party. Furthermore, the Group actively manages its cash surpluses through zero-balancing cash pooling tools using only liquid and safe instruments. Additionally the Group manages its foreign exchange and interest rate risks through hedging arrangements it has in place. (See further "*Risk related to the inability to obtain future financing, including debt financing, in the context of the realisation of the Group investment programme*").

## Segments

The Group operates in the Polish energy market as one of the four biggest operational holding companies. The Group's business is divided into the following segments: (i) distribution; (ii) generation; (iii) sales; and (iv) other.

In terms of EBITDA, the Distribution Segment is the Group's key segment and it accounted for 76 per cent. of the Group's EBITDA in the year ended 31 December 2015. In the nine months ended 30 September 2016, the Distribution Segment accounted for 86 per cent. of the Group's EBITDA. The main company in the Distribution Segment is ENERGA-OPERATOR, supported by companies providing specialist grid services and grid maintenance services and customer technical support services.

The Generation Segment, which generated 18 per cent. of the Group's EBITDA in the year ended 31 December 2015 (13 per cent. in the nine months ended 30 September 2016), comprises system power stations, hydroelectric power plants, cogeneration plants, wind farms and photovoltaic farms. The Generation Segment also includes the companies within the Group which are responsible for investments in future power generating facilities based on wind energy and gas.

The Sales Segment accounted for 8 per cent. of the Group's EBITDA (after Group-wide consolidation adjustments) in the year ended 31 December 2015 (4 per cent. in the nine months ended 30 September 2016).

The Other Segment includes the companies supporting the three segments through shared service centres comprising accounting, human resources and payroll, administrative and IT services. The tables below show the key financial data of the Group and its segments.

### IFRS financial data of the Group by segment

EBITDA	9M 2016 PLN	Share %	9M 2015 PLN	Share %	2015 PLN	Share %	2014 PLN	Share %
<i>(million)</i>								
Distribution.....	1,310	86%	1,338	78%	1,688	76%	1,537	65%
Sales.....	63	4%	116	7%	172	8%	131	6%
Generation .....	195	13%	306	18%	392	18%	733	31%
Other & eliminations and consolidation adjustments	-39	-3%	-34	-2%	-37	-2%	-44	-2%
<b>Total.....</b>	<b>1,529</b>	<b>100%</b>	<b>1,726</b>	<b>100%</b>	<b>2,216</b>	<b>100%</b>	<b>2,357</b>	<b>100%</b>

Revenue	9M 2016 PLN	Share %	9M 2015 PLN	Share %	2015 PLN	Share %	2014 PLN	Share %
<i>(million)</i>								
Distribution.....	3,077	42%	3,137	39%	4,255	39%	3,997	38%
Sales.....	4,018	54%	4,197	53%	5,740	53%	5,715	54%
Generation .....	788	11%	1,052	13%	1,384	13%	1,823	17%
Other & eliminations and consolidation adjustments	-510	-7%	-429	-5%	-575	-5%	-945	-9%
<b>Total.....</b>	<b>7,373</b>	<b>100%</b>	<b>7,957</b>	<b>100%</b>	<b>10,804</b>	<b>100%</b>	<b>10,590</b>	<b>100%</b>

Capital expenditure	9M 2016 PLN	Share %	9M 2015 PLN	Share %	2015 PLN	Share %	2014 PLN	Share %
<i>(million)</i>								
Distribution.....	875	78%	719	72%	1,123	71%	1,148	78%
Sales.....	76	7%	39	4%	58	4%	38	3%
Generation .....	184	17%	245	25%	392	25%	271	18%
Other & eliminations and consolidation adjustments ...	-20	-2%	-7	-1%	10	1%	20	1%
<b>Total.....</b>	<b>1,115</b>	<b>100%</b>	<b>996</b>	<b>100%</b>	<b>1,583</b>	<b>100%</b>	<b>1,477</b>	<b>100%</b>

Source: Consolidated Financial Statements, Energa S.A.

## 1. Distribution Segment

The Distribution Segment provides the largest share of the Group's EBITDA, and its importance to the Group is increasing. In the year ended 31 December 2015, the Distribution Segment generated 76 per cent. of the Group's EBITDA (before taking account of the "Other segment" and as a result of Group-wide consolidation adjustments) (compared with 86 per cent. in the nine months ended 30 September 2016). In terms of the volume of energy supply, the Group is the third largest integrated distribution system operator in Poland.

In the year ended 31 December 2015, the Distribution Segment revenue accounted for 39 per cent. (before taking account of the "Other segment" and as a result of Group-wide consolidation adjustments) of the Group's revenue (compared with 42 per cent. in the first nine months of 2016).

The table below shows the key financial data of the Distribution Segment in the nine month periods ended 30 September 2016 and 2015 and in the years ended 31 December 2015 and 2014.

### *Financial data of the Distribution Segment (in accordance with IFRS)*

The table below shows the key financial data of the Distribution Segment in the nine month periods ended 30 September 2016 and 2015 and in the years ended 31 December 2015 and 2014.

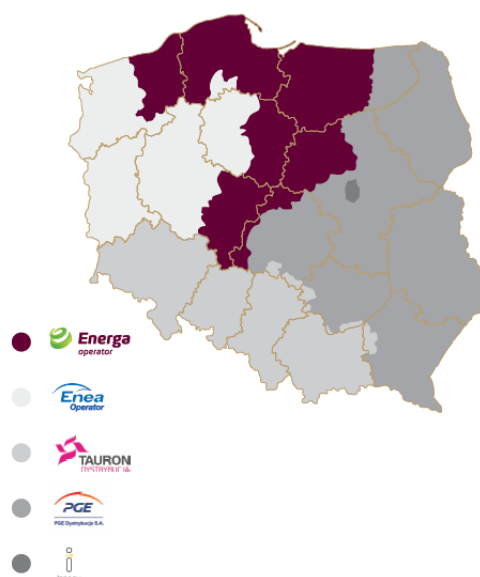
PLN (million)	First nine months			Year ended 31 December		
	2016	2015	Change 2016/2015	2015	2014	Change 2015/2014
Revenues.....	3,077	3,137	-1.9%	4,255	3,997	6.5%
EBITDA.....	1,310	1,338	-2.1%	1,688	1,537	9.8%
Net profit.....	552	563	-2.0%	667	599	11.4%
CAPEX.....	875	719	21.7%	1,123	1,148	-2.2%

The Distribution Segment is centred around ENERGA-OPERATOR, as the DSO, and its subsidiaries. ENERGA-OPERATOR has its head office in Gdańsk and six local branches in Gdańsk, Kalisz, Koszalin, Olsztyn, Płock and Toruń. The subsidiaries support the DSO in the performance of its key tasks by providing services in the area of grid maintenance, customer technical services and specialist grid services.

ENERGA-OPERATOR is one of the largest DSOs in Poland. Its territory of operation covers northern and central Poland and totals approximately 75,000 square kilometres, i.e. approximately one-quarter of the country (see map below). Currently, ENERGA-OPERATOR company serves 3 million customers, including approximately 2.7 million individual customers, and its share in the Polish energy distribution market amounted to 16.7 per cent. in 2015 (according to ENERGA-OPERATOR's internal sources).

### Map of the Distribution System Operators' territories of operation in Poland

The diagram below illustrates ENERGA-OPERATOR's territory of operation.



The distribution activity of ENERGA-OPERATOR is carried out pursuant to a licence granted by the President of the ERO. Pursuant to this licence, ENERGA-OPERATOR enjoys a monopoly on distribution activity in the territory where its distribution assets are located.

In 2015, ENERGA-OPERATOR transmitted 21.5 TWh of electricity through 182,000 kilometres of high, medium and low voltage lines, both overhead and cable. Its existing infrastructure in this regard has scope for greater capacity as over 75 per cent. of the medium and low voltage distribution lines are utilised only up to 50 per cent. of their actual distribution capacity. Apart from the power lines, ENERGA\_OPERATOR'S assets include 61,000 transformers with a total capacity of 19,000 MVA, 60,000 power substations and around 1 million connections.

The table below sets out data on the assets used by ENERGA-OPERATOR in the course of its operations.

#### Grid assets of ENERGA-OPERATOR

Asset	Unit	As at 30 June 2016	As at 30 June 2015	As at 31 December 2015	As at 31 December 2014
Total length of overhead lines, including:	km	131 873	134 246	131 980	134 325
High voltage .....	km	6 386	6 384	6 384	6 384
Medium voltage .....	km	55 438	55 301	55 495	55 314
Low voltage .....	km	70 049	72 561	70 101	72 627
Total length of cable lines, including: .....	km	52 191	50 161	50 065	49 367
High voltage .....	km	41	38	38	38
Medium voltage .....	km	12 442	12 065	12 053	11 842
Low voltage <sup>(1)</sup> .....	km	39 708	38 058	37 974	37 487
Total length of lines .....	km	184 064	184 407	182 045	183 692
Total capacity of transformers .....	MVA	18 771	17 953	18 715	17 851
Total number of transformers .....	pcs	60 901	59 577	60 160	59 320
Total number of power substations, including: .....	pcs	59 940	59 429	59 695	59 182
Total number of transformer substations ..	pcs	59 789	59 125	59 343	58 748
Connections .....	pcs	949 812	962 044	946 578	958 333

Source: Consolidated Financial Statements of ENERGA S.A.

Note:

<sup>(1)</sup> Length of lines after conversion per line circuit plus connections

ENERGA-OPERATOR supplies electricity to customers pursuant to combined agreements or on a TPA basis. The combined agreements provide for the sale of both electricity and distribution services to the client. The TPA rule allows the purchase of energy by a customer from any supplier holding an electricity trading licence which the customer chooses (see further "*Regulatory Environment—TPA rule*").

The customers to whom ENERGA-OPERATOR provides distribution services under combined agreements account for 93 per cent. of all its customers. In 2014-2015, there was a small increase in the distribution service only agreements concluded by ENERGA-OPERATOR.

#### ***Number of customers of ENERGA-OPERATOR***

The table below sets out the number of customers of ENERGA-OPERATOR as at 31 December in each of 2014 and 2015 and as at 30 September in each of 2015 and 2016.

<b>Number of customers in units</b>	<b>As at 30 September</b>		<b>As at 31 December</b>	
	<b>2016</b>	<b>2015</b>	<b>2015</b>	<b>2014</b>
Number of customers.....	2,996,078	2,969,255	2,971,950	2,966,328

The revenue from the sale of distribution services to end users accounted for 91 per cent. of the net sales revenue of the Distribution Segment in 2015 (93 per cent. in the nine months ended 30 September 2016). The Distribution Segment's other revenue comprised revenue from the sale of transit services (sale of distribution services to neighbouring distribution companies) and revenue from connection fees.

#### ***Sales volume of the distribution services of ENERGA-OPERATOR***

The table below shows the sales volume of distribution services for 2014 and 2015 and in the nine months ended 30 September in each of 2015 and 2016.

<b>Sales of distribution services</b>	<b>First nine months</b>		<b>Year ended 31 December</b>	
	<b>2016</b>	<b>2015</b>	<b>2015</b>	<b>2014</b>
Distribution services sales volume (GWh) .....	16,285	16,034	21,486	20,923

In 2015, the main customers for the distribution services of ENERGA-OPERATOR were tariff B group customers (approximately 35 per cent.), tariff G customers (approximately 25 per cent.) and tariff A customers (approximately 20 per cent.). In 2015, the remaining tariff C and tariff R groups received approximately 20 per cent. of the electricity distributed by ENERGA-OPERATOR. For a description of the different tariff groups see the glossary.

ENERGA-OPERATOR records all work in the network, including interruptions in the supply of electricity to retail customers.

### Level of total network losses of electricity in ENERGA-OPERATOR

The table below sets out the level of total network losses of electricity in ENERGA-OPERATOR for the years ended 31 December in each of 2014 and 2015 and in the nine months ended 30 September in each of 2015 and 2016.

	First nine months		Year ended 31 December	
	2016	2015	2016	2015
<b>Total network losses %</b> .....	4.81*	5.49	6.43*	5.99

\* The slightly higher figure for network losses for 2015 is a result of delayed data capturing of the distribution services as a result of data migration to a new billing system introduced in 4th quarter of 2015. Therefore, the figure given above likely carries over some interruptions from the previous cycle.

### Level of SAIDI and SAIFI indicators of ENERGA-OPERATOR

The table below shows the level of SAIDI and SAIFI indicators of ENERGA-OPERATOR for the years ended 31 December in each of 2014 and 2015 and in the nine months ended 30 September in each of 2015 and 2016 in minutes per customer per year (for all voltages). See the glossary for a description of how each indicator is calculated.

	SAIDI				SAIFI			
	unplanned	unplanned with catastrophic*	planned	total	unplanned	unplanned with catastrophic	planned	total
	minutes per customer per year				interruptions per customer per year			
<b>2014</b> .....	198.3	203.7	58.4	262.2	3.14	3.15	0.39	3.54
<b>2015</b> .....	213.8	239.4	46.4	285.8	3.08	3.09	0.34	3.43
<b>9M 2015</b> .....	183.0	208.0	33.6	241.5	2.47	2.48	0.25	2.72
<b>9M 2016</b> .....	110.4	117.9	35.1	153.1	1.78	1.79	0.24	2.02

\* SAIDI/ SAIFI catastrophic indicators reflect, in the case of SAIDI, the number of minutes of failure per customer per year and, in the case of SAIFI, the number of interruptions per customer per year attributable to atmospheric events (gales, heavy snowfalls etc.).

The higher level of SAIDI and SAIFI reliability indicators achieved by ENERGA-OPERATOR in 2015, in comparison with 2014 and 2016, is a result of mass infrastructure failures caused by unfavorable weather conditions in January and July 2015 in ENERGA-OPERATOR's area of operations as shown in the table above.

### Tariff Policy

ENERGA-OPERATOR's revenue from distribution activities is regulated by the ERO. The DSO tariff model, as determined by the ERO, is based on the principle of reimbursement of the operating costs incurred by an operator, plus a margin to represent return on capital engaged in the operations. The tariff is set every year by the President of the ERO and is based on the regulated revenue reported by the relevant DSO. Regulated revenue is calculated based on the costs incurred by the distribution company in connection with its distribution activities, to the extent considered to be justified by the President of the ERO, and the return on the capital engaged in the grid activity. The costs relating to distribution activity include operating costs, depreciation, taxes on grid assets, and costs of the purchase of electricity to cover network losses and transferred costs (i.e. costs of transmission services). The return on the capital engaged is calculated according to the RAB and the set weighted average cost of capital (this was set at 5.7 per cent. in 2016, 7.2 per cent. in 2015 and 7.3 per cent. in 2014). Starting with the tariff for 2016, the return is adjusted by the Regulatory Parameter (this is a discretionary factor applied by the ERO and the parameter range is 0.9-1.1) and, from the tariff for 2018, also this will be adjusted by the Quality Parameter (this relates to the implementation of the Quality Regulation; the parameter range is 0.85-1.00). The structure of regulated revenue accepted by the President of the ERO as a base for the 2014 to 2017 tariffs is presented in the table below. The tariff structure in effect incentivises a DSO to manage both its operating costs and investments as efficiently as possible.

**Structure of regulated revenue accepted by the ERO as a base for the tariffs for 2014 to 2017**

The table below sets out the structure of regulated revenue accepted by the President of the ERO as a base for the tariffs for 2014 to 2017.



## 2. Generation Segment

The Generation Segment includes the generation of electricity and heat from conventional sources (power stations and co-generation plants) and electricity from renewable sources (based on wind, water, solar and biomass). The Generation Segment accounted for 18 per cent. of the Group's EBITDA (before taking into account figures of the "Other segment" and as a result of Group-wide consolidation adjustments) for the year ended 31 December 2015 (13 per cent. in the nine months ended 30 September 2016) and the segment's total revenue in 2015 accounted for 13 per cent. of the Group's total revenue (before taking into account figures of the "Other segment" and as a result of Group-wide consolidation adjustments) (11 per cent. in the nine months ended 30 September 2016).

### *Financial data for the Generation Segment (in accordance with IFRS)*

The table below sets out the key financial data of the Generation Segment for the years ended 31 December in each of 2014 and 2015 and the nine months ended 30 September in each of 2015 and 2016.

PLN	First nine months			Year ended 31 December		
	2016	2015	Change 2016/2015	2015	2014	Change 2015/2014
	(million)	(million)		(million)	(million)	
Revenue .....	788	1,052	-25.1%	1,384	1,823	-24%
<b>EBITDA .....</b>	<b>195</b>	<b>306</b>	<b>-36.3%</b>	<b>392</b>	<b>733</b>	<b>-47%</b>
Net profit .....	-275	98	-380.6%	115	384	-70%
CAPEX .....	184	245	-24.9%	392	271	45%

\* Net profit for the nine months ended 30 September 2016 includes a PLN 441 million reversal of impairment losses on fixed assets.

The Generation Segment has five business lines: Ostrołęka B, Hydro, Wind, CHP and Other and Adjustments (which includes photovoltaics). The leading generation company in this segment is ENERGA Wytwarzanie which manages the generation operations of the Group and is responsible for the implementation of strategic objectives. The Generation Segment also contains companies that provide maintenance services.

### *EBITDA of the Generation Segment, by business line*

The table below sets out the EBITDA of the Generation Segment by business line for the years ended 31 December in each of 2014 and 2015 and the nine months ended 30 September in each of 2015 and 2016.

PLN	First nine months			Year ended 31 December		
	2016	2015	Change 2016/2015	2015	2014	Change 2015/2014
	(million)	(million)		(million)	(million)	
Hydro .....	67	132	-49%	155	283	-45%
Wind .....	11	47	-76%	73	79	-7%
Ostrołęka B .....	82	116	-29%	149	339	-56%
CHP .....	26	21	22%	39	40	-2%
Other and adjustments .....	9	-10		-24	-9	
<b>Total EBITDA .....</b>	<b>195</b>	<b>306</b>	<b>-36%</b>	<b>392</b>	<b>733</b>	<b>-47%</b>



## Location of the Group's power plants

The map below shows the location of the Group's power plants.



The Group's generation of electricity generated from renewable energy sources is primarily from hydro power plants. Green energy is produced in 46 hydro power plants, five wind farms, in a biomass-fired installation (owned by ENERGA Kogeneracja and ENERGA Elektrownie Ostrołęka) and in two photovoltaic farms. Information about the specific energy capacity of the Group's main generation sources as at 30 September 2016 is given below:

### 1. Hydro power plants:

In Poland there are 727 hydroelectric power plants, 46 of which are managed by the Group. These include:

- 1.1 large hydroelectric power: a hydroelectric power plant in Włocławek (162 MW) and pumped storage in Żydowo (157 MW); and
- 1.2 44 smaller hydroelectric power plants (46 MWh), of which the vast majority are located in the northern part of the country.

### 2. Five wind farms (total capacity 211 MW):

- 2.1 Bystra - consisting of 12 wind turbines, model Gamesa type G-90, with a total installed capacity of 24 MW;
- 2.2 Karcino - consisting of 17 wind turbines, model Vestas type V90-3, with a total installed capacity of 51 MW;
- 2.3 Karścino - consisting of 60 wind turbines, model Fuhrländer type FL MD77, with a total installed capacity of 90 MW;

- 2.4 Myślino - consisting of 10 wind turbines, model Gamesa type G-97, with a total installed capacity of 20 MW; and
  - 2.5 Parsówek - consisting of 13 wind turbines, model Gamesa type G-90, with a total installed capacity of 26 MW.
  3. Photovoltaic farms near Gdansk (1.6 MW) and in Czernikowo (3.8 MW);
  4. System power plant in Ostrołęka (677 MW, new heat source EEO B – 220 MW);
- The power plant in Ostrołęka is the largest producer of electricity and heating in north-eastern Poland. The power plant has been operating since 1972. It is the only power plant in the north-eastern region of the power plant system that is operated to ensure safe operation of the National Power System. The output of its power units is necessary to maintain the levels of supply in the region. This plant consists of three blocks. The total power capacity is 677 MW, which represents almost 2 per cent. of the power system of Poland. Generated electricity is discharged at a voltage of 220 kV (units 1 and 2) and 110 kV (unit 3).
5. Other CHP plants (82 MW, 441 MW).

The total generation capacity of the Group's power plants amounts to approximately 1,340 MWe (as at 30 September 2016), accounting for 3 per cent. of the total generation capacity in Poland (based on 2015 figures). The energy generation capacity at the Group's power plants is based on diversified fuels, principally coal, wind and water.

#### ***Energy and heat installed capacity***

The table below sets out the maximum energy and heat capacity as at 31 December in each of 2014 and 2015 and as at 30 September in each of 2015 and 2016.

<b>MW</b>	<b>As at 30 September 2016</b>	<b>As at 30 September 2015</b>	<b>As at 31 December 2015</b>	<b>As at 31 December 2014</b>
Energy installed capacity .....	1,340	1,361	1,365	1,361
including. RES.....	505	555	559	555
Heat installed capacity .....	661	1,123	1,123	904
including. RES.....	65	123	123	77

The decrease in installed capacity for the production of heat power in 2016 was due to two reasons: firstly, the decommissioning of CHP plant A in Ostrołęka and its replacement by a new heat source (that began production in 2014); and secondly, the decommissioning of part of the CHP plant in Kalisz.

According to the Report on the Activity of the President of the ERO in 2015, the Group generated 4.1 TWh of energy, representing approximately 3 per cent. of the total energy generated in Poland. 57 per cent. of the energy generated by the Group in 2015 came from conventional coal-based sources, whilst the remaining 43 per cent. came from RES (mainly the Group's hydroelectric power plants). In the nine months ended 30 September 2016, the Group's gross production was 2.7 TWh of electricity and 68 per cent. of the Group's gross electricity production originated from hard coal, 21 per cent. from hydro, 9 per cent. from wind and 1 per cent. from biomass. At 30 September 2016, the Group had 0.5 GW installed capacity in renewable energy sources, in which the Group's gross electricity production reached 836 GWh.

#### ***Energy production level at the Group by source***

The table below shows the energy production levels for the years ended 31 December in each of 2014 and 2015 and for the nine month periods ended 30 September in each of 2015 and 2016 by generation source.

<b>GWh</b>	<b>First nine months</b>		<b>Year ended 31 December</b>	
	<b>2016</b>	<b>2015</b>	<b>2015</b>	<b>2014</b>
Power plants - coal-fired.....	1,785	1,742	2,226	3,109
Power plants - biomass co-fired .....	10	463	609	643

GWh	First nine months		Year ended 31 December	
	2016	2015	2015	2014
CHP plants - coal-fired .....	71	91	131	153
CHP plants - biomass-fired .....	28	18	24	20
Power plants – hydro .....	556	546	687	837
Pumped-storage plant.....	21	22	37	34
Power plants – wind.....	238	286	419	308
Power plants – photovoltaics .....	5	4	4	0
<b>Total electricity production.....</b>	<b>2,714</b>	<b>3,172</b>	<b>4,136</b>	<b>5,103</b>
incl. RES.....	836	1,317	1,743	1,808

The overall decline in production was due, among other things, to overhauls of units at the power plant in Ostrołęka (to ensure that they meet new environmental standards) and lower demand. Additionally, absence of the biomass-fired production in the Ostrołęka power plant was caused by the coming into force of the RES Act (on 1 January 2016), which reduced support for large biomass co-fired sources and the fact that co-firing is not economical with the current market prices of green certificates.

#### *Sale and distribution of heat*

Besides electricity production, the Generation Segment also provides heat. The segment's participation in local heat sale and distribution by city is shown in the table below (for the year ended 31 December 2015).

City in Poland	Sale of heat	Distribution of heat
	(%)	
Ostrołęka.....	100	100
Elbląg.....	87	0
Kalisz.....	100	100
Żychlin.....	100	100
Winnica.....	100	0
Wyszogród.....	100	0

The principal cities in which the Group produces and distributes heat are:

- Ostrołęka: The Group is the sole producer and distributor of heat in the city of Ostrołęka. In addition, the Group provides heat for industrial plants in the city of Ostrołęka and adjacent areas.
- Elbląg: The Group is the main source of heat supply to the city of Elbląg. In addition to the activities of the Group in the city, there is an additional source of power of 40 MW (the owner of which is Elbląskie Przedsiębiorstwo Energetyki Ciepłej which is also the sole distributor of heat in the city).
- Kalisz: The Group is a major producer and distributor of heat in Kalisz. In Kalisz, there are two other main sources of heat supply: (i) CHP Kalisz thermal with a capacity of 128MW and 8MW of electricity; and (ii) Rejonowa heating plant with a thermal capacity of 58 MW and 6MW in small (local) gas heating plants.

The Group also supplies heat to smaller cities in Poland, such as Wyszogród city, Winnica city and Żychlin city.

### **Gross heat production**

The table below shows the Generation Segment's gross heat production for the years ended 31 December in each of 2014 and 2015 and for the nine month periods ended 30 September in each of 2015 and 2016.

TJ	First nine months		Year ended 31 December	
	2016	2015	2015	2014
<b>Gross heat production</b> .....	<b>2,729</b>	<b>2,663</b>	<b>3,905</b>	<b>3,853</b>
coal .....	2,559	2,347	3,460	3,638
gas .....	16	17	26	10
biomass .....	154	300	418	204

In 2015, revenue from the sale of energy represented 65 per cent. of the total sales revenue of the Generation Segment, compared to 61 per cent. in 2014. The decrease in the segment's total revenue in 2015 is mainly as a result of changes in legislation in Poland which had adverse consequences (for example, the loss of funding for some RES installations), falling market prices (especially of green property rights) and lower production levels.

### **Total revenue**

The table below shows the Generation Segment's revenue for the years ended 31 December in each of 2014 and 2015 and for the nine month periods ended 30 September in each of 2015 and 2016.

PLN	First nine months		Year ended 31 December	
	2016	2015	2015	2014
	<i>(million)</i>			
<b>Total revenues</b> .....	<b>788</b>	<b>1,052</b>	<b>1,384</b>	<b>1,823</b>
Revenues from energy sales .....	595	692	899	1,109

### **Fuel consumption (including the cost of transportation)**

The table below shows fuel consumption (including the cost of transportation) for the years ended 31 December in each of 2014 and 2015 and for the nine month periods ended 30 September in each of 2015 and 2016.

	First nine months		Year ended 31 December	
	2016	2015	2015	2014
<b>Coal</b>				
Quantity (000s tons) .....	887	895	1,157	1,607
Cost (PLN million) .....	199	221	284	413
<b>Biomass</b>				
Quantity (000s tons) .....	29	312	406	436
Cost (PLN million) .....	11	125	161	176
<b>Total fuel consumption (PLN million)</b> .....	<b>209</b>	<b>347</b>	<b>445</b>	<b>589</b>

The significant reduction of the Group's fuel consumption expenses was caused by three key factors: (i) a change in the fuel mix following the coming into effect of the RES Act (see further *Regulatory Environment – Renewable Energy Sources*) and the fall in market prices of green property rights, (ii) lower unit fuel purchase cost (as a result of lower market prices in Poland of coal and biomass) and (iii) lower energy production in the Group's Ostrołęka power plant for the reasons discussed above.

The table below sets out the cost of the Group's CO<sub>2</sub> emissions for the years ended 31 December in each of 2014 and 2015 and for the nine month periods ended 30 September in each of 2015 and 2016.

PLN	First nine months		Year ended 31 December	
	2016	2015	2015	2014
CO <sub>2</sub> emission allowances (thousand tons CO <sub>2</sub> ), including: .....	1,835	1,814	2,349	3,286
The amount of free CO <sub>2</sub> emission allowances.....	797	1,045	1,408	1,633
Volume of emission allowances purchased.....	1,038	769	941	1,653
Cost of CO <sub>2</sub> purchased (PLN million).....	30	26	33	41

### 3. Sales Segment

The Sales Segment, which comprises electricity sales and customer service, accounts for the majority of the Group's revenue. In 2015, the Sales Segment generated 53 per cent. of the Group's revenue (before taking into account figures of the "Other segment" and as a result of Group-wide consolidation adjustments) (compared to 54 per cent. in 2014). The segment's share in the Group's EBITDA (before taking into account figures of the "Other segment" and as a result of Group-wide consolidation adjustments) amounted to 8 per cent. in 2015 (compared to 6 per cent. in 2014 and 4 per cent. in the nine months ended 30 September 2016).

#### *Financial data for the Sales Segment (in accordance with IFRS)*

The table below shows the key financial data for the Sales Segment for the years ended 31 December in each of 2014 and 2015 and for the nine-month periods ended 30 September in each of 2015 and 2016.

PLN	First nine months			Year ended 31 December		
	2016	2015	Change 2016/2015	2015	2014	Change 2015/2014
	(million)	(million)		(million)	(million)	
Revenues.....	4,018	4,197	-4.3%	5,740	5,715	0.4%
EBITDA .....	63	116	-45.7%	172	131	31.3%
Net profit .....	28	84	-66.7%	119	108	10.2%
CAPEX.....	76	39	94.9%	58	38	52.6%

The Sales Segment is responsible for:

- (i) sales of electricity in the wholesale and retail markets in Poland and Slovakia;
- (ii) customer relations and service (including dealing with issues surrounding customer satisfaction with service);
- (iii) sales of energy-related products and services (including gas); and
- (iv) providing lighting maintenance activities and comprehensive services including the lighting of roads, streets, squares, parks and buildings (undertaken through ENERGA Oświetlenie).

The Sales Segment offers electricity bundled with gas and additional energy-related products and services. This offer is targeted at all customers, regardless of the volume of their electricity consumption.

The Sales Segment concentrates on providing high quality service in all contact channels and on implementing solutions improving the efficiency of service processes and tools. The segment aims to increase customer satisfaction while also optimising costs. In 2015, the segment continued the development of its sales network, which comprises nine proprietary showrooms and 53 partner outlets giving it a total of 62 locations. The Group co-operates with external partners who offer the segment's services and products in sales outlets operated throughout Poland.

In recent years, the highest sales growth was experienced in the dual-fuel offering based on electricity and gas in the business client segment. From the second half of 2016, the segment has extended this offer to retail and SOHO clients.

In addition, due to the increasing level of digitisation of Poland's society, the Group has been developing electronic sales channels, which include internet and mobile sales (e-store).

The principal Group company within the Sales Segment is ENERGA-OBRÓT, which was founded in 2007 in order to comply with the requirements of the Energy Law relating to unbundling, i.e. the separation of the distribution and sales functions of energy by energy companies. The core business of ENERGA-OBRÓT is to purchase energy that is subsequently re-sold to individual and business customers in Poland. The activities of ENERGA-OBRÓT are the principal reason why the Group's sales of energy significantly exceed its own generation levels.

The Sales Segment operates in two markets: wholesale and retail. It also sells energy-related products and services.

### **Wholesale trade**

In 2015, wholesale energy sales accounted for 24 per cent. of the Sales Segment's revenue.

Electricity wholesale trading on the Polish market, both short- and long-term, takes place through bilateral transactions with other market participants (ENERGA-OBRÓT co-operates with energy generating companies and companies trading in electricity) and through the Polish Energy Exchange (*Towarowa Gielda Energii*), internet trading platforms and brokers' platforms. In addition, ENERGA-OBRÓT trades energy-related products, such as gas and property rights. Within the Group and prior to 2015, ENERGA-OBRÓT also provided energy supplies to cover the DSO's network losses. However, in 2015 this contract was auctioned to a third party.

### **Retail trade**

In 2015, retail trade in electricity accounted for 69 per cent. of the Sales Segment's revenue.

Since 2007, the market for the sale of energy to business customers has been fully competitive and the electricity sales tariffs are not regulated by the ERO.

The retail sales market for the tariff G group, i.e. individual customers (including households), is still regulated and the tariffs are required to be approved by the ERO.

The overwhelming majority of electricity is sold by ENERGA-OBRÓT within the area covered by the distribution network operated by ENERGA-OPERATOR. However, since the TPA rule, which allows energy customers in Poland to choose their energy supplier, was introduced to the Polish energy market in 2004 (or 2007 for households), ENERGA-OBRÓT has been intensifying its efforts to expand its sales area whilst maintaining its position in its home markets.

### **Electricity sales by volume**

The tables below shows electricity sales of the Sales Segment by volume for the years ended 31 December in each of 2014 and 2015 and for the nine-month periods ended 30 September in each of 2015 and 2016.

<b>Electricity sales of the Sales Segment</b>	<b>First nine months</b>		<b>Year ended 31 December</b>	
	<b>2016</b>	<b>2015</b>	<b>2015</b>	<b>2014</b>
	<i>GWh</i>	<i>GWh</i>	<i>GWh</i>	<i>GWh</i>
Sales of energy to end users .....	14,366	12,344	16,767	16,364
Sales of energy on the wholesale market, including:.....	3,079	6,467	8,892	9,720
to cover grid losses .....	1,122	-16*	-16*	1,561
balancing market .....	282	184	428	331
other sales.....	1,675	6,299	8,480	7,828
<b>Total energy sales.....</b>	<b>17,446</b>	<b>18,811</b>	<b>25,658</b>	<b>26,084</b>

\* Figures are derived from unaudited financial statements

\*\* the negative volume in 2015 reflects a contract settlement in 2014 which, as a result of the settlement, did not extend over to 2015 as would otherwise have occurred

### Electricity sales by value

The table below shows electricity sales of the Sales Segment by value for the years ended 31 December in each of 2014 and 2015 and for the nine-month periods ended 30 September in each of 2015 and 2016

Electricity sales of Sales Segment	First nine months		Year ended 31 December	
	2016	2015	2015	2014
	PLN million	PLN million	PLN million	PLN million
Sales of energy to end users .....	3,459	3,108	4,235	4,013
Sales of energy on the wholesale market, including: .....	489	1,029	1,402	1,568
to cover grid losses .....	188	-4*	-4*	281
balancing market .....	33	24	56	46
other sales .....	267	1,009	1,350	1,242
<b>Total energy sales .....</b>	<b>3,948</b>	<b>4,138</b>	<b>5,637</b>	<b>5,581</b>

\* the negative volume in 2015 reflects a contract settlement in 2014 which, as a result of the settlement, did not extent over to 2015 as would otherwise have occurred

In 2015, as a result of a decrease in the prices of "green" certificates on the Polish Energy Exchange, the Sales Segment experienced an increase in its margin, despite increasing competition among energy sellers. According to the Energy Law, ENERGA-OBRÓT will have no obligation to purchase electricity from renewable sources with a capacity over 500 kW from 2018, which should positively impact its financial results

### Electricity sales of ENERGA OBRÓT to end users by customer groups

The table below sets out the Sales Segment's sales structure by value and volume in the respective tariff groups for the years ended 31 December in each of 2014 and 2015 and for the nine-month periods ended 30 September in each of 2015 and 2016.

Tariff groups	First nine months		Year ended 31 December			
	2016	2015	2015	2015	2014	2014
	structure by volume	structure by value	structure by volume	structure by value	structure by volume	structure by value
Group A (HV)1 .....	11%	8%	12%	10%	11%	9%
Group B (MV) .....	38%	35%	34%	32%	34%	31%
Group C (LV) .....	23%	26%	22%	26%	23%	27%
Group G (LV) .....	29%	31%	32%	32%	32%	33%
<b>Total .....</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

The biggest share in terms of volume is from industrial customers (tariff group B) with households (tariff group G) being the most numerous group of customers. At 30 September 2016, the Group supplied 2.9 million customers, out of which 2.6 million were tariff group G customers.

### Receivables

The Group has material receivables for energy deliveries. Approximately 70 per cent. of the Group's receivables are receivables due to ENERGA-OBRÓT. The Group closely monitors the age and quality of its receivables.

### ***Ageing of ENERGA OBRÓT's receivables (in accordance with IFRS)***

The table below sets out the ageing of ENERGA-OBRÓT's receivables (in accordance with IFRS) for the years ended 31 December in each of 2014 and 2015 and for the nine-month periods ended 30 September in each of 2015 and 2016.

Receivables PLN (million)	First nine months				Year ended 31 December			
	2016		2015		2015		2014	
<b>Total external receivables.....</b>	<b>1,502</b>	<b>100.0%</b>	<b>1,361</b>	<b>100%</b>	<b>1,457</b>	<b>100.0%</b>	<b>1,454</b>	<b>100.0%</b>
including:								
- current receivables.....	1,082	72.0%	958	70.4%	1,058	72.6%	1,049	72.1%
- overdue up to 1 month.....	109	7.3%	145	10.7%	136	9.3%	135	9.3%
- overdue over 1 month up to 3 months.....	65	4.3%	45	3.3%	51	3.5%	59	4.1%
- overdue over 3 months up to 6 months ...	39	2.6%	23	1.7%	18	1.2%	18	1.3%
- overdue over 6 months up to 12 months.....	29	1.9%	29	2.1%	28	1.9%	26	1.8%
- overdue over 12 months.....	178	11.8%	160	11.8%	167	11.4%	167	11.5%
<b>Bad debts allowance.....</b>	<b>202</b>		<b>193</b>		<b>197</b>		<b>202</b>	
<b>Total receivables (net value).....</b>	<b>1,299</b>		<b>1,167</b>		<b>1,260</b>		<b>1,252</b>	

ENERGA-OBRÓT writes off all successfully disputed receivables and all non-performing debts and receivables which are more than 12 months overdue. Receivables more than 6 months overdue are written off by 50 per cent. In 2015, new write-offs in the amount of PLN 87 million were created and write-offs amounting to PLN 70 million were released. At the same time, write-offs amounting to PLN 36 million were used and the receivables included therein were considered lost.

#### **4. Other areas of activity**

In addition to the segments, the common service centres (operated by ENERGA CUW and ENERGA ITE) also play a key role within the structure of the Group. These centres provide services to Group companies which, as a result of the optimisation of the Group model, have been spun off from various other companies and centralised in order to increase efficiency and obtain economies of scale within separate organisations. ENERGA CUW provides accounting, human resources, payroll and administrative services to the Group. ENERGA ITE provides IT services to Group companies, including, but not limited to, the development and maintenance of IT applications and infrastructure, eWorkplace, IT service desk, innovation services in the area of automatics, telematics and telemetrics and IT support for the investment process.

In addition, the Group is also involved in financing activities that are not connected directly with the Group's core business. ENERGA established RGK Sp. z o.o. in order to restructure the Group's non-core financial and fixed assets in line with its business needs.

#### ***Information Technology Systems***

The Group's information technology architecture is made up of two domains: information systems ("IS") architecture and technology architecture.

##### ***IS architecture***

The Group's IS architecture is based on packaged solutions that are then adapted to satisfy the Group's needs. The application strategy is focused on removing complexity, eliminating legacy applications and standardising of core enterprise-wide application components. Back office support is handled in SAP HANA applications (SAP ERP, HCM, EP), whereas the Group's front office processes are handled in Oracle Utilities products (Oracle Customer Care & Billing, Siebel Energy, WebCenter Portal). Employee workspace is based on Microsoft commodity applications and IBM enterprise content management solutions. To increase the efficiency of the distribution system operations, the Group is investing in smart grid enabling applications and operational technologies, such as SCADA/EMS, DMS, MDM and AMI.

The Group has all the necessary authorisations to use its information systems. The Group attaches importance to the protection of intellectual property rights and all third-party systems and commercially-purchased solutions are used in accordance with third party licensing policies.



### *Technology Architecture*

The Group's shared IT service centre owns and operates the Group's Wide Area Network ("WAN"), a telecommunication network which covers a broad area in Northern Poland. Group members utilise WAN to relay data between employees, clients, buyers and suppliers from various geographical locations with a high level of security. WAN enables the delocalisation of various business processes and facilitates the centralisation and consolidation of applications and technology. The Group has switched from traditional copper-wire telephone systems to VoIP and video conferencing systems. The hardware, storage systems and other components of IS are housed in modern data centres. High bandwidth efficiency and low cost of WAN operations facilitate cost reduction including through reduced travel expenses and telecommunications expenses such as wireless, voice and data transfer expenses.

### *Memorandum of Understanding regarding EDF Assets*

On 20 January 2017, ENERGA accepted an offer made by the Polimex Mostostal S.A. management board to subscribe 37,500,000 series T common bearer shares with a par value of PLN 2 each issued by Polimex Mostostal S.A. at the issue price of PLN 2 and for the total issue price of PLN 75 million. Additionally, on 20 January 2017 ENERGA acquired 1,500,000 Polimex Mostostal S.A. shares from SPV Operator Sp. z o.o.

On 27 January 2017 ENERGA, together with ENEA S.A., PGE S.A. and PGNiG Termika S.A. signed a Memorandum of Understanding with EDF concerning the acquisition of EDF's assets in Poland and due diligence in relation thereto. The transaction includes:

- the acquisition of all shares of EDF in EDF Polska S.A., which is the owner of four CHPs (in Kraków, Gdańsk, Gdynia and Toruń), a district heating network in Toruń, Rybnik power plant; and
- the acquisition of all shares of EDF in Zespół Elektrociepłowni Wrocławskich Kogeneracja S.A., which is the owner of four CHPs (in Wrocław, Zielona Góra, Czechnica and Zawidawie) and district heating networks in Zielona Góra, Siechnica and Zawidawie.

The parties have agreed that a binding proposal, if any, will be submitted following satisfactory completion of due diligence.

## Management

### *Corporate Governance Model*

The Group functions according to the same rules as other capital groups in Poland. It is an organisation consisting of highly specialised, legally independent business entities implementing common commercial aims and permanently linked to each other by capital, organisation and contractual ties. The management of the Group is guided by the Group's strategic vision as implemented by the Management Board of ENERGA, which, driven by its commitment to shareholders, monitors the advisability and efficiency of capital investments, in addition to its managerial functions.

ENERGA is the dominant entity and the company which manages the holding. It plays the role of the corporate centre, manages the Group and sets investment and development objectives.

ENERGA's corporate governance model is a two-tier system, comprising an executive board of directors (the "**Management Board**") and a supervisory board (the "**Supervisory Board**").

The Management Board is ENERGA's managing body and is responsible for its management and for developing and pursuing ENERGA's strategy. The Management Board must comprise at least one and no more than five directors, all of whom undertake executive positions. Members of the Management Board are appointed for a joint three-year term of office. For the first two terms, the Management Board of ENERGA comprised two members: a Chief Executive Officer and a Chief Financial Officer. For the current, fifth term, the Management Board of ENERGA comprises five directors: the Chief Executive Officer, the Chief Financial Officer ("**CFO**"), the Chief Operating Officer ("**COO**"), the Chief Corporate Matter Officer ("**CCMO**") and the Chief Investor Relations Officer ("**CIRO**"), who were appointed by the Supervisory Board on the following dates:

- *Daniel Obajtek* – President of the Management Board. Appointed by way of Resolution of the Supervisory Board No. 29/IV/2017 (such resolution was passed on 10 February 2017);
- *Jacek Kościelniak* – Vice-President of the Management Board and CFO of ENERGA. Appointed by way of Resolution of the Supervisory Board No. 30/IV/2017 (such resolution was passed on 10 February 2017);
- *Alicja Barbara Klimiuk* – Vice-President of The Management Board and COO of ENERGA. Appointed by way of Resolution of the Supervisory Board No. 31/IV/2017 (such resolution was passed on 10 February 2017);
- *Grzegorz Ksepko* – Vice-President of the Management Board and CCMO of ENERGA. Appointed by way of Resolution of the Supervisory Board No. 15/IV/2016 (such resolution was passed on 1 February 2016); and
- *Mariola Anna Zmudzińska* – Vice-President of the Management Board and CIRO of ENERGA. Appointed by way of Resolution of the Supervisory Board No. 33/IV/2016 (such resolution was passed on 19 March 2016).

The Supervisory Board is a supervisory and consultative body and is responsible for among other things, supervising the Group's activities and reviewing and approving important transactions involving the Group. The Supervisory Board must comprise at least five members. All members of the Supervisory Board undertake non-executive positions. For the current mandate of the Supervisory Board, the Supervisory Board comprises six members, including:

- three members who were elected by the general shareholders meeting held on 7 January 2016 (Resolution Nos. 5, 6 and 7); and
- three members who were appointed directly by the State Treasury (Mr. Jacek Kościelniak resigned from representation in the Supervisory Board on 10 February 2017).

In addition, the Articles of Association (*Statut Spółki*) of ENERGA provides that the State Treasury, as majority shareholder, has the right to appoint and dismiss members of the Supervisory Board of ENERGA, for so long as the State Treasury owns at least 20 per cent. of the share capital of ENERGA.

The Management Board, together with ENERGA's executive officers, manages ENERGA's affairs and monitors the daily operation of ENERGA's activities in accordance with Polish law, ENERGA's Articles of Association (*Statut Spółki*) and the rules of procedure for the Management Board. Executive officers are in charge of ENERGA's various administrative departments and report directly to the Management Board. Companies within the Group are managed by their respective boards of directors.

The table below sets out the names of the current directors on the Management Board, along with their principal affiliations and certain other biographical information.

#### Current directors on the Management Board

Name	Age	Position	Year Originally Elected	Most Recent Election
<b>Jacek Kościelniak</b>	53	Vice-president of the Management Board and CFO	2017	11 February 2017
<b>Grzegorz Ksepko</b>	39	Vice-president of the Management Board and CCMO	2016	1 February 2016
<b>Mariola Anna Zmudzińska</b>	43	Vice-president of the Management Board and CIRO	2016	19 March 2016

The current members of the management board do not have any other activities outside the Group that are material in the context of the Group. There are no potential conflicts of interest of any current member of the Management Board between any duties to any member of the Group and their private interests.

#### Incoming members of the Management Board

Name	Age	Position	Year Originally Elected	Appointment commences
<b>Daniel Obajtek</b>	41	President of The Management Board	2017	2 March 2017
<b>Alicja Barbara Klimiuk</b>	58	Vice-president of the Management Board and COO	2017	1 March 2017

The incoming members of the management board do not have any other activities outside the Group that are material in the context of the Group. There are no potential conflicts of interest of any incoming member of the Management Board between any duties to any member of the Group and their private interests.

#### Profiles:

##### *Jacek Kościelniak*

He graduated from the Economic Academy (currently the University of Economics) in Katowice, specialising in finance and accounting. In 1989, he began his professional career as an accountant, finance specialist and chief accountant in private limited liability companies. Then, from 1992 to 1998, he provided accounting, tax, legal and economic advisory services running his own business. He conducted training workshops on the subject of taxes, accounting and mandatory prevention of the introduction of funds originating from illegal or undisclosed sources into financial circulation. He also worked as an auditor for the National Cooperative Savings and Loans Organization (Krajowa Spółdzielcza Kasa Oszczędnościowo-Kredytowa). From 1998 to 2002, he served as the Finance Department Director at the Silesian Voivodship Office. He was also the Supervisory Board chairman of the Upper Silesia Regional Development Agency and a supervisory board member of the Upper Silesia Restructuring Fund. He was elected as a Member of Parliament and, during that period, he served as a member of the Parliamentary Public Finance Committee. From January to November 2007, he was Secretary of State in the Prime Minister's Office and Deputy Chairman of the Standing Committee of the Council of Ministers. From 2007 to 2011, he served as the Vice-President of the Supreme Audit Chamber. He acted as an expert in

the twin co-operation project to strengthen the audit potential of the Audit Authority in Georgia and Albania. He has also worked for the EUROSTAT Working Group tasked with the preparation and development of European Public Sector Accounting Standards.

Mr. Jacek Kościelniak is not engaged in any business competitive to that of ENERGA, does not participate as a competitor as a partner in a civil law company or partnership or as a member of a corporate authority of a joint stock or limited liability company and does not engage in any other competitive action either as a legal person as a member of its corporate authority, nor is he listed in the Register of Insolvent Debtors kept pursuant to the National Court Register Act.

*Grzegorz Ksepko*

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

*Mariola Anna Zmudzińska*

She is a graduate of the Faculty of Law and Administration at the Nicolaus Copernicus University in Toruń. She completed an MBA in Post-Graduate Management Studies offered by the Gdansk Foundation for Management Education, at the University of Gdansk and Institut d'Administration des Entreprises – Universite Paul Cezanne – Aix – Marseille III. In 1993, she started her career in the Regional Development Agency in Włocławek. After that, she managed a private business for 10 years collaborating with some of the largest companies in Poland. From July 2006 to August 2007, she was the President of the Management Board of Kongres Sp. z o.o. From July 2006 until August 2008, she was President of the Management Board of Międzynarodowe Centrum Szkolenia Energetyki Sp. z o.o. She prepared the consolidation of training companies in the ENERGA Group. Since 2009, she has worked as Director of the Conference and Training Center at the University of Gdansk. She cooperates with the Scientific Society of Organization and Management. She has lectured and delivered training there on corporate image building, communication, entrepreneurship and business risk. She coordinated and ran projects co-funded by the European Social Fund, Human Capital Operation Program, EQUAL, Leonardo da Vinci, including a project entitled "*Occupational training for the power sector during transformation*". She has also authored articles on law and entrepreneurship. She cooperates with Studia Humanistica Gedanensia and employer organisations domiciled in Pomerania.

### ***Supervisory Board***

The Supervisory Board is responsible for continuous monitoring of the Group's management and for providing advice and support to the Management Board, primarily with respect to strategy, reaching objectives and complying with applicable laws. The Supervisory Board also carries out other supervisory and control functions relating to the Group's activities, and it maintains a mandatory audit committee of three members, which is responsible for overseeing ENERGA's financial data and the auditing of ENERGA.

The table below sets out the names of the members of the Supervisory Board, along with their principal affiliations and certain other biographical information.

#### **Members of the Supervisory Board**

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Year Originally Elected</b>	<b>Most Recent Election</b>
Paula Ziemiecka-Księża	39	Chairman of the Supervisory Board	2014	20 May 2014
Zbigniew Wtulich	57	Deputy Chairman of Supervisory Board	2011	20 May 2014
Agnieszka Terlikowska-Kulesza	49	Member of the Supervisory Board	2016	8 September 2016
Maciej Żółtkiewicz	62	Member of the Supervisory Board	2016	7 January 2016
Marek Szczepaniec	51	Member of the Supervisory Board	2016	7 January 2016
Andrzej Powałowski	65	Member of the Supervisory Board	2016	7 January 2016

The members of the Supervisory Board and executive officers of ENERGA may be appointed as members of governing bodies of other companies. Members of the Supervisory Board of ENERGA may also be employed in government positions, such as the Ministry of Energy. There are no potential conflicts of interest of any member of the supervisory board between any duties to any member of the Group and their private interests.

### ***Executive Officers***

ENERGA has 33 executive officers who are in charge of various business and administrative departments and report directly to the Management Board and the Supervisory Board.

The business address of each member of the Management Board of Directors and each executive officer of ENERGA is at Al. Grunwaldzka 472, 80-309 Gdańsk, Poland. The business address of each member of the Supervisory Board is at Al. Grunwaldzka 472, 80-309 Gdańsk, Poland.

## **Litigation and Investigations**

The Group is involved in certain legal proceedings that are incidental to the normal conduct of its business. The Group does not believe that liabilities relating to such proceedings will have a material adverse effect on its financial condition or results of operation.

As at 31 December 2016, the Group was a party to 9,016 court procedures. The Group was a plaintiff in 7,091 cases, where the aggregate value of the disputed matters is approximately PLN 517 million. The Group was a defendant in 1,874 cases where the aggregated amount of the disputed matters is approximately PLN 440 million.

As at 31 December 2016, the total amount of claims for locating power devices on properties of other parties without the necessary legal title, awarded by final judgments, was approximately PLN 15.8 million in 2,668 cases.

Based on the available data on the possible damages value of pending court proceedings in which the Group is a defendant, the Group estimates that the amount to be paid by it following the conclusion of these disputes may reach PLN 81.7 million. This amount may change if new court proceedings relating to placement of power devices on third party land without the necessary legal title are launched against Group companies.

The aggregate amount of court proceedings in which court and enforcement-based collection is conducted on behalf of and for ENERGA-OBRÓT in respect of amounts due from its customers and bankruptcy cases as at 31 December 2016 was approximately PLN 167 million. This amount excludes a case filed by ENERGA-OBRÓT against ERGO ENERGY Sp. z o.o. in the amount of approximately PLN 12.9 million. None of the proceedings in which the Group is involved exceed 10 per cent. of ENERGA's equity. Further, no pecuniary penalty, fine or other financial liability measures have been imposed that would be equivalent to at least 5 per cent. of the consolidated EBITDA of the Group for 2015.

There are currently ongoing criminal investigations which may involve former employees of the Group, who were not members of the Management Board. The Group does not believe that the investigations are material in terms of scope or the nature of the investigations.

## Material Contracts

In 2016, companies from the Group entered into four material agreements:

### *Electricity Transmission Services Agreement between ENERGA-OPERATOR and PSE*

In connection with the signing by ENERGA-OPERATOR and PSE of an agreement detailing the rules for cooperation between ENERGA-OPERATOR and PSE and the security related thereto in March 2016, cooperation between these two entities was launched. The subject matter of this agreement concerns the provision of electricity transmission services encompassing domestic transmission services and electricity cross-border exchange services rendered by PSE for ENERGA-OPERATOR. This agreement has an indefinite term and can be terminated by either party on 31 December each year, provided that no less than months' notice is given. The estimated value of the agreement over a one year period is PLN 916 million, corresponding to PLN 4,580 million over a five-year period.

### *Long-term Coal Supply Agreement with PGG*

On 2 December 2016, Elektrownia Ostrołęka signed a long-term coal supply agreement (the "**Coal Supply Agreement**") with PGG.

The Coal Supply Agreement provides for the supply of approximately two million tons of coal (base volume) per annum to the planned Ostrołęka C power plant by PGG. The term of the Coal Supply Agreement is 10 years, commencing on the date of commencement of operations of the power plant. The term can be extended for a further 10 years by mutual consent of the parties.

In accordance with the Coal Supply Agreement, the pricing formula for the coal purchased will depend on the profitability of the Ostrołęka C project, ensuring its economic optimisation. The formula links the cost of coal to a specified rate of return on the investment and provides for an appropriate mechanism for sharing future benefits from the capacity market and potential award of free CO<sub>2</sub> emission rights.

The Coal Supply Agreement will be performed according to the prices calculated in accordance with the formula for each quarter, but for the purposes of estimating of the value of this agreement for its 10-year term, the price has been calculated according to the average value of the Polish Steam Coal Market Index ("**PSCMI1**") as at September 2016 and, based on the volume of supply at two million tons per annum, the value of the agreement at real prices as at September 2016 amounts to PLN 3.9 billion.

### *Investment Agreement with Enea S.A. regarding involvement in pre-construction work and in the construction and operation of a new power unit at Ostrołęka C*

On 8 December 2016, ENERGA entered into an Investment Agreement (the "**Enea Agreement**") with Enea S.A. and Elektrownia Ostrołęka (the "**Parties**") regarding the execution of the Ostrołęka C project (the "**Project**"). The subject matter of the Enea Agreement is the preparation, construction and operation of a 1,000 MW-class coal-fired power unit, which is associated with capital expenditures in the amount of PLN 5.5 – 6 million.

According to the Enea Agreement, in principle, the co-operation will be structured around three stages: the Development Stage (which runs up until an instruction is issued to the general contractor to commence the work); the Construction Stage (until Ostrołęka C is commissioned for commercial operations); and the Operation Stage (commercial operation of Ostrołęka C). Upon completion of the Development Stage the Parties are obliged to participate in the Construction Stage provided that the Project is profitable and the Project funding does not breach the Parties' covenants.

It is estimated that ENERGA's capital expenditures until the end of the Development Stage will total approximately PLN 27 million.

In order to execute the Project, ENERGA transferred 50 per cent. of the share capital in Elektrownia Ostrołęka, with a value of approximately PLN 101 million, to Enea.

Based on specific assumptions (including appropriate participation of ENERGA, Enea and any financial investors) and assuming that the Capacity Market or other support mechanisms are introduced, Elektrownia Ostrołęka SA will be able to undertake the comprehensive execution of the Project.

### ***Coal supply contract with PGG to supply coal to Ostrołęka B***

On 27 December 2016, ENERGA Elektrownie Ostrołęka SA signed a contract with PGG to supply coal to Ostrołęka B unit (the "**Ostrołęka B Contract**").

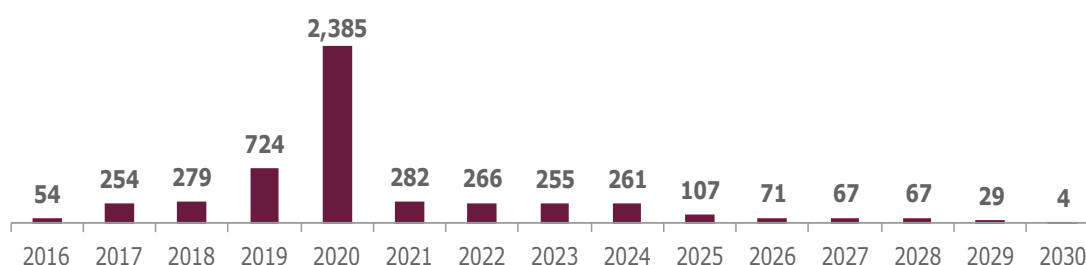
The Ostrołęka B Contract was signed for a definite term from 1 January 2017 to 31 December 2030, with an option to extend its term by mutual consent of the parties. The Ostrołęka B Contract envisages the supply of no less than 350 thousand tons of coal annually by PGG to the Ostrołęka B power plant. For 2017, the parties agreed on the supply of 450 thousand tons of coal.

The estimated value of the Ostrołęka B Contract throughout its term, including the price of coal and transport, is PLN 1.26 billion. According to the Ostrołęka B Contract, the price of steam coal will be negotiated by the parties for each successive calendar year of the term of the Ostrołęka B Contract.

### **Agreements for loans and borrowings**

The following table represents the Group's debt maturity profile as of 30 September 2016.

*(PLN million)*



### ***Loan agreements with multilateral financial institutions***

ENERGA and ENERGA-OPERATOR entered into the following loan agreements to finance the expansion and modernisation of the distribution grid between 2009-2012:

- with the EIB up to a maximum of PLN 1,050 million;
- with the EBRD up to a maximum limit of PLN 800 million; and
- with the NIB up to a maximum limit of PLN 200 million.

Whilst the above funding has been fully utilised by the Group, the following amounts remain outstanding (as at 30 September 2016) and subject to repayment:

- EIB – PLN 741.4 million with final maturity of 15 December 2025;
- EBRD – PLN 479.6 million with final maturity of 18 December 2024; and
- NIB – PLN 124.3 million with final maturity of 15 June 2022.

On 13 November 2014, ENERGA, ENERGA- OPERATOR and EBRD extended and increased the loan agreement of 29 April 2010. The available loan amount (as at the date hereof) is PLN 275.8 million, which has not yet been drawn and, once drawn, is to be used to finance capital expenditures of ENERGA-OPERATOR. As at 31 December 2016, the funds were fully utilised.



### ***Loans to finance the investment programme at ENERGA-OPERATOR for the years 2012-2015***

In 2013, ENERGA and ENERGA-OPERATOR entered into the following loan agreements to finance the capital expenditure programme of ENERGA-OPERATOR for the period of 2012-2015 associated with the expansion and modernisation of the distribution grid:

- with EBRD with a limit of PLN 800 million – as at 30 September 2016, PLN 311.8 million of the loan has been utilised with the final maturity of the loan being 18 December 2024; and
- with EIB with a limit of PLN 1,000 million – as at 30 September 2016, PLN 800.0 million of the loan had been utilised with the final maturity of the loan being 15 March 2030.

As at 31 December 2016 the funds were fully utilised.

### ***Nordic Investment Bank***

On 23 October 2014, ENERGA signed a loan agreement with a limit of PLN 67.5 million with NIB to finance a wind farm construction project in Myślino. On 2 January 2015, the full amount of the loan was disbursed. As at 30 September 2016, the loan in the amount of PLN 63.8 million is still outstanding. The final maturity of the loan is 15 September 2026.

### ***Loans from PKO Bank Polski SA***

ENERGA entered into the following loan agreements with PKO Bank Polski SA:

- A master agreement to extend an overdraft to ENERGA and its subsidiaries with a total limit of PLN 150 million. The commitment expired on 30 August 2016; however, PLN 4 million remains outstanding, including PLN 1 million in the form of bank guarantees.
- A master agreement to extend an overdraft limit to ENERGA and its subsidiaries with a total limit of PLN 200 million. As at 30 September 2016, the total utilised amount was PLN 116 million, out of which PLN 78 million is in the form of bank guarantees. The limit will expire on 19 September 2017.
- An agreement for arranging loans for ENERGA with a total amount of up to PLN 300 million. As at 30 September 2016, the financing has not been used. The commitment will expire on 7 June 2021.

### ***Loans from Bank Pekao SA***

ENERGA entered into the following loan agreements with Bank Pekao SA:

- A renewable loan agreement with a limit of PLN 500 million. As at 30 September 2016, the financing has not been used. The final maturity of any loan drawn will be 29 May 2020;
- A loan agreement in the amount of PLN 85 million to be used to acquire bonds issued by ENERGA Elektrownie Ostrołęka in connection with the implementation of the investment programme of the company. The aggregate use of the loan as at 30 September 2016 was PLN 22 million. The final maturity of the loan is 29 May 2022.

### ***Bonds issue through PKO Bank Polski SA***

In 2012, ENERGA concluded with PKO Bank Polski SA a bond issue agreement where the funds raised under the agreement were to be used to acquire bonds issued by ENERGA Elektrownie Ostrołęka in connection with the implementation of the investment programme. The bonds may only be issued as short-term securities. As at 30 September 2016, no bond issue has been carried out under the agreement. As at 30 September 2016, PLN 69 million was available under the bond issue agreement.

### ***Inter-Group Loans granted and bonds subscribed***

Only two inter-Group loans are outstanding for a total amount of EUR 499 million. These were both granted to ENERGA by the Issuer, using funds raised under a debt securities issuance pursuant to the

Programme in March 2013. On 19 March 2013, the Issuer issued one series of bonds of EUR 500 million maturing on 19 March 2020.

Acting on the basis of the Financial Policy adopted by the Group and under the terms and conditions of internal bond issue facilities, ENERGA purchases bonds issued by Group companies. The main purpose of the issuances is for Group companies to raise funds to execute their capital expenditure programmes.

#### ***Nominal value of bonds subscribed by ENERGA and outstanding by Issuer***

The table below presents the nominal value of bonds subscribed by ENERGA and outstanding, broken down into individual Group issuers, as at 30 September 2016.

No.	Company name	Nominal value of subscribed bonds (PLN 000s)
1. ....	ENERGA-OPERATOR	3,914,115.0
2. ....	ENERGA Wytwarzanie	1,004,900.0
3. ....	ENERGA Kogeneracja	54,721.9
4. ....	ENERGA Elektrownie Ostrołęka	120,000.0
<b>TOTAL</b> .....		<b>5,093,736.9</b>

#### ***Financial covenants and policy***

Certain of the Group's borrowings include financial covenants, including leverage ratios and debt service coverage ratios. The Group is in compliance with all such covenants and the internal financial policy of the Group targets a net debt to EBITDA ratio of no more than 3.5 times.

#### ***Domestic bond issue programme***

ENERGA established a domestic bond issue programme in September 2012. Series A bonds were issued in 2012 for the total amount of PLN 1,000 million with a maturity of 18 October 2019. During 2016, due to financial structure optimisation and cash management, ENERGA's subsidiary, ENERGA-OPERATOR purchased the bonds and as at 31 December 2016 holds 55,812 series A bonds with a total par value of PLN 558.12 million.

#### ***Insurance contracts***

The Group has in place a joint insurance policy, which ensures insurance cover for the Group companies and their activities against risks, with sums insured at levels which are market standard for companies operating in the energy sector in Poland. In co-operation with insurance brokers, a joint property and liability insurance scheme has been concluded for the period from 1 July 2014 to 30 June 2017. ENERGA is currently drawing up assumptions for the new insurance programme and will complete this process before 30 June 2017. The scheme allows for standardised insurance cover for relevant risks with customised extensions negotiated to meet the unique needs of individual companies.

Insurance contracts are concluded with leading insurance companies operating in Poland. As a principle, the key insurance contracts for critical risks and with the highest sums insured are concluded with insurance consortiums underwritten by two or more insurance companies.

#### ***Guarantees and sureties given***

***Table: Information on sureties and guarantees extended by ENERGA as at 30 September 2016***

No.	Extension date of the surety or guarantee	Term of the surety or guarantee	Entity for which the surety or guarantee was granted	Entity in favor of which the surety or guarantee was granted	Form of the surety or guarantee	Surety or guarantee amount (PLN million)	Amount of liability secured by the surety or guarantee as at 30 September 2016 (PLN million)
1.	2012-11-15	2024-12-31	Issuer	bondholders	surety	5,390.0	2,102.4

No.	Extension date of the surety or guarantee	Term of the surety or guarantee	Entity for which the surety or guarantee was granted	Entity in favor of which the surety or guarantee was granted	Form of the surety or guarantee	Surety or guarantee amount (PLN million)	Amount of liability secured by the surety or guarantee as at 30 September 2016 (PLN million)
2.	2015-04-03	2019-05-02	ENERGA Invest SA	PKO Bank Polski SA	agreement <sup>*</sup> surety <sup>**</sup> - agreement to extend a guarantee	89.4	62.5
3.	2015-01-08	2024-12-31	ENERGA Wytwarzanie SA	WFOŚiGW Gdańsk	surety - loan agreement surety <sup>**</sup> - agreement to extend a guarantee	15.0	9.5
4.			Other Group Companies			26.7	15.5
<b>TOTAL.....</b>						<b>5,521.1</b>	<b>2,189.9</b>

<sup>\*</sup> On 15 November 2012, an EMTN Eurobond programme was established for an amount of EUR 1 billion. Under the programme, the Issuer (registered under Swedish law), acting as a subsidiary of ENERGA, may issue Eurobonds with maturities from 1 year to 10 years. Pursuant to the surety agreement, ENERGA undertook, unconditionally and irrevocably, to guarantee the liabilities of the Issuer resulting from Eurobonds up to EUR 1,250 million until 31 December 2024 inclusive. On 19 March 2013, the Issuer issued one series of bonds of EUR 500 million and maturing on 19 March 2020.

<sup>\*\*</sup> Civil law sureties extended by ENERGA for liabilities of Group companies arising from bank guarantees granted by PKO Bank Polski SA under guarantee facilities dedicated to Group companies. The facility may be used until 19 September 2017. Terms of validity of the guarantees granted under the facility limit may extend beyond this date. Repayment of liabilities is secured by a civil law surety.

The value of other contingent liabilities (guarantees granted at the request of Group companies) and sureties granted as at 30 September 2016 amounted to PLN 237 million. The material ones are as follows:

- bank guarantees amounting to PLN 217.4 million granted by Pekao SA, ING Bank Śląski SA and mBank SA to ENERGA-OBRÓT;
- bank guarantee amounting to PLN 17.7 million granted by PKO Bank Polski SA to ENERGA OPERATOR; and
- surety amounting to PLN 1.9 million granted by ENERGA-OBRÓT to ENERGA Slovakia s.r.o.

#### Information on transactions of material importance with related entities on terms other than an arm's length basis

All the transactions within the Group are made for fair value on the basis of the market prices of goods, products or services based on their manufacturing costs.

#### Evaluation of financial resources management

The Group monitors its liquidity risk using a periodic liquidity planning tool. The tool takes into account the payment due dates both for investment liabilities and financial assets and liabilities and projected cash flows from operating activity.

The objective is to maintain a balance between continuity and flexibility of financing through the use of various sources of financing, such as current account overdrafts, working capital loans, investment loans, local bonds and Eurobonds.

To improve the management of the financial surpluses of Group companies, as of 4 January 2016 a zero-balancing cash pooling service was implemented. It is a tool for optimum utilisation of the surpluses generated by the Group companies to fund their current activities.

## Employees

As of 30 September 2016, the Group employed more than 8,700 employees (see Table 24 below) and was one of the largest capital groups in Poland in terms of the number of its employees. The Group ensures its future development by creating working conditions which are market competitive, by prioritising occupational safety and by building a uniform organisation culture based on common values.

The table below sets out data regarding employment in the Group as at 31 December in each of 2014 and 2015 and as at 30 September in each of 2015 and 2016.

**Table 24: Employment in the Group as at 31 December in each of 2014 and 2015 and as at 30 September in each of 2015 and 2016**

Segment	As at 30 September		As at 31 December	
	2016	2015	2015	2014
Distribution	5,393	5,280	5,257	5,435
Sales	1,172	1,043	1,160	982
Generation	1,523	1,543	1,511	1,558
Other	633	568	572	568
	<b>8,721</b>	<b>8,434</b>	<b>8,500</b>	<b>8,543</b>

As of 30 September 2016, more than 30 trade union organisations, representing approximately 56.5 per cent. of Group employees, operate within the Group. Most of the organisations belong to, or are affiliated with, the following three trade unions or trade union federations which have the right to be represented at the national level: *NSZZ Solidarność* (the Independent Self-Governing Trade Union "Solidarność"), *Związek Zawodowy Inżynierów i Techników* (the Trade Union of Engineers and Technicians) and *Kolegium Związków Zawodowych* (the Trade Union Council).

The remuneration and social benefit policy of the Group is regulated by, in addition to the Labour Code, the Intra-Company Collective Bargaining Agreement, various collective bargaining agreements for Group companies, remuneration by-laws and social agreements concluded with the trade union organisations.

### **Social Agreements**

The trade unions active in the Group and most Group companies concluded a social agreement on 19 July 2007, which came into force on 1 August 2007 and which secures the rights and interests of the employees during the process of consolidation and restructuring of ENERGA-OPERATOR and its subsidiaries (the "Social Agreement"). The Social Agreement was concluded for a term of 120 months and provides for, in particular, a guarantee of employment during its term to employees employed on the date of its entry into force, by those companies within the Group which are a party to it. The Social Agreement also contains other provisions relating to the protection of the rights and interests of all employees employed by the Group companies party to the Social Agreement, in connection with consolidation and restructuring of the Group.

A separate social agreement was concluded for the employees of ENERGA Elektrownie Ostrołęka on 1 August 2007 (as part of the additional protocol to the company's collective bargaining agreement). This agreement was concluded in connection with the implementation of the plan of vertical consolidation and privatisation in the energy sector and also provides for, among other things, a 10-year employment guarantee for employees and a guarantee that for 10 years the conditions of work and pay of the employees will be maintained at a level not less advantageous than the conditions existing on the date of the signing of the social agreement.

The policy of social dialogue is of material significance to the Group. This policy comprises, among other things, the planned unification of Group company collective bargaining agreements and annual negotiations of the collective agreements relating to the determination of pay increases.

As part of the policy of social dialogue (and reflecting the fact that the Social Agreements described above expire in July and August 2017), the Group's management is carrying out discussions with the

Group's social partners in order to optimise this area of operations, while securing the rights and interests of employees.

## REGULATORY ENVIRONMENT

### Regulatory Framework

The activities of entities operating in the Polish energy sector are subject to a number of Polish and EU regulations.

#### *National regulations*

At the national level, the Energy Policy. Additionally, the Polish government also published a forecast demand for the fuel and energy sectors for the period until 2030 as well as a national strategy: "Energy Security and the Environment – 2020 perspective". A first draft of the revised Energy Policy, intended to run for the period until 2050, has been prepared and is currently under public consultation.

The principal law regulating the energy industry in Poland is the Energy Law. The Energy Law, amongst other things, sets out: (i) the principles pursuant to which the government seeks to develop its national energy policy, (ii) the terms of supply and use of fuels and energy, including heating, (iii) the TPA rule, (iii) the rules regarding connection to the power grid and (iv) the terms on which energy undertakings operate including, in particular, the obligation to obtain concessions and calculate tariffs. It also determines the authority and powers of the principal energy regulator, the President of the ERO, and penalties for breach of obligations imposed by the Energy Law.

Secondary legislation and grid operators' O&M manuals issued on the basis of the Energy Law are important to the operation of the electricity market in Poland. For example, the grid operators' O&M manuals regulate the market, setting out instructions for the operation of the balancing markets (this is the mechanism for balancing current demand for energy and generation of energy in the National Energy System managed by the TSO), including "must run" generation. The main idea of the operation of a power station with a "must run" status is that if that power station does not sell energy on the market, it will be appointed (called upon) to operate and sell the energy generated on the balancing market for a price that covers 105 per cent. of the variable costs of production. The regulations with respect to "must run" generation are particularly important to Ostrołęka B, which has "must run" status due to grid limitations in north-eastern Poland where this plant is located.

In 2016, the Energy Efficiency Act was passed. It defines the principles for drawing up a national action plan regarding energy efficiency, the responsibilities of public sector entities with respect to energy efficiency, the principles for implementation of energy saving obligations and the principles for preparing an energy audit of an undertaking.

The Polish energy industry is also subject to other laws and regulations, for example with regard to environmental protection, competition issues, tax and public procurement.

#### *EU regulations*

The Polish energy industry, as well as being subject to national regulations, is also affected by EU law. The key EU legislation governing the energy industry includes:

- (i) EC Directive 2009/72/EC concerning common rules for the internal market in electricity;
- (ii) Regulation (EC) 714/2009 concerning the conditions for network access for cross-border electricity exchanges 03;
- (iii) EC Directive 2005/89/EC concerning measures to safeguard the security of electricity supply and infrastructure investment;
- (iv) EC Directive 2009/28/EC on the promotion of renewable energy;
- (v) EU Energy Efficiency Directive 2012/27/EU; and
- (vi) Regulation (EU) 1227/2011 on the integrity and transparency of the wholesale energy market.

### ***President of the ERO***

The President of the ERO regulates the activities of energy undertakings in accordance with the Energy Law, with the aim of balancing the interests of energy undertakings with those of their customers.

The President of the ERO's duties include, among other things:

- (i) granting, refusing, amending and revoking concessions;
- (ii) approving and controlling fuel, electricity and heat tariffs in order to ensure their compliance with the principles set out in the Energy Law and analysing and verifying the costs adopted by the energy undertakings as eligible for the purposes of approving and calculating tariffs;
- (iii) reviewing development plans for grid operators;
- (iv) approving the grid operators O&M manuals;
- (v) publishing information promoting efficient use of fuel and energy;
- (vi) imposing fines, in accordance with the Energy Law;
- (vii) monitoring the functioning of the electricity system;
- (viii) co-operating with the relevant bodies in counteracting monopolistic practices of energy undertakings;
- (ix) settling disputes falling within the scope of the Energy Law; and
- (x) appointing grid operators and "obliged suppliers".

The activities of energy undertakings also come under the supervision of other authorities, including that of the President of the Office of Competition and Consumer Protection.

### ***Concessions***

Under the Energy Law, subject to certain exceptions, energy undertakings are required to obtain concessions for operating businesses in the areas of: (i) fuel and energy production, (ii) storing of gaseous or liquid fuels, as well as liquefying and re-gasification of gaseous fuels, (iii) transmission or distribution of fuels or energy and (iv) trading in fuels or energy.

As a general rule, pursuant to the Energy Law, an entity applying for a concession should:

- (i) have its principal place of business or place of residence within the territory of a member state of the EU, a member state of the European Free Trade Association or a party to the European Economic Area Agreement;
- (ii) have sufficient financial resources to ensure the correct performance of its operations in any such area or be able to document the ability to acquire such resources;
- (iii) have the technical ability to ensure the correct performance of its operations in any such area;
- (iv) be able to ensure the employment of persons with appropriate professional competences, referred to more specifically in the Energy Law;
- (v) have obtained a land-development-conditions decision (*decyzja o warunkach zabudowy i zagospodarowania terenu*) (if applicable); and
- (vi) not be in arrears with payment of taxes to the State budget.

Furthermore, under the Energy Law, there are also additional requirements established for specific concessions, for example the concession for generation and trade in liquid fuels.

The Energy Law also sets out circumstances in which an entity might be prevented from obtaining a concession. In particular, a concession may not be granted to entities that:

- (i) are in the course of insolvency or bankruptcy proceedings;
- (ii) have had their concession for conducting commercial operations regulated by statute revoked within the last three years for reasons referred to in the relevant provisions of law, or which have been deleted from the commercial register within the last three years for reasons referred to in the relevant provisions of law;
- (iii) have had adverse final orders made against them in relation to breaches of their statutory business activity;
- (iv) are not registered as a VAT tax payer; and
- (v) have a controlling entity which has had adverse final orders made against it in relation to breaches of its statutory business activity in the last three years.

Companies must pay annual fees for concessions and such fees are charged with respect to each licensed activity the company is engaged in. The minimum fee is PLN 200 and the maximum fee is PLN 1 million. Fees are calculated based on the company's income. A company can request a short-term concession for a particular project but usually concessions are granted for a fixed term of between 10 and 50 years.

Furthermore, under the Energy Law, in certain circumstances the President of the ERO can or must revoke the concession, for example in circumstances involving national security or if a company breaches the terms of the concession and such breach continues following the expiration of a cure period.

### ***Tariffs***

Pursuant to the Energy Law, energy undertakings holding a concession have to draft and present their tariffs to the President of the ERO for approval. At the same time, the Energy Law contains a provision according to which the President of the ERO, upon determining that an energy enterprise holding a concession operates in a competitive market, may exempt that enterprise from the obligation to submit tariffs for approval. In the past, the President of the ERO has issued several decisions to exempt entities operating in various segments of the energy sector from the obligation to present tariffs for approval.

The obligation to present tariffs for the approval of the President of the ERO currently applies to energy undertakings engaged in the distribution or transmission of electricity and to energy undertakings selling electricity directly to household customers (tariff group G). This obligation also applies to entities involved in the generation and distribution of heat. ENERGA-OBRÓT as well as power producers in the Group are exempted from the obligation to have their tariffs approved by the President of ERO, except for sales in tariff group G. ENERGA-OPERATOR, however, as a company involved in distribution services, needs to apply to the President of the ERO for the approval of its tariff.

Detailed rules on how to calculate tariffs are set out in the Tariff Ordinance.

In accordance with the Energy Law, tariffs should, among other things, be calculated in a manner that allows (i) recovery of justified costs and a return to be made on the capital involved and (ii) protection of customers from unjustified increases in prices.

The Tariff Ordinance further provides that:

- justified costs for the production, transmission or distribution of electrical energy mean the energy enterprise's justified costs, planned for the relevant year, which take into account the justified return on the capital employed in the economic activity carried out; and
- justified costs for trading in electrical energy mean the planned justified costs for the purchase of energy and justified costs of energy trading activity.

When it comes to approving tariffs for the distribution of electricity, although no such requirement results directly from the Energy Law, the President of the ERO issues, on an annual basis, methods and



assumptions which are to be used by DSOs when calculating their tariffs (for example "Assumptions for the calculation of DSO tariffs for 2017").

The level of justified costs put forward by an undertaking that is subject to the assessment of the President of the ERO, is assessed on an individual case-by-case basis.

### ***TPA rule***

Energy customers in Poland are able to choose their energy supplier and, between July 2011 and December 2015, 30,749 third-party access agreements with suppliers had been entered into (source: The National Report of the ERO for the European Commission of July 2016). Pursuant to the Energy Law, all customers and businesses trading in energy must have access to the transmission and distribution systems on an equal and arm's length basis. Transmission and distribution enterprises have been subject to the TPA rule since 1 July 2004 and it has been applicable to households since 1 July 2007.

### ***Connection to the grid***

Energy undertakings involved in the distribution and transmission of electricity are required to provide connections to their grids on the basis of equal treatment and giving priority to RES, **provided, however, that** the technical and financial conditions for the connection and the delivery of electricity are met and the party requesting the connection meets specific conditions set out in the law.

The fee payable for the grid connection is calculated based on:

- (i) *one quarter of the actual costs of the connection* – for connection to a grid with a nominal voltage exceeding 1 kV and not greater than 110 kV (except for connection of energy sources and transmission/distribution grids– see (iii) below),
- (ii) *the fees set out in the electricity distribution tariff or heat tariff calculated based on one quarter of the average annual capital expenditure* for the construction of sections of the grid - for the connection to a grid with a nominal voltage not exceeding 1 kV and a heat network,
- (iii) *the actual capital expenditure on the connection* for the connection of energy sources and transmission/distribution grids, with the exception of: (a) the fee to connect RES with a capacity not exceeding 5 MW and co-generation units of installed capacity below 1 MW – where a fee is based on one-half of the actual expenditures for the connection and (b) connection of micro-installations<sup>1</sup> to a distribution grid, which is free of charge.

Furthermore, a number of documents should be attached to the application for connection conditions, such as: legal title to the real estate on which the object to be connected is to be located and an excerpt from the local master plan or a land-development-conditions decision (*decyzja o warunkach zabudowy i zagospodarowania terenu*). Additionally, as a rule, a deposit must be paid by the applicant.

A power grid operator who fails to issue connection conditions within the deadlines stipulated by law or who, without justified reasons, refuses to execute a connection agreement, is subject to a fine imposed by the President of the ERO.

### ***Obligation to sell power on a competitive basis***

Pursuant to the Energy Law, an energy producer is required to sell at least 15 per cent. of the electricity it generates each year on commodity exchanges, within the meaning of the Commodity Exchanges Act or on the regulated market, within the meaning of the Act on Trading in Financial Instruments.

In addition, an energy producer with the right to obtain funds to cover stranded costs on the basis of the PPA Termination Act is also required to sell the remaining volumes of electricity generated in a manner guaranteeing public and equal access to this electricity, in an open tender procedure, on the regulated market or on commodity exchanges.

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<sup>1</sup> A renewable energy source installations with total installed electrical capacity not exceeding 40 kW, connected to electricity grid with a nominal voltage lower than 100 kV or with heat capacity in cogeneration not higher than 120 kW

The Energy Law provides for several exceptions where this obligation does not apply. These exceptions apply to electricity: (i) supplied by an energy enterprise generating electricity for the final recipient via a direct line; (ii) generated from RES; (iii) generated in cogeneration; (iv) used by an electricity producer for its own purposes; (v) necessary for heat and electricity system operators to perform their statutory obligations; and (vi) generated in a plant with a total installed generation capacity not exceeding 50 MW.

The President of the ERO may also, at the request of an energy enterprise, exempt it from the obligation to sell power, in the manner specified above, with respect to electricity: (i) sold for the purposes of meeting long-term obligations under agreements concluded with financial institutions in order to implement investments related to electricity generation; or (ii) generated for the needs of the TSO and used for the purposes of ensuring the correct operation of the national power system, **provided, however, that** such exemption will not materially distort competition on the electricity market or cause disruptions on the balancing market.

Each energy producer is obliged to submit a statement to the President of the ERO regarding performance of the obligation in question for each year by 31 March of the following year.

### *Development plans*

Pursuant to the Energy Law, energy undertakings engaged in energy transmission or distribution must prepare development plans for the territory on which their activities are based relating to the satisfaction of present and future power demand.

An electricity DSO must prepare a development plan relating to the satisfaction of present and future power demand for periods of at least five years (and the plan must be updated every three years), as well as forecasts of power supply security for periods of at least 15 years.

In particular, these plans should include:

- (i) the anticipated scope of power supply;
- (ii) any investments required to modernise, develop or construct the grid or any new energy sources, including RES;
- (iii) any investments required to modernise, develop or construct connections to the power generation systems of foreign countries;
- (iv) any investments that would rationalise the level of power consumption by customers;
- (v) the anticipated manner of financing such investment projects;
- (vi) the anticipated income necessary for the plans to be implemented;
- (vii) the envisaged time scale for the investments;
- (viii) the assumptions of the development plan prepared by the electricity TSO; and
- (ix) other elements listed in the Energy Law.

The costs to be incurred by operators in accordance with the development plan are taken into account by the President of the ERO when approving tariffs.

The DSO's plan must also specify the generation capacity and the reserves of capacity, the preferred locations and structure of any new sources of power, the distribution and transmission capacities of the power generation system and the level of its utilisation and any action or project aimed at securing power supplies.

By law, power facility development plans should ensure long-term maximisation of efficiency as regards the expenditure and costs incurred by the energy undertaking so that such expenditure and costs do not result, in any individual year, in excessive increases in the prices and charged rates for the supply of gaseous fuels or energy, whilst maintaining the continuity, reliability and quality of their supply.

As a rule, draft development plans are subject to approval by the President of the ERO. Further, by 30 April each year, the DSOs must file progress reports with the President of the ERO concerning the implementation of their development plans.

In addition, each energy undertaking generating electrical energy from sources with a total installed electrical capacity of at least 50 MW must prepare and submit to the President of the ERO forecasts for the next 15 years including, in particular, the volumes of electrical energy generated, any plans for the modernisation or expansion of existing, or the construction of new, sources, as well as technical and economic data regarding the type and size of these sources, their location and the type of fuel used to generate electrical energy. In addition, the energy undertaking generating electrical energy must, every two years by 30 April of the relevant year, update its forecasts and notify the President of the ERO of the updates as well as the operators of those power grids to whose networks it is connected.

### ***Obligations of DSOs***

In accordance with the Energy Law, the obligations the DSOs (in addition to the obligation to prepare development plans as described above) include, amongst others, the following:

- ensuring effective grid traffic in each distribution grid, whilst meeting the required reliability and quality standards for electrical energy supply;
- operating, maintaining and overhauling each distribution grid so as to ensure continuous operation of the distribution system;
- ensuring the extension of the distribution grid and inter-system connections in the area of its operation;
- co-operating with other electrical energy systems operators and electrical energy undertakings;
- managing the capacity of generation units connected to the distribution grid (excluding generation units with a maximum power equal to or exceeding 50 MW which are connected to the co-ordinated 110 kV grid); and
- balancing the relevant distribution system (excluding balancing of current demand with supply of electrical energy which is the obligation of the TSO) and managing the system's limitations.

The DSO, within its field of operation, is obliged to give equal priority to all entities in the provision of distribution services for electrical energy generated from renewable energy sources and from high-performance cogeneration plants, whilst ensuring the reliability and security of the national electrical energy system.

### ***PPA termination***

Another important statute is the PPA Termination Act. The PPA Termination Act deals with, among other things, regulations regarding financing costs resulting from early termination of specific long-term PPAs, payment of compensation to cover these costs, as well as calculating, adjusting and settling these costs.

At the beginning of the 1990s, a number of power plants in Poland executed long-term PPAs with PSE. The purpose of the PPAs was to enable power producers to obtain financial support from banks for the modernisation of their generation units. The PPAs required PSE to off-take power over a certain period of time and at the fixed price set out in the relevant PPA. However, PPAs became one of the main obstacles to the liberalisation of the power market in Poland. Therefore, from early 2000, the Polish government tried to develop various mechanisms for terminating PPAs. Finally, on 29 June 2007, the Polish parliament enacted the PPA Termination Act. In accordance with the PPA Termination Act, compensation is payable to power producers by Zarządca Rozliczeń S.A. (a company established by the PPA Termination Act) in accordance with the rules set out in the PPA Termination Act. The PPA Termination Act determined the maximum amount of stranded costs for each power producer. Compensation is payable to the producers in the form of advance payments.

A power producer that used to be a party to a PPA submits, on a yearly basis, an application to the President of the ERO for payment of the advance for the following calendar year. The amount of the

advance payments is subject to annual adjustments made by the President of the ERO in accordance with the PPA Termination Act. Under the PPA Termination Act, it is possible that, in practice, a producer will not receive any advance payment at all or will have to return the advance already paid to it. No member of Group is or was a party to any PPA.

### ***"Must run" generation***

Under the Polish electrical energy system, one of the mechanisms through which the TSO removes system limitations is by controlling the operation of producers who work under the "must run" generation regime. In order to do so, the TSO concludes centrally administered agreements with producers for the availability of generation units, which ensures that the required volume of electrical energy (necessary for the operation of the National Power Grid) is produced by those units.

The mechanism under which the "must run" generation regime operates is set out in detail in the TSO's O&M Manual.

Pursuant to the TSO's O&M Manual, when balancing production with demand, the TSO has the power to give instructions to call into operation those production units covered by the agreements with the TSO, in order to ensure the proper functioning of the National Power Grid. This is subject to limitations on the capacity of the grid.

The regulations on "must run" generation are particularly important for Ostrołęka B, which, owing to grid limitations in north-eastern Poland where this plant is located, has a "must run" power station status. The main idea of the operation of a power station with a "must run" status is that if such unit does not sell energy on the market, it will be required to operate by the TSO, and for the energy produced during that period of operation it will receive a price that covers 105 per cent. of the variable costs of production. The detailed terms of calculation of the price are set out in the Ordinance on the Detailed Conditions of the Operation of the Electrical Energy System of 4 May 2007.

### ***Cogeneration***

The Energy Law also provides certain mechanisms to support electricity generated in high-efficiency cogeneration.

Pursuant to the Energy Law, generators and suppliers selling electricity to customers connected to a network located within Poland are obliged to obtain and present "cogeneration certificates" for redemption to the President of the ERO confirming that a specified percentage of the volume of electricity generated was generated in highly efficient cogeneration units in Poland, or to pay a substitute fee instead.

In Poland, there are three types of cogeneration certificates: (i) "yellow" certificates, which are issued for electricity generated using gas as the fuel or with an aggregate installed electrical power of less than 1 MW; (ii) "violet" certificates, which are issued for electricity generated in cogeneration mode in units fired with methane released into, and captured by, underground mining works in active, liquidated or closed down coal mines as well as from gas derived from biomass; and (iii) "red" certificates which are issued for electricity generated in high efficiency cogeneration modes other than specified in (i) and (ii) above.

The substitute fee payable in the absence of a certificate is calculated in accordance with the provisions set out in the Energy Law.

The Energy Law provides that it is possible to obtain both "green" and cogeneration certificates for the same amount of electricity if the electricity is generated from a RES which meets the criteria established for a high-efficiency cogeneration unit.

The cogeneration obligation with regard to yellow, violet and red certificates will remain in force until the end of 2018. For the time being it is unclear what will happen in relation to cogeneration certificates thereafter.

## Renewable Energy Sources

The Polish RES sector has developed rapidly over the last few years. The existing support system for RES installations in place before the new system described below was put in place (the "**Old System**") was based on two main pillars: (i) a system of tradable property rights arising under certificates of origin ("**green certificates**"); and (ii) the mandatory purchase of energy generated in a RES installation by the suppliers of last resort (now the obliged suppliers) at a regulated price. The Old System was governed mainly by the provisions of the Energy Law and its secondary regulations.

On 20 February 2015, the Polish parliament enacted the Act on RES. The Act on RES was published in the Journal of Laws on 3 April 2015, and was subsequently amended, in particular by: (i) the Act of 29 December 2015; and (ii) the Act of 22 June 2016. When the Act on RES was adopted, almost all the regulations regarding the RES support scheme were moved from the Energy Law to the Act on RES. However, the Act on RES also: (i) introduced fundamental modifications to the Old System; and (ii) introduced an auction system (the "**New System**") as the basic and target support system for RES installations which is to ultimately replace the Old System.

Despite the introduction of the New System based on auctions, the legislative authority did not, however, decide on a total and immediate end to the Old System. Subject to certain modifications, it allowed it to continue functioning, for a limited time, in relation to RES installations that began producing energy before 1 July 2016 (the "**Old RES**"). The New System is now the exclusive support system for installations that will start production of energy after completion of a relevant auction, i.e. the "new" RES installations (the "**New RES**"). Consequently, the two RES support systems, the Old System and the New System, will function simultaneously for a while, independently of each other. The Act on RES makes it possible for the Old RES functioning under the Old System to move to the New System (**provided that** the regulator announces a separate "migration" auction and allocates sufficient energy volume to such auction and that a given Old RES wins the auction).

Because the Group has several operating wind farms in its portfolio, the regulations of the Act on RES regarding the Old RES as well as the New RES (in case of migration to auctions), are applicable to its operations.

### The Old System - green certificates

Green certificates are issued by the President of the ERO to operators of RES installations to confirm that they have produced a certain volume of renewable energy in that RES installation over a certain period of time. Green certificates are issued on the application of the relevant producer, on the basis of data confirmed by the operators of the grid transmission or distribution system to which the RES installation is physically connected. The number of green certificates granted is proportionate to the volume of electricity generated, i.e. for each MWh produced, the RES installation receives one green certificate. The green certificates system does not differentiate between technologies, the installed capacity of the relevant installation, whether it has been modernised or is new, and its date of commissioning. The number of green certificates received depends solely on the volume of electricity generated. An operator of a RES installation is entitled to receive green certificates for a period of 15 years from the moment that the relevant installation produced electricity for the first time.

Upon issuance, green certificates are registered in the account of an operator of a RES installation in the register of green certificates held by the Polish Power Exchange. They have no expiry date.

Green certificates are tradable instruments that can be traded on the Polish Power Exchange, in OTC transactions (for prices agreed bilaterally in certificate purchase agreements executed between a seller and a purchaser) or in "open" exchange trading. There is no minimum or maximum price for transactions in green certificates.

The demand for green certificates is created by imposing, on groups of entities selected by the State, an obligation to acquire a certain number of green certificates annually and subsequently submit them for redemption (or pay a substitution fee). These are entities that produce or trade in electricity and sell it to a final off-taker as well as, in certain circumstances, "industrial off-takers", final off-takers and brokerage houses trading in energy at the commodity exchange (the "**Obligated Entities**"). The Obligated Entities include the green certificates' costs in the electricity price charged to end customers.

The number of green certificates each Obligated Entity is obliged to redeem in a given year is calculated by reference to the annual volume of sales of electricity to end customers or, in the case of industrial off-takers, by reference to the annual volume of electricity bought for their own needs, and constitutes a percentage of such annual volumes (the "**RES Quota**"). The President of the ERO imposes fines on Obligated Entities that fail to present the required number of green certificates (or pay the substitution fee). The RES Quota is set by law. Until 2016, the RES Quota was set specifically for each calendar year by the ordinance of the relevant minister (until 2014) and by the provisions of the Act on RES (for 2015 and 2016). Between 2005 and 2016, the RES Quota gradually increased from 3.1 per cent. in 2005 to 15 per cent. in the second half of 2016.

Under the Act on RES, the RES Quota was generally set at 20 per cent. However, a separate quota was introduced for certificates of origin issued for biogas installations at the level of 0.65 per cent., and at the level of 19.35 per cent. for other RES. At the same time, the Act on RES provides that, by an ordinance to be issued no later than on 31 August of a given year, the Minister of Energy may change the level of the RES Quota for subsequent calendar years (this level can be decreased as well as increased by the Minister). The RES Quota for 2017, was set in the Ordinance of the Minister of Energy at the level of 0.60 per cent. for biogas installations, and at the level of 15.40 per cent. for other RES installations (the Ordinance of the Minister of Energy of 17 October 2016 (Journal of Laws of 2016, item 1753)).

The Act on RES repealed the regulations providing for the indexation of the substitution fee (the substitution fee was subject to annual indexation on the basis of changes in the CPI).

### ***The Old System - Mandatory off-take obligation regarding energy from RES***

The second pillar of the Old System was based on an obligation imposed on sellers of last resort (*sprzedawca z urzędu*) (now referred to as obliged sellers). The obliged seller is a seller with the biggest electricity sales volume to final consumers in the period from 1 January until 31 August of each year within the area of activity of each DSO. The obliged seller is designated by way of a decision of the President of the ERO, for the territory in which a relevant DSO's activities are based, by 15 October of each year for the following year. The mandatory purchase of electricity produced from RES installations is carried out at a certain predetermined price, i.e. the average price of electricity in the preceding quarter (formerly - the previous year) on the competitive market, calculated and published by the President of the ERO.

Under the Act on RES, starting from 1 January 2018, large RES installations (with a capacity equal to or greater than 500 kW) will be deprived of the right to require the mandatory purchase of energy they generate by the obliged seller at a regulated price. This regulation will significantly impact the situation of RES energy producers, as starting from 1 January 2018, they will be fully exposed to fluctuations in energy prices on the energy market. As a consequence, RES energy producers will be forced to reassess their wind farm projects, taking into account the costs associated with their participation in the energy market which, among other things, includes the balancing costs (i.e. the costs resulting from the fact that there are differences between the energy production forecasts and actual energy production, resulting in the need to compensate for the differences by purchasing/selling energy on the balancing energy market) and profile costs (these are the costs resulting from the fact that wind installations do not produce energy exactly in accordance with the actual profile of energy trading on the market i.e. wind projects generate more energy off-peak (at night), when the prices of energy are lower).

### ***Auctions***

The New System introduced by the Act on RES is based on the following assumptions:

- (i) the New RES are to participate in auctions organised by the President of the ERO. A producer of energy from RES<sup>2</sup> which wins the auction is entitled to cover the negative balance<sup>3</sup> in settlements with the Renewable Energy Settlements Operator<sup>4</sup>;

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<sup>2</sup> This refers to the producers of energy from RES with an installed capacity not lower than 500 kW which won an auction settled by 30 June 2021.

<sup>3</sup> This is the difference between: (a) the value of sales of electricity produced in RES and sold in a given month, reduced by VAT, calculated in the manner specified in the Act on RES; and (b) the value of such electricity determined on the basis of the auction price

- (ii) auctions are conducted separately for: (a) New RES; (b) modernised New RES; (c) migrating Old RES<sup>5</sup>; and (d) modernised migrating Old RES. In addition, each of the auctions is to be conducted separately for large (>1 MW of installed capacity) and small (≤ 1 MW of installed capacity) RES installations. Finally, auctions are to be conducted separately for several "technological baskets" (created by reference to several different criteria, i.e. the productivity of a given installation, the volume of its CO<sub>2</sub> emissions, legal and organisational form of business activity, natural resources used to generate energy, etc.). This means that, theoretically, 56 separate auctions can take place;
- (iii) the auction is won by the bid which has the lowest price (until the quantity or value of the electricity specified in the announcement of the auction is exhausted). Bids exceeding the reference price (determined by the Minister of Energy for various RES installations) are rejected;
- (iv) the maximum quantity and value of energy from RES installations which can be sold at a given auction is determined each year by way of an ordinance of the Council of Ministers for the following year; and
- (v) the support under the auctions remains in force for the period specified each time with respect to each auction in the Ordinance of the Minister of Energy, but no later than 31 December 2035.

### Wind Farm Act

In 2016, the Wind Farm Act ("WFA") was adopted. The WFA introduced regulations which have a significant impact on the RES sector in Poland, namely: (i) a restriction on the distance between newly built wind power plants and the nearest residential or environmentally protected area (the so-called "minimum distance requirement"); and (ii) changes to the manner of calculation of real estate tax ("RET") regarding wind power plants.

#### The WFA - Minimum distance requirement

The minimum distance requirement refers to the location of (i) a new wind power plant with respect to residential or environmentally protected areas as well as (ii) the construction of any new residential buildings with respect to an existing wind power plant. This distance should be equal to or higher than 10 times the height of the wind turbine. The height of the wind turbine should be calculated from ground level to the highest point of the wind turbine including the rotor.

The distance requirement in principle does not apply to wind farms already constructed (there is no obligation to remove or relocate these installations). However, with respect to wind farms which are already built and which do not meet the distance requirement, only overhauls (*remonty*) and other actions necessary for proper operation of the wind power plant, excluding actions aimed at increasing the performance parameters of the wind power plant or increasing its impact on the environment, can be carried out. This means that under the WFA, modernisation of any existing RES installation, including increasing its operating parameters, is not allowed, unless the RES installations in question meet the minimum distance requirement.

#### The WFA - RET

The new regulations introduced by the WFA regarding the calculation of RET create a material risk that the RET payable by wind farms will be significantly increased (the maximum rate of RET applicable to a wind farms is 2 per cent. calculated on the value of a structure (*budowla*) determined for income tax depreciation purposes). This is because the WFA introduced a change to the definition of a structure

<sup>4</sup> The entity responsible for carrying out the settlements of the negative balance.

<sup>5</sup> An exception from the possibility of Old RES/modernised Old RES migrating to the auction system applies to: (i) multi-fuel firing installations (excluding dedicated multi-fuel firing installations); (ii) hydro RES with a capacity above 20 MW; (iii) RES with a total capacity above 50 MW fired by biomass, bioliquids, biogas or agricultural biogas (excluding RES fired by biomass, bioliquids, biogas or agricultural biogas in high-efficiency cogeneration with a maximum thermal capacity in cogeneration mode not higher than 150 MWt or in a dedicated multi-fuel firing installation).

(*budowla*) included in the Building Law of 7 July 1994 to which the Act on Local Taxes of 12 January 1991, regulating the RET, refers to for the purposes of calculation of the RET regarding wind farms.

This new definition makes it unclear whether, for the purposes of calculation of the RET regarding wind farms, in addition to the construction parts of wind power plants (such as mast and foundations), also the technical components of wind power plants (such as wind turbine) should be taken into account. Should the value of the technical parts of a wind power plant also be the base for calculation of the RET, the RET tax burden on wind power plants could potentially quadruple.

### ***Excise tax***

Pursuant to the Act on Excise Duty of 6 December 2008 (the "**Act on Excise Duty**"), the sale of electrical energy to an end consumer is subject to excise duty. An end consumer is understood as an entity purchasing electrical energy which does not hold a licence to generate, transmit, trade in or distribute electrical energy. (There are some limited exceptions from this definition set out in the Act on Excise Duty). The payer of the excise duty is an entity carrying on taxable activity which sells electrical energy to an end user. From this it follows that the sale of electrical energy to an entity which holds an energy licence (and thus does not have the status of an end user) by another entity holding such a licence is not subject to the excise duty. Only the consumption of purchased electrical energy by an entity holding a licence will be a taxable act.

Therefore, a producer of electrical energy which sells electrical energy to an entity holding a licence to generate or trade in electrical energy is not obliged to pay excise duty on the electrical energy sold, irrespective of whether the purchaser involved designates this electrical energy for resale or consumes it for its own needs. In the latter case, the purchaser will be an entity obliged to pay the excise duty on the energy used for its own needs. However, the obligation to pay excise duty will, as a rule, rest on the entity selling electrical energy to an end user.

Electrical energy generated in renewable energy sources is exempt from excise duty on the basis of a document confirming the redemption of a green certificate in the meaning of the provisions of the Act on Renewable Energy Sources of 20 February 2015 (Journal of Laws of 2015, item 478).

### ***Environmental protection regime***

Under Polish environmental protection regulations (set out mainly in the Environmental Protection Law, the Act on Waste of 14 December 2012 and the Water Law of 18 July 2001), operating an installation which causes, among others, (i) a discharge of gases or dust into the air, (ii) a discharge of sewage into water or the earth, (iii) other special use of water (such as extraction and damming) or (iv) waste generation, is permitted only if a relevant environmental permit is held. Certain categories of installations which do not cause substantial risk to the environment are exempted from this permit requirement.

Additionally, pursuant to the Environmental Protection Law, the running of certain types of installations the operation of which, owing to the type and scale of activity carried out at these installations, could cause major pollution to elements of the environment (such as air and water) or the environment as a whole, requires the holding of an integrated permit. The Polish integrated permit regime implements relevant EU regulations, in particular, the IPPC Directive.

On 24 November 2010, the IED was adopted (it came into force on 6 January 2011). The IED replaced the IPPC Directive and five other directives on 7 January 2014 and also replaced the LCP Directive on 1 January 2016.

The IED is the successor of the IPPC Directive and, in essence, aims to minimise pollution from various industrial sources (in particular, combustion plants with a capacity equal to or greater than 50MW).

The IED has been transposed into national legislation by Poland pursuant to relevant amendments to the Environmental Protection Law and secondary legislation issued pursuant to it.

The regulations regarding protection of the environment are applicable to the development of any new infrastructure by the Group.



### ***Environmental Protection Law***

The Environmental Protection Law, together with the accompanying secondary legislation, is intended to ensure that soil, air and water are protected from pollution and to provide protection against noise and electromagnetic fields. The Environmental Protection Law sets out provisions primarily for the protection of the environment and the terms and conditions for using natural resources taking into account the requirements of balanced development. It contains, in particular:

- (i) the rules for determining: the conditions with respect to (a) the protection of natural resources and (b) the introduction of substances or energy into the environment and the costs of using the environment;
- (ii) the duties of the administrative authorities; and
- (iii) the resulting liability and sanctions for breach.

### ***EIA Act***

#### ***Introductory comment***

Environmental impact assessment regulations are set out in the EAI Act and have been in force from 15 November 2008. The EIA Act specifies:

- (i) the procedures and rules applicable to (a) providing access to information on the environment and protection thereof, (b) environmental impact assessments, and (c) cross-border environmental impact;
- (ii) the rules governing society's participation in environmental protection; and
- (iii) the administrative authorities competent with regard to the matters referred to in (i) above.

#### ***Recent amendments to the EIA Act***

In October 2015, the EIA Act was amended, and most of the changes came into force on 1 January 2017, namely: new requirements regarding the information chart of an undertaking, an obligation to obtain the opinion of an entity responsible for issuing of an integrated permit if the planned undertaking requires an integrated permit to be obtained, new requirements regarding the content of EIA reports, new regulations regarding the cumulative impact of undertakings on the environment and new penalties for violations of relevant regulations of the EIA Act which comprise fines from PLN 500 to PLN 1,000,000.

### ***Environmental decisions***

Pursuant to the EIA Act, the development of List 1 projects and List 2 projects

requires that an environmental decision is obtained and is subject to an EIA. The EIA is carried out as part of the environmental decision issuing process. List 1 projects comprise, among others, onshore wind farm projects of a nominal capacity equal to or higher than 100 MW and all offshore wind farm projects; and electrical energy power stations and overhead energy lines with a voltage equal to or higher than 220 kV and a length not shorter than 15 km. List 2 projects comprise, among others, onshore wind farm projects not comprising List 1 projects located on environmentally protected areas or of a total height equal to or higher than 30 metres and electrical energy power stations and overhead energy lines of a voltage equal to or higher than 110 kV, not comprising List 1 projects. List 1 projects and List 2 projects are listed in the EIA Ordinance.

### ***EIA Report***

The additional environmental impact assessment procedure carried out as part of the issuance of an environmental decision process (described above) is complex and may include the preparation of an EIA report, public participation and consultation with other environmental authorities. In the case of List 1 projects, an EIA report is required during the procedure for obtaining the environmental decision and public participation is required in every case. In the case of List 2 projects, an EIA report may be required depending on the decision of the appropriate environmental authorities.

Except for List 1 and List 2 projects, an EIA is also required for projects likely to impact *Natura 2000* areas.

### ***Natura 2000 network***

Polish legislation applicable to *Natura 2000* areas is based on the Habitats Directive, as well as the Birds Directive to protect the most seriously threatened habitats and species across Europe. The Birds Directive required the establishment of special protection areas for birds, whilst the Habitats Directive required that special areas of conservation be designated for other species, and for habitats. The main aim of this legislation is the creation of a network of sites called the *Natura 2000 Network* which seeks to protect areas in the EU covering fragile and valuable natural habitats and species of particular importance for the conservation of biological diversity within the EU. All Member States are required to manage and implement *Natura 2000*.

Detailed legal provisions concerning the creation and protection of the network of *Natura 2000* areas within Poland were introduced under the Nature Conservation Act. Pursuant to this act, any activities which may materially affect the attainment of the objectives of *Natura 2000* are prohibited. The Nature Conservation Act specifically prohibits the destruction of areas with habitats as well as animal and plant species, for which special areas of conservation have been designated under *Natura 2000*. Operators are not allowed to disturb the integrity of *Natura 2000* sites or the ecological coherence of the *Natura 2000* network. The prohibition of actions adversely affecting the environment applies not only to the *Natura 2000* sites which have been formally approved, but also to proposed sites. The proposed sites are entered in an official list prepared by the General Director for Environmental Protection and other lists submitted to the European Commission.

### ***CO<sub>2</sub> emissions allowances***

The EU system of emission allowances trading (the "EU ETS"), is currently regulated, among others, by Directive 2009/29. Directive 2009/29 was implemented into the Polish legal system by the ETS Act.

The ETS Act scheme currently covers three areas of the economy: (i) industry in general, (ii) the energy industry and (iii) the aircraft industry.

The EU Emission Trading Scheme, as implemented into Polish law, is supervised by the Minister of Environmental Protection of Poland and is administered by the National Centre for Emission Balancing and Management – *Krajowy Ośrodek Bilansowania i Zarządzania Emisjami* (KOBIZE).

Pursuant to the legislation regulating the emission trading scheme previously in force (the Act of 24 December 2004 and the Act of 28 April 2011 that repealed it), the allocation of free of charge emission allowances to installations participating in Phase I of the EU ETS (2005-2007) was set out in the KPRU (the National Allowance Allocation Plan (*Krajowy Plan Rozdziału Uprawnień*)). KPRU II was adopted by an ordinance of the Council of Ministers on 1 July 2008, and was finally approved by the European Commission in April 2010. Under KPRU II, the total CO<sub>2</sub> emission allowance for the 2008–2012 settlement period was 1,042 million tonnes (208.5 million tonnes per year). One allowance allows the emission of one tonne of CO<sub>2</sub>.

Under EU ETS Phase III (2013 – 2020), a single, EU-wide cap on emissions applies in place of individual national caps that were determined in Phase I and II. Since 2013, the number of emissions allowances allocated to each installation free of charge steadily decreases while auctioning is the default method for allocating allowances. Power generators in principle do not receive any free allowances (but have to buy them through auctions). However, Poland as well as seven other Member States, benefit from a derogation pursuant to which it may allocate a decreasing number of free allowances to existing power plants until 2019. Poland's proposal with respect to free CO<sub>2</sub> emission allowances allocation for existing power plants (i.e. installations for electricity production in operation on 31 December 2008 or for which the investment process was physically initiated by the same date) has been approved by the European Commission as compatible with the internal market.

Under Phase III, the scheme applies to CO<sub>2</sub>, as well as to nitrous oxide (N<sub>2</sub>O) and perfluorocarbons (PFCs).

Because the production of electricity and heat in coal-fired power plants and combined heat and power plants owned by Group involves the emission of CO<sub>2</sub> into the environment the regulations regarding CO<sub>2</sub> emissions are applicable to the operations of the plants involved.

## FORM OF FINAL TERMS

The form of Final Terms that will be issued in respect of each Tranche of Notes which are not Exempt Notes, subject only to the deletion of non-applicable provisions, is set out below:

Final Terms dated [•]

**ENERGA Finance AB (publ)**  
Issue of  
**Aggregate Nominal Amount of Tranche Title of Notes**  
Guaranteed by  
**ENERGA SA**  
under the  
**Euro 1,000,000,000**  
**Guaranteed Euro Medium Term Note Programme**

### PART A – CONTRACTUAL TERMS

The expression "**Prospectus Directive**" means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU, and includes any relevant implementing measure in the Relevant Member State.

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Prospectus dated 16 February 2017 [and the Prospectus supplement dated *[insert date]*] which together constitutes a base prospectus for the purposes of the Prospectus Directive. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Prospectus [as so supplemented]. Full information on the Issuer, the Guarantor and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus as so supplemented. The Prospectus [and the Prospectus supplement] [has/have] been published on the website of the Luxembourg Stock Exchange at [www.bourse.lu](http://www.bourse.lu).]

*[The following alternative language applies if the first tranche of an issue which is being increased was issued under a Prospectus with an earlier date.]*

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the Prospectus dated *original date* [and the Prospectus supplement dated *[insert date]*] which are incorporated by reference in the Prospectus dated 16 February 2017. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Prospectus dated 16 February 2017 [as so supplemented] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (the "**Prospectus**"). Full information on the Issuer, the Guarantor and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus. The Prospectus [and the Prospectus supplement] [has/have] been published on the website of the Luxembourg Stock Exchange at [www.bourse.lu](http://www.bourse.lu).]

*Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs please note that the sub-paragraphs of the paragraphs which are not applicable should be deleted. Italics denote guidance for completing the Final Terms.*

1. (i) Series Number: [•]
- (ii) Tranche Number: [•]
- (iii) Date on which the Notes will be consolidated and form a single Series: [Not Applicable] [The Notes will be consolidated and form a single Series with *[identify earlier Tranches]* on [the Issue Date/the date that is 40 days after the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 21 below, which is

		expected to occur on or about [date]]
2.	Specified Currency or Currencies:	[•]
3.	Aggregate Nominal Amount of Notes:	[•]
	(i) Series:	[•]
	(ii) Tranche:	[•]
4.	Issue Price:	[•] per cent. of the Aggregate Nominal Amount plus accrued interest from [•]
5.	Specified Denominations: (As referred to under Condition 1)	[•]
6.	Calculation Amount: (As referred to under Condition 5)	[•]
7.	(i) Issue Date:	[•]
	(ii) Interest Commencement Date (As referred to under Condition 5)	[•] / Issue Date/ Not Applicable
8.	Maturity Date: (As referred to under Condition 6(a))	[•]
9.	Interest Basis: (As referred to under Condition 5)	[•] per cent. Fixed Rate [•] month [•] +/- [•] per cent. Floating Rate Zero Coupon
10.	Redemption/Payment Basis: (As referred to under Condition 6)	Subject to any purchase and cancellation on early redemption the Notes will be redeemed on the Maturity Date at [•] per cent. of their nominal amount.
11.	Change of Interest or Redemption/Payment Basis: (As referred to under Condition 6)	<i>[Specify details of any provisions for the change of Notes into another Interest Basis: [Fixed Rate Note to Floating Rate Note/ Floating Rate Note to Fixed Rate Note/ Fixed Rate Note to Zero Coupon Note/ Floating Rate Note to Zero Coupon Note/ Floating Rate Note to Zero Coupon Note/ Zero Coupon Note to Fixed Rate Note/ Zero Coupon Note to Floating Rate Note]. [Cross refer to paragraph 14 to 16 as applicable] [Not Applicable] [Ratings Step-up/Step-down applicable; with a Step-up Margin of [•] per cent.] / [Not Applicable] [subject to Ratings Step-up/Step-down, as set out below]</i>
12.	(i) Put/Call Options: (As referred to under Condition 6(d) and Condition 6(e))	Investor Put -Applicable/-Not Applicable Issuer Call -Applicable/-Not Applicable
	(ii) Change of Control Put Event (As referred to under Condition 6(f))	-Applicable/-Not Applicable
13.	Date Board approval for issuance of Notes and Guarantee obtained:	[•] and [•], respectively  (N.B Only relevant where Board (or similar) authorisation is required for the particular

**PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

14. **Fixed Rate Note Provisions**  
(As referred to under Condition 5(a))
- Applicable/Not Applicable  
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Rate(s) of Interest: [•] per cent. per annum payable annually/semi-annually/quarterly/monthly/ in arrear. [Subject to ratings Step-up/Step-down as set out below]
- (ii) Interest Payment Date(s): [•] in each year adjusted in accordance with *specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"*/not adjusted up to and including the Maturity Date
- (iii) Fixed Coupon Amount(s): [•] per Calculation Amount
- (iv) Broken Amount(s): [•] per Calculation Amount payable on the Interest Payment Date falling in/on [•][Not Applicable]
- (v) Day Count Fraction: Actual/Actual / Actual/Actual-ISDA / Actual/365(fixed) / Actual/365 (Sterling) / Actual/360 / 30/360 / 360/360 / Bond Basis / 30E/360/ Eurobond Basis / 30E/360(ISDA) / Actual/Actual-ICMA/
- (vi) Determination Dates: [•] [in each year] / Not Applicable
- (vii) [Ratings Step-up/Step-down] Not Applicable/*The applicable Step-up Margin shall be* [•] per cent.
15. **Floating Rate Note Provisions:**  
(As referred to under Condition 5(b))
- Applicable/Not Applicable  
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Interest Period(s): [•]
- (ii) Specified Interest Payment Dates: [•] in each year, [subject to adjustment in accordance with the Business Day Convention set out in (v) below/ not subject to adjustment, as the Business Day Convention in (v) below is specified to be Not Applicable]
- (iii) First Interest Payment Date [•]
- (iv) Interest Period Date: [•]  
  
(Not applicable unless different from Interest Payment Date)
- (v) Business Day Convention: Floating Rate Convention/Following Business Day Convention/ Modified Following Business Day Convention/Preceding Business Day Convention/Not Applicable
- (vi) Business Centre(s): [•]

	(vii)	Manner in which the Rate(s) of Interest is/are to be determined:	Screen Rate Determination	Determination/ISDA
	(viii)	Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Fiscal Agent):	[•]	
	(ix)	Screen Rate Determination:	[•]	
		– Reference Rate:	[•]	
		– Interest Determination Date(s):	[•]	
		– Relevant Screen Page:	[•]	
	(x)	ISDA Determination:		
		– Floating Rate Option:	[•]	
		– Designated Maturity:	[•]	
		– Reset Date:	[•]	
	(xi)	Linear Interpolation:	[Not Applicable/Applicable - the Rate of interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation ( <i>specify for each short or long interest period</i> )]	
	(xii)	Margin(s):	+/-[•] per cent. per annum[; subject to Ratings Step-up/Step-down, as set out below]	
	(xiii)	Minimum Rate of Interest:	[•] per cent. per annum[; subject to Ratings Step-up/Step-down, as set out below]	
	(xiv)	Maximum Rate of Interest:	[•] per cent. per annum[; subject to Ratings Step-up/Step-down, as set out below]	
	(xv)	Day Count Fraction:	Actual/Actual / Actual/Actual-ISDA / Actual/365(fixed) / Actual/365 (Sterling) / Actual/360 / 30/360 / 360/360 / Bond Basis / 30E/360/ Eurobond Basis / 30E/360(ISDA) / Actual/Actual-ICMA	
	(xvi)	[Ratings Step-up/Step-down]	[Not Applicable/the applicable Step-up Margin is [•] per cent.]	
16.		<b>Zero Coupon Note Provisions</b> (As referred to under Condition 5(c))	Applicable/Not Applicable ( <i>If not applicable, delete the remaining sub-paragraphs of this paragraph</i> )	
	(i)	Amortisation Yield:	[•] per cent. per annum	
	(ii)	Day Count Fraction in relation to Early Redemption Amounts:	[30/360] [Actual/360] [Actual/365]	

#### PROVISIONS RELATING TO REDEMPTION

17.	<b>Call Option</b> (As referred to under Condition 6(d))	Applicable/Not Applicable ( <i>If not applicable, delete the remaining sub-paragraphs of this paragraph</i> )
-----	-------------------------------------------------------------	------------------------------------------------------------------------------------------------------------------

- (i) Optional Redemption Date(s): [•]
- (ii) Optional Redemption Amount(s) of each Note: [[•] per Calculation Amount/other]
- (iii) Redeemable in part: [Applicable]/[Not Applicable]
- (a) Minimum Redemption Amount: [•] per Calculation Amount
- (b) Maximum Redemption Amount: [•] per Calculation Amount
- (iv) Notice period [•]
18. **Put Option** Applicable/Not Applicable  
(As referred to under Condition 6(e)) *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Optional Redemption Date(s): [•]
- (ii) Optional Redemption Amount(s) of each Note: [•] per Calculation Amount
- (iii) Notice period [•]
19. **Final Redemption Amount of each Note** [•] per Calculation Amount  
(As referred to under Condition 6(a)) *(to be no less than par)*
20. **Early Redemption Amount**
- (As referred to under Condition 6(b))
- Early Redemption Amount(s) payable on redemption for taxation reasons or on event of default or other early redemption: [•] per Calculation Amount

#### GENERAL PROVISIONS APPLICABLE TO THE NOTES

21. Form of Notes: **Bearer Notes:**
- Applicable/Not Applicable  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note
- Temporary Global Note exchangeable for Definitive Notes on [•] days' notice
- Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note
- Registered Notes**
- Applicable/Not Applicable



- |     |                                                                                                       |                                                                                                                                                             |
|-----|-------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 22. | New Global Note:                                                                                      | Yes/No                                                                                                                                                      |
| 23. | Financial Centre(s):                                                                                  | Not Applicable / [•]                                                                                                                                        |
| 24. | Talons for future Coupons to be attached to Definitive Notes (and dates on which such Talons mature): | No/Yes. As the Notes have more than 27 coupon payments, talons may be required if, on exchange into definitive form, more than 27 coupon payments are left. |

### Responsibility

(*Relevant third party information*) has been extracted from (*specify source*). Each of the Issuer and the Guarantor confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by (*specify source*), no facts have been omitted which would render the reproduced information inaccurate or misleading.

Signed on behalf of ENERGA Finance AB (publ):  
(*as Issuer*)

By: .....  
Duly authorised

Signed on behalf of ENERGA SA:  
(*as Guarantor*)

By: .....  
Duly authorised

## PART B – Other Information

### 1. Listing and admission to trading

- (i) Listing and admission to trading: [Application has been made by the Issuer (or on its behalf) for the Notes to be listed on the [Official List of the Luxembourg Stock Exchange / [•]] and admitted to trading on [the Regulated Market of the Luxembourg Stock Exchange / [•]] with effect from [•].]  
[Application is expected to be made by the Issuer (or on its behalf) for the Notes to be listed on the [•] and admitted to trading on [•] with effect from [•].]
- (ii) Estimate of total expenses related to admission to trading: [•]

### 2. Ratings

- Ratings: [The Notes are not expected to be rated.] [[The Notes to be issued [have been/are expected to be rated/ [the following ratings reflect ratings assigned to Notes of this type issued under the Programme generally]]:
- [S & P: [•]]
- [Moody's: [•]]
- [[Fitch: [•]]
- [[Other]: [•]]
- [Each of [insert rating agency] is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) (the "CRA Regulation")]

### 3. Interests of Natural and legal persons involved in the issue/offer

*(Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the statement below:*

"Save as discussed in "Subscription and Sale", so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer." Amend as appropriate if there are other interests)

### 4. Fixed Rate Notes only – YIELD

- Indication of yield: [•]

### 5. OPERATIONAL INFORMATION

- (i) ISIN: [•]
- (ii) Common Code: [•]
- (iii) Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking, S.A. the relevant address and the identification [Not Applicable/ [•]]

number(s):

(iv) Names and addresses of additional Paying Agent(s) (if any): [•]

(v) Delivery Delivery [against/free of] payment

6. **DISTRIBUTION:**

(i) Stabilisation Manager(s) (if any) [Not Applicable/*insert name*]

(ii) US Selling Restrictions: [Reg.S Compliance Category 2; TEFRA[C/D]/TEFRA not applicable]

7. **USE OF PROCEEDS:**

*[(See "Use of Proceeds" wording in Prospectus – if reasons for the offer are different from that which is specified in the Prospectus, will need to include those here.)]*

## FORM OF PRICING SUPPLEMENT

The form of Pricing Supplement that will be issued in respect of each Tranche of Exempt Notes, subject only to the deletion of non-applicable provisions, is set out below:

Pricing Supplement dated [•]

**ENERGA Finance AB (publ)**

Issue of

**Aggregate Nominal Amount of Tranche Title of Notes** Guaranteed by

**ENERGA SA**

under the

**Euro 1,000,000,000**

**Guaranteed Euro Medium Term Note Programme**

### PART A – CONTRACTUAL TERMS

Any person making or intending to make an offer of the Notes may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of Directive 2003/71/EC (as amended) (the "**Prospectus Directive**") or to supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer.

This document constitutes the Pricing Supplement for the Notes described herein. This document must be read in conjunction with the Prospectus dated 16 February 2017 [as supplemented by the supplement[s] dated [date[s]]] (the "**Prospectus**"). Full information on the Issuer, the Guarantor and the offer of the Notes is only available on the basis of the combination of this Pricing Supplement and the Prospectus. Copies of the Prospectus may be obtained from [address].

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the Prospectus [dated [original date] [and the supplement dated [date]] which are incorporated by reference in the Prospectus].

*Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs please note that the sub-paragraphs of the paragraphs which are not applicable should be deleted. Italics denote guidance for completing the Final Terms.*

- |    |       |                                                                        |                                                                                                                                                                                                                                                                                                                                                       |
|----|-------|------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. | (i)   | Series Number:                                                         | [•]                                                                                                                                                                                                                                                                                                                                                   |
|    | (ii)  | Tranche Number:                                                        | [•]                                                                                                                                                                                                                                                                                                                                                   |
|    | (iii) | Date on which the Notes will be consolidated and form a single Series: | [Not Applicable] / [The Notes will be consolidated and form a single Series with [identify earlier Tranches] on [the Issue Date/the date that is 40 days after the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 21 below, which is expected to occur on or about [date]]] |
| 2. |       | Specified Currency or Currencies:                                      | [•]                                                                                                                                                                                                                                                                                                                                                   |
| 3. |       | Aggregate Nominal Amount of Notes:                                     | [•]                                                                                                                                                                                                                                                                                                                                                   |
|    | (i)   | Series:                                                                | [•]                                                                                                                                                                                                                                                                                                                                                   |
|    | (ii)  | Tranche:                                                               | [•]                                                                                                                                                                                                                                                                                                                                                   |
| 4. |       | Issue Price:                                                           | [•] per cent. of the Aggregate Nominal Amount plus accrued interest from [•]                                                                                                                                                                                                                                                                          |
| 5. |       | Specified Denominations:                                               | [•]                                                                                                                                                                                                                                                                                                                                                   |

- (As referred to under Condition 1)
6. Calculation Amount: [•]  
(As referred to under Condition 5)
7. (i) Issue Date: [•]  
(ii) Interest Commencement Date [•] / Issue Date/ Not Applicable  
(As referred to under Condition 5)
8. Maturity Date: [•]  
(As referred to under Condition 6(a))
9. Interest Basis: [•] per cent. Fixed Rate  
(As referred to under Condition 5) [•] month [•] +/- [•] per cent. Floating Rate  
Zero Coupon
10. Redemption/Payment Basis: Subject to any purchase and cancellation on  
(As referred to under Condition 6) early redemption the Notes will be redeemed  
on the Maturity Date at [•] per cent. of their  
nominal amount.
11. Change of Interest or Redemption/Payment Basis: *[Specify details of any provisions for the  
(As referred to under Condition 6) change of Notes into another Interest Basis:  
[Fixed Rate Note to Floating Rate Note/ Floating Rate Note to Fixed Rate Note/ Fixed  
Rate Note to Zero Coupon Note/ Floating Rate Note to Zero Coupon Note/ Floating Rate Note  
to Zero Coupon Note/ Zero Coupon Note to Fixed Rate Note/ Zero Coupon Note to  
Floating Rate Note]. [Cross refer to paragraph 14 to 16 as applicable] [Not Applicable]  
[Ratings Step-up/Step-down applicable; with a Step-up Margin of [•] per cent.] / [Not  
Applicable] [subject to Ratings Step-up/Step-down, as set out below]*
12. (i) Put/Call Options: Investor Put -Applicable/-Not Applicable  
(As referred to under Condition 6(d) Issuer Call -Applicable/-Not Applicable  
and Condition 6(e))
- (ii) Change of Control Put Event Applicable/Not Applicable  
(As referred to under Condition 6(f))
13. Date Board approval for issuance of Notes and [•] and [•], respectively  
Guarantee obtained:  
*(N.B Only relevant where Board (or similar) authorisation is required for the particular  
tranche of Notes or related Guarantee)*

#### PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

14. **Fixed Rate Note Provisions** Applicable/Not Applicable  
(As referred to under Condition 5(a)) *(If not applicable, delete the remaining sub-  
paragraphs of this paragraph)*
- (i) Rate(s) of Interest: [•] per cent. per annum payable annually/semi-  
annually/quarterly/monthly/ in arrear. [Subject  
to ratings Step-up/Step-down as set out below]
- (ii) Interest Payment Date(s): [•] in each year adjusted in accordance with  
*specify Business Day Convention and any*

		<i>applicable Business Centre(s) for the definition of "Business Day"/not adjusted up to and including the Maturity Date</i>
(iii)	Fixed Coupon Amount(s):	[•] per Calculation Amount
(iv)	Broken Amount(s):	[•] per Calculation Amount payable on the Interest Payment Date falling in/on [•][Not Applicable]
(v)	Day Count Fraction:	Actual/Actual / Actual/Actual-ISDA / Actual/365(fixed) / Actual/365 (Sterling) / Actual/360 / 30/360 / 360/360 / Bond Basis / 30E/360 / Eurobond Basis / 30E/360(ISDA) / Actual/Actual-ICMA
(vi)	Determination Dates:	[•] [in each year] / Not Applicable
(vii)	Ratings Step-up/Step-down	Not Applicable/The applicable Step-up Margin shall be [•] per cent.
15.	<b>Floating Rate Note Provisions:</b> (As referred to under Condition 5(b))	Applicable/Not Applicable (If not applicable, delete the remaining subparagraphs of this paragraph)
(i)	Interest Period(s):	[•]
(ii)	Specified Interest Payment Dates:	[•] in each year, [subject to adjustment in accordance with the Business Day Convention set out in (v) below/ not subject to adjustment, as the Business Day Convention in (v) below is specified to be Not Applicable]
(iii)	First Interest Payment Date	[•]
(iv)	Interest Period Date:	[•]
		<i>(Not applicable unless different from Interest Payment Date)</i>
(v)	Business Day Convention:	Floating Rate Convention/Following Business Day Convention/ Modified Following Business Day Convention/Preceding Business Day Convention/Not Applicable
(vi)	Business Centre(s):	[•]
(vii)	Manner in which the Rate(s) of Interest is/are to be determined:	Screen Rate Determination/ISDA Determination
(viii)	Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Fiscal Agent):	[•]
(ix)	Screen Rate Determination:	[•]
	– Reference Rate:	[•]
	– Interest Determination Date(s):	[•]
	– Relevant Screen Page:	[•]

- (x) ISDA Determination:
- Floating Rate Option: [•]
  - Designated Maturity: [•]
  - Reset Date: [•]
- (xi) Linear Interpolation: [Not Applicable/Applicable - the Rate of interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (*specify for each short or long interest period*)]
- (xii) Margin(s): +/-[•] per cent. per annum[; subject to Ratings Step-up/Step-down, as set out below]
- (xiii) Minimum Rate of Interest: [•] per cent. per annum[; subject to Ratings Step-up/Step-down, as set out below]
- (xiv) Maximum Rate of Interest: [•] per cent. per annum[; subject to Ratings Step-up/Step-down, as set out below]
- (xv) Day Count Fraction: Actual/Actual / Actual/Actual-ISDA / Actual/365(fixed) / Actual/365 (Sterling) / Actual/360 / 30/360 / 360/360 / Bond Basis / 30E/360/ Eurobond Basis / 30E/360(ISDA) / Actual/Actual-ICMA
- (xvi) [Ratings Step-up/Step-down] [Not Applicable/the applicable Step-up Margin is [•] per cent.]
16. **Zero Coupon Note Provisions**  
(As referred to under Condition 5(c)) Applicable/Not Applicable  
(*If not applicable, delete the remaining subparagraphs of this paragraph*)
- (i) Amortisation Yield: [•] per cent. per annum
  - (ii) Day Count Fraction in relation to Early Redemption Amounts: [30/360]  
[Actual/360]  
[Actual/365]

#### PROVISIONS RELATING TO REDEMPTION

17. **Call Option**  
(As referred to under Condition 6(d)) Applicable/Not Applicable  
(*If not applicable, delete the remaining subparagraphs of this paragraph*)
- (i) Optional Redemption Date(s): [•]
  - (ii) Optional Redemption Amount(s) of each Note: [[•] per Calculation Amount/other]
  - (iii) Redeemable in part: [Applicable]/[Not Applicable]
    - (a) Minimum Redemption Amount: [•] per Calculation Amount
    - (b) Maximum Redemption Amount: [•] per Calculation Amount
  - (iv) Notice period [•]

18. **Put Option**  
(As referred to under Condition 6(e))
- Applicable/Not Applicable  
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Optional Redemption Date(s): [•]
- (ii) Optional Redemption Amount(s) of each Note: [•] per Calculation Amount
- (iii) Notice period [•]
19. **Final Redemption Amount of each Note**  
(As referred to under Condition 6(a))
- [•] per Calculation Amount  
(to be no less than par)
20. **Early Redemption Amount**  
(As referred to under Condition 6(b))
- Early Redemption Amount(s) payable on redemption for taxation reasons or on event of default or other early redemption: [•] per Calculation Amount

#### GENERAL PROVISIONS APPLICABLE TO THE NOTES

21. Form of Notes:
- Bearer Notes:**
- Applicable/Not Applicable  
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note
- Temporary Global Note exchangeable for Definitive Notes on [•] days' notice
- Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note
- Registered Notes**
- Applicable/Not Applicable
22. New Global Note: Yes/No
23. Financial Centre(s): Not Applicable / [•]
24. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): No/Yes. As the Notes have more than 27 coupon payments, talons may be required if, on exchange into definitive form, more than 27 coupon payments are left.

#### Responsibility

The Issuer and the Guarantor accept responsibility for the information contained in this Pricing Supplement. (*Relevant third party information*) has been extracted from (*specify source*). Each of the Issuer and the Guarantor confirms that such information has been accurately reproduced and that, so far



as it is aware, and is able to ascertain from information published by (*specify source*), no facts have been omitted which would render the reproduced information inaccurate or misleading.

Signed on behalf of ENERGA Finance AB (publ):  
(*as Issuer*)

By: .....  
Duly authorised

Signed on behalf of ENERGA SA:  
(*as Guarantor*)

By: .....  
Duly authorised

## PART B – OTHER INFORMATION

### 1. Listing and admission to trading

- (i) Listing and admission to trading: [Application has been made by the Issuer (or on its behalf) for the Notes to be listed on the [•] and admitted to trading on [•] with effect from [•].] [Application is expected to be made by the Issuer (or on its behalf) for the Notes to be listed on the [•] and admitted to trading on [•] with effect from [•].]
- (ii) Estimate of total expenses related to admission to trading: [•]

### 2. Ratings

- Ratings: [The Notes are not expected to be rated.] [[The Notes to be issued [have been/are expected to be rated/ [the following ratings reflect ratings assigned to Notes of this type issued under the Programme generally]]:
- [S & P: [•]]
- [Moody's: [•]]
- [[Fitch: [•]]
- [[Other]: [•]]
- [Each of [insert rating agency] is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) (the "CRA Regulation")]

### 3. Interests of Natural and legal persons involved in the issue/offer

(Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the statement below:

"Save as discussed in "Subscription and Sale", so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer." Amend as appropriate if there are other interests)

### 4. Fixed Rate Notes only – YIELD

- Indication of yield: [•]

### 5. OPERATIONAL INFORMATION

- (i) ISIN: [•]
- (ii) Common Code: [•]
- (iii) Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking, S.A. the relevant address and the identification number(s): [Not Applicable/ [•]]

- (iv) Names and addresses of additional [•]  
Paying Agent(s) (if any):

6. **DISTRIBUTION:**

- (i) Stabilisation Manager(s) (if any) [Not Applicable/*insert name*]  
(ii) US Selling Restrictions: [Reg.S Compliance Category 2;  
TEFRA[C/D]/TEFRA not applicable]

7. **USE OF PROCEEDS:**

*[(See "Use of Proceeds" wording in Prospectus – if reasons for the offer are different from that which is specified in the Prospectus, will need to include those here.)]*

## TAXATION

*The following overviews are not tax advice and are intended as general information only, and each prospective investor should consult a professional tax adviser with respect to the special tax consequences that may arise as a result of acquiring, holding and disposing of Notes, including the applicability and effect of foreign income tax rules, provisions contained in double taxation treaties and other rules which may be applicable.*

### **Kingdom of Sweden**

The following summary outlines certain Swedish tax consequences relating to holders of Notes that are not considered to be Swedish residents for Swedish tax purposes (if not otherwise stated) and to payments by the Guarantors under the Guarantees. The summary is based on the laws of Sweden as currently in effect and is intended to provide general information only. The summary does not address situations where notes are held in an investment savings account (sw. Investeringsparkonto) or the rules regarding reporting obligations for, among others, payers of interest. Further, the summary does not address credit of foreign taxes. Investors should consult their professional tax advisors regarding the Swedish tax and other tax consequences (including the applicability and effect of tax treaties for the avoidance of double taxation) of acquiring, owning and disposing of notes in their particular circumstances.

#### ***Holders Not Resident in Sweden***

Payments of any principal amount or any amount that is considered to be interest for Swedish tax purposes to the holder of any Note should not be subject to Swedish income tax, **provided that** such a holder is not resident in Sweden for Swedish tax purposes and **provided that** such a holder does not have a permanent establishment in Sweden to which the Notes are effectively connected.

Swedish withholding tax, or Swedish tax deduction, is not imposed on payments of any principal amount or any amount that is considered to be interest for Swedish tax purposes to a holder, except for certain payments of interest (and other return on Notes) to a private individual (or an estate of a deceased individual) with residence in Sweden for Swedish tax purposes (see "*Holders Resident in Sweden*" below).

#### ***Holders Resident in Sweden***

Generally, for Swedish corporations and private individuals (and estates of deceased individuals) with residence in Sweden for Swedish tax purposes, all capital income (e.g. income that is considered to be interest for Swedish tax purposes and capital gains on Notes) will be taxable. Specific tax consequences, however, may be applicable to certain categories of corporations, e.g. life insurance companies. Further, specific tax consequences may be applicable if, and to the extent, a holder of Notes realises a capital loss on the Notes and to any currency exchange gains or losses.

If amounts that are considered to be interest for Swedish tax purposes are paid by a legal entity domiciled in Sweden, including a Swedish branch, to a private individual (or an estate of a deceased individual) with residence in Sweden for Swedish tax purposes, Swedish preliminary taxes are normally withheld by the legal entity on such payments. Swedish preliminary taxes are also normally withheld on other return on receivables (but not capital gains), if the return is paid out together with an amount that is considered to be interest for Swedish tax purposes.

#### ***Payments Under the Guarantees***

As for payments by the Guarantors under the Guarantees considered to be interest for Swedish tax purposes to holders of Notes not resident in Sweden for Swedish tax purposes, please refer to the section "*Holders Not Resident in Sweden*" above regarding the tax treatment of holders of Notes.

As for payments by the Guarantors under the Guarantees considered to be interest for Swedish tax purposes (and other return on Notes) to holders of Notes resident in Sweden for Swedish tax purposes, please refer to the section "*Holders Resident in Sweden*" above regarding the tax treatment of holders of Notes.

## Republic of Poland

*The following overview outlines certain principal Polish tax law consequences resulting from investing in the Notes. This statement should not be deemed to be tax advice and it does not purport to be a comprehensive description of all potentially relevant Polish tax considerations.*

*This overview has been prepared on the basis of the tax legislation, published case law, treaties, regulations, and published official interpretations of Polish tax law in force as at the date of this Prospectus, and does not take into account any developments or amendments thereto after that date, whether or not such developments or amendments operate retroactively.*

*Prospective purchasers of the Notes are advised to consult their professional tax advisor regarding the tax consequences of the purchase, ownership, disposal, redemption or transfer without consideration of any Notes.*

*In the following paragraphs, "interest" and other terms are to be understood within the meaning of Polish tax law.*

## Income Tax

### *Taxation of non-Polish tax residents*

Under Art. 3.2a of the Personal Income Tax Act dated 26 July 1991 (the "**PIT Act**"), natural persons, if they do not reside in Poland, are liable to pay tax only on income (revenue) earned in Poland (limited obligation to pay tax).

Under Art. 3.2 of the Corporate Income Tax Act dated 15 February 1992 (the "**CIT Act**"), in the case of taxpayers who do not have their registered office or management in Poland, only the income they earn in Poland is subject to tax obligation in Poland.

Non-Polish tax resident individuals and corporate income taxpayers are subject to Polish income tax only on income earned in Poland. Until 1 January 2017, there were no provisions clarifying the territory where such income for corporate income tax purposes is generated. Since that date, under Art. 3.3 of the CIT Act, income (revenues) earned in the Republic of Poland by non-residents shall include in particular income (revenues) from:

1. all types of activity pursued in the Republic of Poland, including through a foreign establishment located in the Republic of Poland;
2. immovable property located in the Republic of Poland or rights to such property, including from its disposal in whole or in part, or from the disposal of any rights to such property;
3. securities and derivatives other than securities, admitted to public trading in the Republic of Poland as part of the regulated stock exchange market, including those obtained from the disposal of these securities or derivatives, or the exercise of rights resulting from them;
4. the transfer of ownership of shares in a company, of all rights and obligations in a partnership without legal personality, or units in an investment fund or a collective investment undertaking, in which at least 50 per cent. of the value of assets is constituted, directly or indirectly, by immovable properties located in the Republic of Poland, or rights to such immovable properties;
5. the receivables settled, including receivables put at disposal, paid out or deducted, by natural persons, legal persons, or organisational units without legal personality, having their place of residence, registered office, or management board in the Republic of Poland, irrespective of the place of concluding or performing the agreement.

Similar provisions are included in Art. 3.2b of the PIT Act.

It should be noted that the list of incomes (revenues) gained in Poland, as provided in Art. 3.3. of the CIT Act and Art. 3.2b of the PIT Act is not exhaustive, therefore, other income (revenues) may also be considered as earned in the Republic of Poland.

Even though the above list of circumstances in which income (revenue) is sourced in the Republic of Poland is not exhaustive, it could be argued that in principle payments under the securities issued by a foreign entity are not sourced in Poland unless one of the cases indicated above occurs (in particular, the Notes are traded on the Warsaw Stock Exchange or the payment is made by a Polish entity or individual).

If the payment is considered as interest sourced in Poland and the payer of the interest is a tax remitter under Polish tax regulations, the withholding tax at 20 per cent under Art. 21.1.1 of the CIT Act or at 19 per cent under Art. 30a.1.2 of the PIT Act should apply. It should be noted, however, that although this is not clearly regulated in the Polish tax law, in fact, foreign entities do not act as Polish withholding tax remitters.

Moreover, if the payment under the Notes is considered to be sourced in Poland, then the relevant double tax treaty (if any) should be verified to check whether Polish taxation applies at all or whether the withholding tax rate is reduced under the given tax treaty. For example, most of the tax treaties concluded by Poland provide for a tax exemption for Polish income tax on capital gains derived from Poland by a foreign tax resident. To benefit from a tax treaty, a foreign investor should present the relevant certificate of its tax residency. Moreover, many tax treaties provide protection only for beneficial owners. Pursuant to Art. 4a.29 of the CIT Act, beneficial owner shall mean the entity receiving a given receivable for its own benefit, not being an intermediary, representative, trustee, or another entity obliged to transfer the receivable in whole or in part to another entity.

If payments are made by the Guarantor, there is a risk that certain payments (those corresponding to interest) made by the Guarantor are subject to Polish withholding tax if they were classified by the tax authorities as interest derived from Poland. If this were the case, domestic 19 per cent. (for non-resident individuals) or 20 per cent. (for non-resident corporate income taxpayers) withholding tax would apply unless the interest recipient benefitted from a reduced rate or an exemption under the relevant double tax treaty. To benefit from a reduced rate or an exemption under the relevant double tax treaty, the interest recipient would need to produce the relevant certificate of tax residency.

Separate, specific rules apply to interest income on securities held in Polish omnibus accounts (within the meaning of the provisions of the Act on Trading in Financial Instruments, hereinafter Omnibus Accounts). Also, in cases where Polish withholding tax should not apply on interest payable to non-Polish tax residents (natural persons or corporate income taxpayers), under specific rules applicable to interest income on securities held in Omnibus Accounts there is a risk that such tax would be withheld. Under Art. 26.2a of the CIT Act, with respect to income (revenue) from interest transferred to taxpayers holding rights attached to securities registered in Omnibus Accounts whose identity has not been revealed to the tax remitter in accordance with the Act on Trading in Financial Instruments, a 20 per cent. flat-rate tax is withheld by the tax remitter from the aggregate income (revenue) released for the benefit of all such taxpayers through the Omnibus Account holder. Under Art. 30a.2a of the PIT Act, with respect to income (revenue) from interest transferred to taxpayers holding rights attached to securities registered in Omnibus Accounts whose identity has not been revealed to the tax remitter in accordance with the Act on Trading in Financial Instruments, a 19 per cent. flat-rate tax is withheld by the tax remitter from the aggregate income (revenue) released for the benefit of all such taxpayers through the Omnibus Account holder. If such tax is withheld for non-Polish tax resident taxpayers, to receive a refund of such tax, the entity should contact its tax advisor.

If a foreign recipient of income acts through a permanent establishment in Poland to which interest is related, as a matter of principle it should be treated in the same manner as a Polish tax resident.

### ***Taxation of Polish tax residents***

Under Art. 3.1 of the PIT Act, natural persons, if residing in the Republic of Poland, are liable for tax on their total income (revenue) irrespective of the location of the sources of revenue (unlimited obligation to pay tax).

Under Art. 3.1a of the PIT Act, a Polish tax resident individual is a natural person who has his/her centre of personal or business interests located in Poland or who stays in Poland for longer than 183 days in a year, unless any relevant tax treaty dictates otherwise.

### *Interest income*

Under Art. 30a.7 of the PIT Act, interest income does not cumulate with general income subject to the progressive tax rate, but under Art. 30a.1.2 of the PIT Act it is subject to a 19 per cent. flat rate tax.

Under Art. 41.4 of the PIT Act, interest payers, other than individuals not acting within the scope of his/her business activity, should withhold the 19 per cent. Polish tax on any interest payment.

Under Art. 41.4d of the PIT Act, the entities operating securities accounts for individuals, acting as tax remitters, should withhold this interest income if such interest income (revenue) has been earned in Poland and is connected with securities registered in said accounts, and the interest payment to the individual (the taxpayer) is made through said entities.

There are no regulations defining in which cases income earned (revenue) by a Polish tax resident should be considered income (revenue) earned in Poland. However, as of 1 January 2017 a new regulation addressing the source of income with respect to non-residents has been in force and it cannot be excluded that in practice the tax authorities will consider that the same situations should indicate a Polish source of income for Polish tax residents. Pursuant to Art. 3.2b of the PIT Act, income (revenues) earned in the Republic of Poland by non-residents shall include in particular income (revenues) from:

1. work performed in the Republic of Poland based on a service relationship, employment relationship, outwork system and co-operative employment relationship irrespective of the place where remuneration is paid;
2. activity performed in person in the Republic of Poland irrespective of the place where remuneration is paid;
3. economic activity pursued in the Republic of Poland, including through a foreign establishment located in the Republic of Poland;
4. immovable property located in the Republic of Poland or rights to such property, including from its disposal in whole or in part, or from disposal of any rights to such property;
5. securities and derivatives other than securities, admitted to public trading in the Republic of Poland as part of the regulated stock exchange market, including those obtained from the disposal of these securities or derivatives, or the exercise of rights resulting from them;
6. the transfer of ownership of shares in a company, of all rights and obligations in a partnership without legal personality, or units in an investment fund or a collective investment undertaking, in which at least 50 per cent. of the value of assets is constituted, directly or indirectly, by immovable properties located in the Republic of Poland, or rights to such immovable properties;
7. the receivables settled, including receivables put at disposal, paid out or deducted, by natural persons, legal persons, or organisational units without legal personality, having their place of residence, registered office, or management board in the Republic of Poland, irrespective of the place of concluding and performing the agreement.

The above list is not exhaustive; therefore, the tax authorities may also consider that income (revenues) not listed above is sourced in Poland.

Given the above, each situation should be analysed to determine whether interest earned by a Polish tax resident individual from the Notes is considered to be income sourced in Poland and whether the entity operating the securities account for the individual will withhold the tax.

Although this is not clearly regulated in Polish tax law, in fact, foreign entities do not act as Polish withholding tax remitters. Therefore, it should be expected that the issuer itself or a non-Polish entity operating the securities account for the individual will not withhold the tax.

Under Art. 45.3b of the PIT Act (and Art. 45.3c of the Polish PIT Act with respect to securities held in Polish omnibus accounts), if the tax is not withheld, the individual is obliged to settle the tax himself/herself by 30 April of the following year.

Separate, specific rules apply to interest income on securities held in Omnibus Accounts. Under Art. 41.10 of the PIT Act, insofar as securities registered in Omnibus Accounts are concerned, the entities operating Omnibus Accounts through which the amounts due are paid are liable to withhold the flat-rate income tax on interest income. The tax is charged on the day of placing the amounts due at the disposal of the Omnibus Account holder.

Pursuant to Art. 30a.2a of the PIT Act, with respect to income (revenue) from interest transferred to taxpayers holding rights attached to securities registered in Omnibus Accounts whose identity has not been revealed to the tax remitter in accordance with the Act on Trading in Financial Instruments, a 19 per cent. flat-rate tax is withheld by the tax remitter (under Art. 41.10 of the PIT Act the entity operating the Omnibus Account) from the aggregate income (revenue) released for the benefit of all such taxpayers through the Omnibus Account holder.

Under Art. 30a.9 of the PIT Act, withholding tax incurred outside Poland (including countries which have not concluded a tax treaty with Poland), up to an amount equal to the tax paid abroad, but not higher than 19 per cent. tax on the interest amount, could be deducted from the Polish tax liability. Double tax treaties can provide other methods of withholding tax settlements.

#### *Other income*

Income other than interest derived by a Polish tax resident individual from financial instruments held as non-business assets, qualify as capital income according to Art. 17 of the PIT Act. This income does not cumulate with the general income subject to the progressive tax scale but is subject to a 19 per cent. flat rate tax. The costs of acquiring the securities are recognised at the time the revenue is achieved. In principle, this income should be settled by the taxpayer by 30 April of the year following the year in which the income was earned. No tax or tax advances are withheld by the person making the payments.

#### *Notes held as business assets*

If an individual holds the Notes as business assets, in principle, interest and capital gains income should be subject to tax in the same way as other business income. The tax, at 19 per cent. flat rate or the 18 per cent. to 32 per cent. progressive tax rate depending on the choice and meeting of certain conditions by the individual, should be settled by the individual himself/herself.

#### *Polish tax resident corporate income taxpayers*

Under Art. 3.1 of the CIT Act the entire income of taxpayers who have their registered office or management in Poland is subject to tax obligation in Poland, irrespective of where the income is earned.

A Polish tax resident who is a corporate income taxpayer is subject to income tax regarding the securities (including any capital gains and on interest/discount), following the same principles as those which apply to any other income received from business activity. As a rule, for Polish income tax purposes, interest is recognised as revenue on a cash basis, ie when it is received and not when it has accrued. Regarding capital gains, the cost of acquiring securities is recognised at the time the revenue from the disposal of the securities for remuneration is achieved. The taxpayer itself (without the involvement of the tax remitter) settles tax on interest (discount) or capital gains on securities, which is aggregated with other income derived from business operations conducted by the taxpayer.

The appropriate tax rate is the same as the tax rate applicable to business activity, ie 19 per cent. for a corporate income taxpayer or 15 per cent. for small and new taxpayers.

Although no Polish withholding tax should apply on interest payable to Polish corporate income taxpayers, under specific rules applying to interest income on securities held in Omnibus Accounts, under Art. 26.2a of the CIT Act, for income (revenue) from interest transferred to taxpayers holding rights attached to securities registered in Omnibus Accounts whose identity has not been revealed to the tax remitter in accordance with the Act on Trading in Financial Instruments, a 20 per cent flat-rate tax is withheld by the tax remitter from the aggregate income (revenue) released for the benefit of all such taxpayers through the Omnibus Account holder. If such tax is withheld for a Polish tax resident corporate income taxpayer, to receive a refund of such tax, the entity should contact its tax advisor.



## Civil law transactions tax

Neither an issuance of Notes nor a redemption of Notes is subject to tax on civil law transactions.

Under Art. 1.1.1.a of the Tax on Civil Law Transactions Act dated 9 September 2000 (the PCC Act), agreements for the sale or exchange of assets or proprietary rights are subject to tax on civil law transactions. Such transactions are taxable if their subjects are:

- assets located in Poland or proprietary rights exercisable in Poland;
- assets located abroad or proprietary rights exercisable abroad if the acquirer's place of residence or registered office is located in Poland and the civil law transaction was carried out in Poland.

Although this is not clearly addressed in the law, in principle the Notes should not be considered as rights exercisable in Poland.

If the sale or exchange of Notes is subject to PCC, then the tax at 1 per cent. of the market value of the Notes should be payable within 14 days after the sale or exchange agreement is entered into. However, if such agreement has been entered into in notarial form, the tax due should be withheld and paid by the notary public. Tax on the sale of Notes is payable by the entity acquiring the Notes. In the case of exchange agreements, in principle, tax on civil law transactions should be payable by both parties jointly and severally. Under Art. 9.9 of the PCC Act, a PCC exemption applies to the sale of property rights constituting financial instruments (such as the Notes):

- (i) to investment firms and foreign investment firms;
- (ii) effected through investment firms and foreign investment firms;
- (iii) effected as a part of organised trading; and
- (iv) effected outside organised trading by investment firms and foreign investment firms if such rights had been acquired by such firms as a part of organised trading,

within the meaning of relevant regulations of Polish Act on Trading in Financial Instruments.

## Remitter's liability

Under Art. 30 of the Tax Code dated 29 August 1997, a tax remitter failing to fulfil its duty to calculate, withhold or pay tax to a relevant tax authority is liable for the tax that has not been withheld or that has been withheld but not paid, up to the value of all its assets. The tax remitter is not liable if the specific provisions provide otherwise or if tax has not been withheld due to the taxpayer's fault. In such case, the relevant tax authority will issue a decision concerning the taxpayer's liability.

## United States

### *Foreign Account Tax Compliance Act*

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting, or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including Sweden) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to 1 January. However, if further notes (as described Condition 13) that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding

agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes.

## SUBSCRIPTION AND SALE

### Overview of Dealer Agreement

Subject to the terms and on the conditions contained in a dealer agreement dated 16 February 2017 (the "**Dealer Agreement**") between the Issuer, the Guarantor, the Permanent Dealers and the Arrangers, the Notes will be offered on a continuous basis by the Issuer to the Permanent Dealers. However, the Issuer has reserved the right to sell Notes directly on its own behalf to Dealers that are not Permanent Dealers. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Notes may also be sold by the Issuer through the Dealers, acting as agents of the Issuer. The Dealer Agreement also provides for Notes to be issued in syndicated Tranches that are jointly and severally underwritten by two or more Dealers.

The Issuer will pay each relevant Dealer a commission as agreed between them in respect of Notes subscribed by it. The Issuer has agreed to reimburse the Arrangers for certain of their expenses incurred in connection with the update of the Programme and the Dealers for certain of their activities in connection with the Programme.

The Issuer has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

### Selling Restrictions

#### *United States*

Neither Notes nor the Guarantee have been, and they will not be, registered under the U.S. Securities Act of 1933 (the "**Securities Act**"), as amended, and the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Notes in bearer form having a maturity of more than one year are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder.

Each Dealer has represented and agreed that, except as permitted by the Dealer Agreement, it has not offered, sold or delivered and will not offer, sell or deliver the Notes of any identifiable Tranche (i) as part of its distribution at any time or (ii) otherwise until 40 days after completion of the distribution of such Tranche as determined, and certified to the Issuer, by the Fiscal Agent or, in the case of Notes issued on a syndicated basis, the Lead Manager, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

### Public Offer Selling Restriction under the Prospectus directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each a "**Relevant Member State**"), each Dealer has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Prospectus as completed by the Final Terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (i) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

- (ii) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (iii) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision only, the expression an “**offer of Notes to the public**” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression “**Prospectus Directive**” means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

### ***United Kingdom***

Each Dealer has represented and agreed that:

- (i) it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and
- (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

### ***Republic of Italy***

The offering of the Notes has not been registered pursuant to Italian securities legislation and, accordingly, no Notes may be offered, sold or delivered, nor may copies of the Prospectus or of any other document relating to the Notes be distributed in the Republic of Italy, except:

- (i) qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended (the “**Financial Services Act**”) and Article 34-ter, first paragraph, letter b) of CONSOB Regulation No. 11971 of 14 May 1999, as amended from time to time (“**Regulation No. 11971**”); or
- (ii) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Article 34-ter of Regulation No. 11971.

Any offer, sale or delivery of the Notes or distribution of copies of the Prospectus or any other document relating to the Notes in the Republic of Italy under (i) or (ii) above must:

- (a) be made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 16190 of 29 October 2007 (as amended from time to time) and Legislative Decree No. 385 of 1 September 1993, as amended (the “**Banking Act**”); and
- (b) comply with any other applicable laws and regulations or requirement imposed by CONSOB, the Bank of Italy (including the reporting requirements, where applicable, pursuant to Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy, as amended from time to time) and/or any other Italian authority.

### ***Kingdom of Sweden***

Each Dealer has represented and agreed that it will not, directly or indirectly, offer for subscription or purchase or issue invitations to subscribe for or buy Notes or distribute any draft or final document in relation to any such offer, invitation or sale except in circumstances that will not result in a requirement to prepare a prospectus pursuant to the provisions of the Swedish Financial Instruments Trading Act (*lag (1991:980) om handel med finansiella instrument*).

### ***Japan***

The Notes and the Guarantees have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "**FIEA**") and, accordingly, each Dealer has undertaken, and each further Dealer appointed under the Programme will be required to undertake, that it will not offer or sell any Notes directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan or to others for re-offering or resale, directly or indirectly, in Japan or to any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with the FIEA and other relevant laws and regulations of Japan. As used in this paragraph, "**resident of Japan**" means any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

### **General**

These selling restrictions may be modified by the agreement of the Issuer, the Guarantor and the Dealers following a change in a relevant law, regulation or directive.

No representation is made that any action has been taken in any jurisdiction that would permit a public offering of any of the Notes, or possession or distribution of the Prospectus or any other offering material or any Final Terms or Pricing Supplement, as the case may be, in any country or jurisdiction where action for that purpose is required.

Each Dealer has represented and agreed that it shall, to the best of its knowledge, comply with all relevant laws, regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes the Prospectus, any other offering material or any Final Terms or Pricing Supplement, as the case may be.

### **Other Relationships**

Some of the Dealers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business by the Issuer, the Guarantor or their affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or the Guarantor or their affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Issuer or the Guarantor routinely hedge their credit exposure to the Issuer or the Guarantor consistent with their customary risk management policies. Typically, Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the Issuer's or the Guarantor's securities, including potentially any Notes offered under this Programme. Any such short positions could adversely affect future trading prices of any Notes offered under this Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

## GLOSSARY

This section contains an index of defined terms used in this Prospectus.

<b>AACC</b>	The Act amending the Civil Code of 30 May 2008 (Journal of Laws 2008, No. 116, Item 731).
<b>Accession Treaty</b>	Accession Treaty to the EU
<b>Act on RES</b>	The Act on Renewable Energy Sources of 20 February 2015
<b>Act on Trading in Financial Instruments</b>	The Act on Trading in Financial Instruments of 29 July 2005 (Journal of Laws of 2005, No. 183, Item. 1538), as amended.
<b>Agreement</b>	The agreement between ENERGA Kogeneracja, PGE Górnictwo i Energetyka Konwencjonalna S.A., PGNiG TERMIKA S.A., Węglókoks, Towarzystwo Finansowe "Silesia" Sp. z o.o., Fundusz Inwestycji Polskich Przedsiębiorstw FIZAN Polish Corporates Mutual Fund and PGG dated 28 April 2016.
<b>AMI</b>	Advanced Metering Infrastructure – bi-directional communication infrastructure. The prepaid AMI platform project is being implemented at the Group. The purpose of the platform is to ensure the implementation of the prepayment scheme for customers equipped with AMI meters installed by ENERGA-OPERATOR. Those meters will ultimately replace the standard and prepayment meters installed to date for tariff G and C customers.
<b>Anti-Monopoly Law</b>	The Act on Competition and Consumer Protection of 16 February 2007 (Journal of Laws of 2007, No. 50, Item. 331), as amended.
<b>Balancing Market</b>	A market mechanism aimed at the ongoing balancing out of the demand for, and generation of, electricity within the NPG. Due to the inability to store electricity, the volume of energy generated must be equal to the volume of energy supplied to customers within any unit of time. The TSO is responsible for the balancing of the system by managing the Balancing Market.
<b>BAT</b>	"best available techniques"
<b>Birds Directive</b>	Directive 2009/147/EC of the European Parliament and of the Council of 30 November 2009 on the conservation of wild birds (the codified version of Directive 79/409/EEC as amended adopted in 1979).
<b>CER</b>	Certified Emission Reductions
<b>CHP</b>	Combined Heat and Power – combined generation of electricity and heat.
<b>CO<sub>2</sub></b>	Carbon dioxide.
<b>COMI</b>	Centre of main interest.
<b>Commodity Exchanges Act</b>	Act on Commodity Exchanges of 26 October 2000
<b>Compensation Restrictions Act</b>	Act on Remuneration of Persons Managing Certain Legal Entities of 3 March 2000 (Journal of Laws of 2000, No. 26,

	Item.306) as amended.
<b>Constitutional Court</b>	Constitutional Court of Poland
<b>Directive 2009/29</b>	Directive 2009/29/EC of the European Parliament and of the Council of 23 April 2009 amending Directive 2003/87/EC so as to improve and extend the greenhouse gas emission allowance trading scheme of the EU.
<b>Distribution Segment</b>	The distribution segment of the Group.
<b>DSO</b>	The Distribution System Operator is, in accordance with the Energy Law, an energy company engaged in the distribution of electricity, responsible for the operation of the distribution system, current and long-term secure functioning of the system, the operation, maintenance, repairs and necessary development of the distribution system, including interconnections with other energy systems.
<b>EBITDA</b>	Earnings Before Interest, Tax, Depreciation and Amortisation.
<b>EBRD</b>	European Bank of Reconstruction and Development.
<b>EC Council</b>	Council of the European Union
<b>EEAG</b>	Communication from the Commission — Guidelines on State aid for environmental protection and energy 2014-2020
<b>EIA</b>	Environmental impact assessment.
<b>EIA Act</b>	Act on Disclosure of Information on the Environment and its Protection, Community Participation in Environmental Protection and Environmental Impact Assessment of 3 October 2008 (Journal of Laws of 2008, No. 199, Item. 1227), as amended.
<b>EIA Ordinance</b>	Ordinance of the Council of Ministers of Poland determining the types of undertakings likely to significantly impact the environment of 9 November 2010.
<b>EIA report</b>	Environmental impact assessment report.
<b>EIB</b>	European Investment Bank.
<b>Eligible Employees</b>	Employees of state-owned companies that notify the company of their intention to acquire company shares within the required timeframe.
<b>ENERGA</b>	ENERGA SA
<b>ENERGA Capital Group</b>	Founded in 2007 as a result of consolidating ENERGA-OPERATOR with ENERGA Elektrownie Ostrołęka
<b>ENERGA CUW</b>	ENERGA Centrum Usług Wspólnych Sp. z o.o.
<b>Elektrownia Ostrołęka</b>	Elektrownia Ostrołęka SA – the company responsible for construction of the Ostrołęka C project
<b>ENERGA ITE</b>	ENERGA Informatyka i Technologie Sp. z o.o.
<b>ENERGA Kogeneracja</b>	ENERGA Kogeneracja Sp. z o.o.

<b>ENERGA- OBRÓT</b>	ENERGA-OBRÓT SA
<b>ENERGA Obsługa i Sprzedaż</b>	ENERGA Obsługa i Sprzedaż Sp. z o.o.
<b>ENERGA– OPERATOR</b>	ENERGA- Operator SA
<b>ENERGA Oświetlenie</b>	ENERGA Oświetlenie Sp. z o.o.
<b>ENERGA Wytwarzanie</b>	ENERGA Wytwarzanie SA
<b>Energy Efficiency Act</b>	The Act on Energy Efficiency of 15 April 2011 (Journal of Laws of 2011, No. 94, Item. 551).
<b>Energy Law</b>	The Act on Energy Law of 10 April 1997 (Journal of Laws of 2006, No. 89, Item 625), as amended.
<b>Energy Market Agency</b>	( <i>Agencja Rynku Energii S.A.</i> ) A Polish governmental agency established in April 1997 to conduct research and assemble vital information for the energy sector.
<b>Energy Policy</b>	Energy policy for Poland until 2030, adopted by the Polish government in November 2009.
<b>Environmental Protection Law</b>	Act on Environmental Protection Law of 27 April 2001 (Journal of Laws of 2001, No. 62, Item. 627), as amended.
<b>ERO</b>	Energy Regulatory Office ( <i>Urząd Regulacji Energetyki</i> ).
<b>ERU</b>	Emission Reduction Units
<b>EU ETS</b>	EU system of emission allowances trading
<b>EU</b>	The European Union
<b>EUA</b>	European Union Allowances
<b>European Commission</b>	The executive body of the EU.
<b>European Court of Justice</b>	The highest court in the European Union in matters of EU law (officially the Court of Justice of the European Union).
<b>European Economic Area Agreement</b>	The Agreement on the European Economic Area, which entered into force on 1 January 1994, brings together the 27 EU Member States and Iceland, Liechtenstein and Norway in a single market, referred to as the "Internal Market".
<b>European Free Trade Agreement</b>	An intergovernmental organisation set up for the promotion of free trade and economic integration to the benefit of its four member states, Iceland, Liechtenstein, Norway and Switzerland.
<b>European Parliament</b>	The directly elected parliamentary institution of the EU.
<b>ETS Act</b>	Act on Greenhouse Gas Emission Allowances Trading Scheme of 12 June 2015 (Journal of Laws of 2015, Item. 1223), as amended.
<b>Generation Segment</b>	The generation segment of the Group.
<b>Group</b>	ENERGA SA together with its consolidated subsidiaries.
<b>Guarantee</b>	The guarantee given by the Guarantor in respect of the Notes



issued under the Programme.

<b>Guarantor</b>	ENERGA SA
<b>GW; GWh</b>	A gigawatt is a unit of power; one gigawatt equals 1,000 MW; one gigawatt-hour represents one hour of electricity consumption at a constant rate of 1 GW.
<b>Habitats Directive</b>	Council Directive 92/43/EEC of 21 May 1992 on the conservation of natural habitats and of wild fauna and flora adopted in 1992.
<b>HV</b>	High voltage
<b>IED</b>	Directive 2010/75/EU of the European Parliament and of the Council on industrial emissions.
<b>Intra-Company Collective Bargaining Agreement</b>	An intra-company collective bargaining agreement for employees of the energy sector dated 13 May 1993
<b>Installed capacity</b>	The nominal, name plate capacity installed.
<b>IPPC Directive</b>	Directive 2008/1/EC of the European Parliament and of the Council of 15 January 2008 concerning integrated pollution prevention and control.
<b>Investors</b>	ENERGA Kogeneracja, PGE Górnictwo i Energetyka Konwencjonalna S.A., PGNiG TERMIKA S.A., Węglukoks, Towarzystwo Finansowe "Silesia" Sp. z o.o., Fundusz Inwestycji Polskich Przedsiębiorstw FIZAN Polish Corporates Mutual Fund, PGG
<b>Issuer</b>	ENERGA Finance AB (publ)
<b>KPRU</b>	National Allowance Allocation Plan ( <i>Krajowy Plan Rozdziału Uprawnień</i> ) for Phase I of the EU ETS.
<b>KPRU II</b>	The National Allowance Allocation Plan ( <i>Krajowy Plan Rozdziału Uprawnień</i> ) for Phase II of the EU ETS (2008–2012)
<b>kV</b>	A kilovolt is a unit of electric tension; one kilovolt equals one thousand volts.
<b>KW</b>	Kompania Weglowa S.A.
<b>kW; kWh</b>	A kilowatt is a unit of power; one kilowatt-hour represents one hour of electricity consumption at a constant rate of 1kW.
<b>Labour Code</b>	Labour Code of 26 June 1974 (Journal of Laws, unified text of 1998, No. 21, item 94)
<b>LCP Directive</b>	Directive 2001/80/EC of the European Parliament and Council of 23 October 2001 on the limitation of emissions of certain pollutants into the air from large combustion plants.
<b>List 1 projects</b>	Projects likely to always significantly impact the environment and which require that an environmental decision be obtained and is subject to an EIA.
<b>List 2 projects</b>	Projects likely to potentially significantly impact the environment and which require that an environmental decision

	be obtained and is subject to an EIA.
<b>LV</b>	Low voltage
<b>Management Board</b>	The executive board of directors.
<b>Member States</b>	Member states of the EU.
<b>MW; MWh</b>	A megawatt is a unit of power; one megawatt equals 1,000 kW; one megawatt-hour represents one hour of electricity consumption at a constant rate of 1 MW.
<b>MWe</b>	A megawatt electrical, it refers to electric power.
<b>MWt</b>	A megawatt thermal, it refers to thermal power produced.
<b>MV</b>	Medium voltage
<b>National Power System</b>	The Polish national power system.
<b>Nature Conservation Act</b>	Act on Nature Conservation of 16 April 2004.
<b>NIB</b>	Nordic Investment Bank
<b>Notes</b>	The notes which the Issuer may from time to time issue under the Programme.
<b>NPG</b>	<p>National Power Grid (<i>Krajowy System Elektroenergetyczny</i>) is a set of devices used for the distribution, transmission and generation of electricity, combined into a system facilitating continuous and uninterrupted supplies of electricity.</p> <p>NPG is divided into the following subsystems: (1) generation, i.e. System Power Stations, (2) transmission system - 750 kV, 400 kV and 220 kV power lines and substations. The transmission system is a nationwide system owned entirely by the State Treasury and is managed by PSE, the only TSO operating on the market and (3) distribution systems – regional systems managed by regional operators (DSO).</p>
<b>O&amp;M</b>	Operating and maintenance
<b>Ostrolęka A</b>	Elektrociepłownia (Combined Heat and Power Plant) Ostrolęka A
<b>Ostrolęka B</b>	Elektrownia (Power Plant) Ostrolęka B
<b>Ostrolęka C</b>	Ostrolęka C Power Plant, a new generation unit in Ostrolęka of 1,000 MWe (100 MWe thereof are treated as a renewable energy source).
<b>PGE</b>	PGE Polska Grupa Energetyczna S.A.
<b>PGG</b>	Polska Grupa Górnicza Sp. z o.o.
<b>Polish Power Exchange</b>	Polish market for energy exchange <i>Towarowa Gielda Energii S.A.</i>
<b>PPA</b>	Power purchase agreement.
<b>PPA Termination Act</b>	Act on Covering the Costs Incurred by Producers in Connection with the Early Termination of Long-term Contracts for the Sale of Power and Electricity of 29 June

	2007 (Journal of Laws 2007, No. 130, Item 905), as amended
<b>President of the ERO</b>	The President of the Energy Regulatory Office
<b>PSE</b>	Polskie Sieci Elektroenergetyczne S.A.
<b>Public Procurement Law</b>	Act on Public Procurement Law of 29 January 2004 (Journal of Laws of 2007, No. 223, Item. 1655), as amended.
<b>RAB</b>	The Regulatory Asset Base. This reflects the value of the assets of the DSO engaged in the distribution activity. RAB is used by ERO to establish the value of return on capital, one of the components of the DSOs regulated revenue established in the tariffs calculation process. The value of RAB of each DSO is updated in each tariff year taking into account the justified level of capital expenditure and justified level of connection fees (both as approved by the President of ERO), planned level of aid funds and other non-refundable financing sources, and RAB depreciation.
<b>Regulation 651</b>	Commission Regulation (EU) No 651/2014 of 17 June 2014,
<b>RES</b>	renewable energy sources
<b>SAIDI</b>	System Average Interruption Duration Index for long and very long outages, expressed in minutes per customer over a year, being the sum of the products of the interruption duration and the number of customers suffering from the effects of the interruption during the course of a year, divided by the total number of customers served.
<b>SAIFI</b>	System Average Interruption Frequency Index for long and very long outages, being the number of customers suffering from the effects of all the interruptions in the course of a year, divided by the total number of customers served.
<b>Sales Segment</b>	The sales segment of the Group.
<b>Smart Metering</b>	The latest generation of energy measuring systems, facilitating a two-way remote transmission of data from the meters. Intelligent meters facilitate communication between the customer and the energy seller in real time; it is possible to transmit data not only from the meter to the seller, but also to transmit information from the seller to the meter. Thus, for example, the meter can be configured automatically, the supply can be connected or disconnected, the actual data on the consumption level and power failures can be analysed. Smart meters provide energy consumers with full information on their energy consumption in a user-friendly, transparent way, facilitating the actual management of energy consumption by the energy consumers.
<b>SOHO</b>	Small office/home office
<b>SPOT Market</b>	The spot market segments of the Polish Power Exchange
<b>State Treasury</b>	The State Treasury of Poland ( <i>Skarb Państwa</i> ).
<b>Supervisory Board</b>	Supervisory and consulting body and is responsible for, among other things, supervising the Group's activities and reviewing and approving important transactions involving the Group.

**System Power Station**

A power station constituting a part of the NPG.

**Tariff group**

A group of consumers supplied with electricity or using the electricity distribution service or a combined service, to whom one set of charges and terms of use is applicable. The different tariff groups are:

A: customers connected to the high voltage (110 kV) power grid, for example the biggest industrial plants, factories, mills, shipyards, steelworks and foundries.

B customers connected to the medium voltage (between 1 kV and 110 kV) power grid, for example large industrial plants, factories, hospitals, shopping centres, hydrophore stations, chicken farms, petrol stations, bars, recreational and entertainment facilities.

C,D: customers connected to the low voltage (up to 1 kV) power grid, for example banks, shops, out-patient clinics, retail and service points, city and village street lighting.

R: customers connected to the power grid irrespective of the voltage, whose installations are not equipped with measuring systems. For example, engines of alarm buzzers connected to a grid without a meter, cathodic protection systems for pipelines, lighting for advertisements, cameras monitoring public areas, travelling circuses and fairgrounds.

G customers connected to the power grid irrespective of the voltage, who use electricity for household needs. For example, (i) utility premises related to the running of households such as basement premises, garages and attics, provided economic activity is not conducted in them; (ii) collective residential premises, such as halls of residence, boarding schools, workers' hostels, convents, monasteries, presbyteries, canonry housing, care homes, hospices, children's homes, the social amenities parts of penitentiaries and military units, and also auxiliary premises located in the foregoing premises provided economic activity is not conducted in them; (iii) temporary housing; (iv) flats of employees of diplomatic institutions and foreign representative offices; (v) summer houses and sheds on garden allotments in which economic activity is not conducted; (vi) lighting in residential buildings, such as on staircases, house/block numbers, cellars, attics, and drying rooms; (vii) energy supply for lifts in residential buildings, hotspots and hydrophore premises under the management of the administration of residential houses/blocks of flats; and (viii) the individual garages of customers in which economic activity is not conducted.

**Tariff Ordinance**

Ordinance of the Minister of the Economy on Detailed Principles on which Tariffs are Formed and Calculated and the Principles Governing Settlements in Trading in Electricity dated 14 December 2000.

**TGE**

Towarowa Gielda Energii S.A., the Polish market for energy exchange

**TPA**

Third Party Access – a rule allowing for the use of the grid of the grid company without an obligation to purchase electricity from that company. The TPA rule is a consequence of

unbundling, i.e. the separation of energy distribution from the trading in energy by energy companies.

**TSO**

The Transmission System Operator is, in accordance with the Energy Law, an energy company engaged in the transmission of electricity, responsible for: (i) the operation of the power transmission system; (ii) the current and long-term secure functioning of the system; (iii) the operation, maintenance and repairs and necessary development of the transmission system, including interconnections with other energy systems; and (iv) the balancing of the system by managing the balancing market, consisting of the balancing out of energy demand and supply and managing any system limitations in order to ensure the secure functioning of the energy system.

PSE, a company owned by the State Treasury, is the only TSO in Poland and has a monopoly in the electricity transmission market in Poland.

**TW; TWh**

A terawatt is a unit of power; one terawatt equals 1,000 GW; one terawatt-hour represents one hour of electricity consumption at a constant rate of 1 TW.

**WACC**

Weighted Average Cost of Capital

**Węłokoks S.A.**

Węłokoks S.A.

**Wind Farm Act or WFA**

Wind Power Plant Investments Act of 20 May 2016

## GENERAL INFORMATION

- (1) Application has been made to list the Notes on the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to the Official List and to be admitted to trading on the Luxembourg Stock Exchange's regulated market.
- (2) Each of the Issuer and the Guarantor has obtained all necessary consents, approvals and authorisations in the Kingdom of Sweden and the Republic of Poland in connection with the update of the Programme and the giving of the Guarantee. The update of the Programme was authorised by a resolution of the Board of Directors of the Issuer passed on 31 January 2017 and the giving of the Guarantee by the Guarantor was authorised by resolution number 400/V/2017 of the Guarantor passed on 7 February 2017.
- (3) There has been no significant change in the financial or trading position of the Guarantor or of the Group since 30 September 2016 and no material adverse change in the prospects of the Guarantor or of the Group since 31 December 2015.
- (4) There has been no significant change in the financial or trading position of the Issuer since 31 December 2016 and no material adverse change in the prospects of the Issuer since 31 December 2016.
- (5) The Guarantor has not nor has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Guarantor is aware) during the 12 months preceding the date of this Prospectus which may have or has had in the recent past significant effects on the financial position or profitability of the Guarantor or of the Group.
- (6) The Issuer has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during the 12 months preceding the date of this Prospectus which may have or have had in the recent past significant effects on the financial position on profitability of the Issuer.
- (7) Each Bearer Note other than temporary Global Notes and Coupon and Talon relating to such Note will bear the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code".
- (8) Notes have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems (which are the entities in charge of keeping the records). The Common Code, the International Securities Identification Number (ISIN) and (where applicable) the identification number for any other relevant clearing system for each Series of Notes will be set out in the relevant Final Terms.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of any alternative clearing system will be specified in the applicable Final Terms.

- (9) There are no material contracts entered into other than in the ordinary course of the Issuer's or Guarantor's business, which could result in any member of the Issuer's Group being under an obligation or entitlement that is material to the Issuer's or Guarantor's ability to meet its obligations to noteholders in respect of the Notes being issued or the Guarantee, as applicable.
- (10) Where information in this Prospectus has been sourced from third parties, this information has been accurately reproduced and as far as the Issuer is aware and is able to ascertain from the information published by such third parties no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of third party information is identified where used.
- (11) The issue price and the amount of the relevant Notes will be determined, before filing of the relevant Final Terms (or Pricing Supplement, in the case of Exempt Notes) of each Tranche, based on the prevailing market conditions.

- (12) For so long as Notes may be issued pursuant to this Prospectus, the following documents will be available, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the registered office of the Guarantor and of the Fiscal Agent:
- (i) the Agency Agreement (which includes the form of the Global Notes, the definitive Bearer Notes, the Certificates, the Coupons and the Talons);
  - (ii) the Deed of Covenant;
  - (iii) the Deed of Guarantee;
  - (iv) the Memorandum and Articles of Association of the Issuer and the Guarantor;
  - (v) the published annual accounts of the Issuer along with the corresponding auditors report for the two years ended 31 December 2015 and 31 December 2016;
  - (vi) the published and audited consolidated financial statements of the Guarantor for the two years ended 31 December 2015 and 31 December 2014, and the interim financial statements and corresponding review report of the auditors of the Guarantor dated 30 September 2016;
  - (vii) each Final Terms and Pricing Supplement (save that any Pricing Supplement will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Fiscal Agent as to its holding of Notes and identity);
  - (viii) a copy of this Prospectus together with any Supplement to this Prospectus; and
  - (ix) all reports, letters and other documents, balance sheets, valuations and statements by any expert any part of which is extracted or referred to in this Prospectus.

This Prospectus and any Final Terms for Notes that are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Luxembourg Stock Exchange's regulated market will be published on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)).

- (13) Copies of the latest consolidated accounts of the Guarantor, the latest interim consolidated accounts of the Guarantor (if any) and the latest published annual accounts of the Issuer may be obtained, and copies of the Agency Agreement, the Deed of Covenant and the Deed of Guarantee will be available for inspection at the specified offices of each of the Paying Agents during normal business hours so long as any of the Notes are outstanding.
- (14) PricewaterhouseCoopers Sp. z o.o., of PricewaterhouseCoopers Sp. z o.o. 00-638 Warsaw, Al. Armii Ludowej 14 (Chartered Accountants/Independent Public Accountants) and a member of KRAJOWA IZBA BIEGLYCH REWIDENTÓW (National Chamber of Statutory Auditors) have audited, and rendered unqualified audit report on, the accounts of the Guarantor for the year ended 31 December 2015.
- (15) KPMG of KPMG Audyt Sp.z.o.o. ul. Chlodna 51, XVIp. 00 – 867 (Chartered Accountants/Independent Public Accountants) and a member of KRAJOWA IZBA BIEGLYCH REWIDENTÓW (National Chamber of Statutory Auditors) have audited, and rendered unqualified audit report on, the accounts of the Guarantor for the year ended 31 December 2014.
- (16) KPMG AB of Tegelbacken 4A, SE-111 52 Stockholm, P.O Box 16106, Sweden, have audited, and rendered unqualified audit report on, the accounts of the Issuer for the year ended 31 December 2015.
- (17) PricewaterhouseCoopers AB of Torsgatan 21, 113 97 Stockholm, Sweden have audited, and rendered unqualified audit report on, the accounts of the Issuer for the year ended 31 December 2016.

- (18) Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to, the Issuer, the Guarantor and/or their affiliates in the ordinary course of business.
- (19) The yield of any fixed rate instruments will be included in the relevant Final Terms (or Pricing Supplement, in the case of Exempt Notes). The yield will be calculated at the relevant Issue Date on the basis of the relevant Issue Price. It will not be an indication of future yield.
- (20) Any websites included in the Prospectus are for information only and do not form part of the Prospectus.



## **FINANCIAL STATEMENTS OF ENERGA SA**

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN  
ACCORDANCE WITH INTERNATIONAL ACCOUNTING STANDARD 34 FOR THE  
NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2016



## **Report on review of condensed consolidated interim financial statements**

To the Management Board of Energa S.A.

### **Introduction**

We have reviewed the condensed interim consolidated financial statements of Energa S.A. and its subsidiaries (the “**Group**”), included in the Prospectus, which comprise condensed interim consolidated statement of financial position as of 30 September 2016 and the related condensed interim consolidated statements of profit or loss, condensed interim consolidated statements of comprehensive income, condensed interim consolidated statements of changes in equity and condensed interim consolidated statements of cash flows for the nine-month period ended 30 September 2016 and the nine-month period ended 30 September 2015 and notes, comprising a summary of significant accounting policies and other explanatory information.

These condensed interim consolidated financial statements have been prepared by Energa S.A. for inclusion in the Prospectus, in accordance with the Attachment IX clause 1.2 to the Commission Regulation (EC) No. 809/2004 of 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements (hereinafter called “Regulation 809/2004”).

### **Management Board’s responsibility for the condensed consolidated interim financial statements**

Management Board of Energa S.A. is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with the Accounting Standard IAS 34 Interim Financial Reporting as adopted by the European Union. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

### **Scope of review**

We conducted our review in accordance with International Standard on Review Engagements 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



## **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements for the nine-month period ended 30 September 2016 and the nine-month period ended 30 September 2015 are not prepared, for the purposes of the Prospectus, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union.

## **Declaration**

For the purpose of clause 1.2 of the Attachment IX to the Regulation 809/2004, we accept responsibility for this report, constituting a part of the Prospectus, and declare that we have applied due diligence in order to ensure that the information contained therein is, to our best knowledge, true, fair and consistent with the actual state, and that nothing was omitted that might affect its significance. This declaration has been included in this Prospectus in accordance with the requirements of clause 1.2 of Attachment IX to the Regulation 809/2004.

PricewaterhouseCoopers Sp. z o.o.  
Gdańsk, 10 February 2017



**ENERGA SA  
Group**

**Condensed interim  
consolidated  
financial statements prepared  
in accordance with IAS 34  
for the nine-month  
period ended  
30 September 2016**



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## CONDENSED INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	9-month period ended 30 September 2016 (unaudited)	9-month period ended 30 September 2015 (unaudited)
<b>Revenue</b>	<b>7,373</b>	<b>7,957</b>
Cost of sales	(6,387)	(6,412)
<b>Gross profit on sales</b>	<b>986</b>	<b>1,545</b>
Other operating income	81	61
Selling and distribution expenses	(243)	(237)
General and administrative expenses	(240)	(246)
Other operating expenses	(200)	(86)
Financial income	47	48
Financial costs	(222)	(215)
Share of the loss of an associate	(60)	-
<b>Profit before tax</b>	<b>149</b>	<b>870</b>
Income tax	(75)	(167)
<b>Net profit for the period</b>	<b>74</b>	<b>703</b>
Attributable to:		
Equity holders of the Parent Company	71	696
Non-controlling interest	3	7
<b>Earnings per share (in PLN)</b>		
- basic	<b>0.17</b>	<b>1.68</b>
- diluted	<b>0.17</b>	<b>1.68</b>



## CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	9-month period ended 30 September 2016 (unaudited)	9-month period ended 30 September 2015 (unaudited)
<b>Net profit for the period</b>	<b>74</b>	<b>703</b>
<b>Items that will never be reclassified to profit or loss</b>	<b>20</b>	<b>7</b>
Actuarial gains and losses on defined benefit plans	24	8
Deferred tax	(4)	(1)
<b>Items that are or may be reclassified subsequently to profit or loss</b>	<b>27</b>	<b>33</b>
Foreign exchange differences from translation of foreign entities	2	(1)
Cash flow hedges	31	42
Deferred tax	(6)	(8)
<b>Net other comprehensive income</b>	<b>47</b>	<b>40</b>
<b>Total comprehensive income</b>	<b>121</b>	<b>743</b>
Attributable to:		
Equity holders of the Parent Company	118	736
Non-controlling interest	3	7



## CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 30 September 2016 (unaudited)	As at 31 December 2015
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	12,993	12,912
Intangible assets	395	395
Goodwill	26	143
Shares in associates accounted for under the equity method	305	-
Deferred tax assets	391	260
Other non-current financial assets	114	60
Other non-current assets	106	103
	<b>14,330</b>	<b>13,873</b>
<b>Current assets</b>		
Inventories	693	513
Current tax receivables	7	47
Trade receivables	1,890	1,762
Portfolio of financial assets	2	322
Other current financial assets	58	38
Cash and cash equivalents	397	1,669
Other current assets	279	232
	<b>3,326</b>	<b>4,583</b>
<b>TOTAL ASSETS</b>	<b>17,656</b>	<b>18,456</b>





## CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

	As at 30 September 2016 (unaudited)	As at 31 December 2015
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Share capital	4,522	4,522
Foreign exchange differences from translation of a foreign entity	2	-
Reserve capital	1,018	447
Supplementary capital	728	661
Cash flow hedge reserve	31	6
Retained earnings	2,384	3,134
<b>Equity attributable to equity holders of the Parent Company</b>	<b>8,685</b>	<b>8,770</b>
<b>Non-controlling interest</b>	<b>47</b>	<b>44</b>
	<b>8,732</b>	<b>8,814</b>
<b>Non-current liabilities</b>		
Loans and borrowings	2,303	2,475
Bonds issued	2,583	3,116
Non-current provisions	644	664
Deferred tax liabilities	594	591
Deferred income and non-current grants	521	531
Other non-current financial liabilities	12	25
	<b>6,657</b>	<b>7,402</b>
<b>Current liabilities</b>		
Trade payables	650	877
Current loans and borrowings	233	203
Bonds issued	59	76
Current income tax liability	13	2
Deferred income and grants	137	161
Short-term provisions	753	471
Other financial liabilities	134	193
Other current liabilities	288	257
	<b>2,267</b>	<b>2,240</b>
<b>Total liabilities</b>	<b>8,924</b>	<b>9,642</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>17,656</b>	<b>18,456</b>



## CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity attributable to equity holders of the Parent Company							Non-controlling interest	Total equity
	Share capital	Foreign exchange differences from translation of a foreign entity	Reserve capital	Supplementary capital	Cash flow hedge reserve	Retained earnings	Total		
<b>As at 1 January 2016</b>	<b>4,522</b>	<b>-</b>	<b>447</b>	<b>661</b>	<b>6</b>	<b>3,134</b>	<b>8,770</b>	<b>44</b>	<b>8,814</b>
Actuarial gains and losses on defined benefit plans	-	-	-	-	-	20	20	-	20
Foreign exchange differences from translation of foreign entities	-	2	-	-	-	-	2	-	2
Cash flow hedges	-	-	-	-	25	-	25	-	25
Net loss for the period	-	-	-	-	-	71	71	3	74
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>2</b>	<b>-</b>	<b>-</b>	<b>25</b>	<b>91</b>	<b>118</b>	<b>3</b>	<b>121</b>
Retained earnings transfer	-	-	571	67	-	(638)	-	-	-
Dividends	-	-	-	-	-	(203)	(203)	-	(203)
<b>As at 30 September 2016 (unaudited)</b>	<b>4,522</b>	<b>2</b>	<b>1,018</b>	<b>728</b>	<b>31</b>	<b>2,384</b>	<b>8,685</b>	<b>47</b>	<b>8,732</b>
<b>As at 1 January 2015</b>	<b>4,522</b>	<b>-</b>	<b>447</b>	<b>607</b>	<b>(17)</b>	<b>2,957</b>	<b>8,516</b>	<b>37</b>	<b>8,553</b>
Actuarial gains and losses on defined benefit plans	-	-	-	-	-	7	7	-	7
Foreign exchange differences from translation of foreign entities	-	(1)	-	-	-	-	(1)	-	(1)
Cash flow hedges	-	-	-	-	34	-	34	-	34
Net profit for the period	-	-	-	-	-	696	696	7	703
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>(1)</b>	<b>-</b>	<b>-</b>	<b>34</b>	<b>703</b>	<b>736</b>	<b>7</b>	<b>743</b>



Accounting principles (policies) and notes to the condensed interim consolidated financial statements constitute an integral part thereof

Retained earnings transfer	-	-	-	54	-	(54)	-	-	-
Dividends	-	-	-	-	-	(596)	(596)	-	(596)
Purchase of non-controlling shares in subsidiaries	-	-	-	-	-	1	1	(1)	-
<b>As at 30 September 2015 (unaudited)</b>	<b>4,522</b>	<b>(1)</b>	<b>447</b>	<b>661</b>	<b>17</b>	<b>3,011</b>	<b>8,657</b>	<b>43</b>	<b>8,700</b>



Accounting principles (policies) and notes to the condensed interim consolidated financial statements constitute an integral part thereof



## CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

	9-month period ended 30 September 2016 (unaudited)	9-month period ended 30 September 2015 (unaudited)
<b>Cash flows from operating activities</b>		
Profit/(loss) before tax	149	870
Adjustments for:		
Share of the loss of an associate	60	-
Foreign currency (gains)/losses	3	(4)
Amortization and depreciation	704	678
Net interest and dividends	183	197
Loss on investing activities, including goodwill impairment allowance	459	27
Changes in working capital:		
Change in receivables	(104)	(7)
Change in inventories	(180)	(380)
Change in payables excluding loans and borrowings	(185)	(339)
Change in prepayments and accruals	(139)	(139)
Change in provisions	265	299
	<b>1,215</b>	<b>1,202</b>
Income tax paid	<b>(164)</b>	<b>(150)</b>
<b>Net cash from operating activities</b>	<b>1,051</b>	<b>1,052</b>
<b>Cash flows from investing activities</b>		
Disposal of property, plant and equipment and intangible assets	16	11
Purchase of property, plant and equipment and intangible assets	(1,152)	(1,117)
Proceeds from deposits above 3m	-	13
Establishment of deposits above 3m	-	(14)
Sale of participation units in the ENERGA Trading fund	320	233
Purchase of shares in entities measured by the equity method	(364)	-
Other	3	3
<b>Net cash from investing activities</b>	<b>(1,177)</b>	<b>(871)</b>
<b>Cash flows from financing activities</b>		
Proceeds from loans and borrowings	350	332
Repayment of loans and borrowings	(521)	(136)
Redemption of debt securities	(578)	-
Dividends paid	(203)	(596)
Interest paid	(180)	(192)
Other	(7)	(1)
<b>Net cash from financing activities</b>	<b>(1,139)</b>	<b>(593)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(1,265)</b>	<b>(412)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>1,658</b>	<b>1,911</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>393</b>	<b>1,499</b>



Accounting principles (policies) and notes to the condensed interim consolidated financial statements constitute an integral part thereof

## ACCOUNTING PRINCIPLES (POLICIES) AND OTHER EXPLANATORY INFORMATION

## 1. General information

The ENERGA SA Group (the "Group") consists of **ENERGA Spółka Akcyjna** ("Parent Company", "Company") with its registered office in Gdańsk and its subsidiaries (see Note 2). The condensed interim consolidated financial statements of the Group covers the nine-month period ended 30 September 2016 and contains appropriate comparative data.

These condensed interim consolidated financial statements have been prepared for the inclusion in the Base Prospectus of the Energa Finance AB (a subsidiary of the Company) prepared for the purposes of the update of a Euro Medium Term Notes Programme, guaranteed by the Company. Notes issued under the Programme are to be admitted to the official list of the Luxembourg Stock Exchange and admitted to trading on the Luxembourg Stock Exchange's regulated market.

The Parent Company is entered in the Register of Entrepreneurs of the National Court Register held by the District Court Gdańsk-Północ, 7th Commercial Division of the National Court Register under number KRS 0000271591. The Parent Company's REGON statistical number is 220353024.

The primary activities of the Group are as follows:

1. distribution and sales of electricity and heat,
2. production of electricity and heat,
3. trading in electricity.

As at 30 September 2016 and in the comparative period, the Polish State Treasury is the parent and ultimate controlling party of the Company and the ENERGA SA Group.

## 2. Composition of the Group and its changes

## 2.1. Composition of the Group at the end of the reporting period

As at 30 September 2016, the Group consists of ENERGA SA and the following subsidiaries:

No.	Company name	Registered office	Line of business	% held by the Group in share capital as at	
				30 September 2016	31 December 2015
Distribution Segment					
1	ENERGA-OPERATOR SA	Gdańsk	distribution of electricity	100	100
2	ENERGA-OPERATOR Eksploatacja Elbląg Sp. z o.o.	Elbląg	grid operation	100	100
3	ENERGA-OPERATOR Eksploatacja Gdańsk Sp. z o.o.	Gdańsk	grid operation	100	100
4	ENERGA-OPERATOR Eksploatacja Kalisz Sp. z o.o.	Kalisz	grid operation	100	100
5	ENERGA-OPERATOR Eksploatacja Płock Sp. z o.o.	Płock	grid operation	100	100
6	ENERGA-OPERATOR Eksploatacja Słupsk Sp. z o.o.	Słupsk	grid operation	100	100
7	ENERGA-OPERATOR Eksploatacja Toruń Sp. z o.o.	Toruń	grid operation	100	100
8	ENERGA-OPERATOR Techniczna Obsługa Odbiorców Sp. z o.o.	Koszalin	technical customer service	100	100
9	Przedsiębiorstwo Budownictwa Elektroenergetycznego ENBUD Słupsk Sp. z o.o.	Słupsk	contracting and design	100	100
10	Energetyka Kaliska – Usługi Techniczne Sp. z o.o.	Kalisz	contracting and design	100	100



Accounting principles (policies) and notes to the condensed interim consolidated financial statements constitute an integral part thereof

No.	Company name	Registered office	Line of business	% held by the Group in share capital as at	
				30 September 2016	31 December 2015
11	ZEP - Centrum Wykonawstwa Specjalistycznego Sp. z o.o.	Płock	contracting and design	100	100
12	Zakład Budownictwa Energetycznego Sp. z o.o.	Koszalin	contracting and design	100	100
13	ENERGA-OPERATOR Logistyka Sp. z o.o.	Płock	logistics and supply	100	100
14	Zakład Energetyczny Toruń - ENERGOHANDEL Sp. z o.o. w likwidacji (in liquidation) <sup>1</sup>	Toruń	supply	-	100
<b>Sales Segment</b>					
15	ENERGA-OBROT SA	Gdańsk	trading in electricity	100	100
16	ENERGA Obsługa i Sprzedaż Sp. z o.o.	Gdańsk	customer service	100	100
17	ENERGA Oświetlenie Sp. z o.o.	Sopot	lighting services	100	100
18	ENERGA SLOVAKIA s.r.o.	Bratislava	trading in electricity	100	100
19	Enspirion Sp. z o.o. (formerly: ENERGA Innowacje Sp. z o.o.)	Gdańsk	organization and management of development of innovative power projects	100	100
20	EOB PGK1 Sp. z o.o.	Gdańsk	financing services	100	100
21	EOB PGK2 Sp. z o.o.	Gdańsk	financing services	100	100
<b>Generation Segment</b>					
22	ENERGA Wytwarzanie SA	Gdańsk	production of energy	100	100
23	ENERGA Elektrownie Ostrołęka SA	Ostrołęka	production of energy	89.64	89.64
24	ENERGA Kogeneracja Sp. z o.o.	Elbląg	production of energy	100	100
25	ENERGA Ciepło Ostrołęka Sp. z o.o.	Ostrołęka	distribution of heat	100	99.99
26	ENERGA Serwis Sp. z o.o.	Ostrołęka	repairs and maintenance services	94.81	94.81
27	ENERGA Ciepło Kaliskie Sp. z o.o.	Kalisz	distribution of heat	91.24	91.24
28	ENERGA Invest SA	Gdańsk	investment project management	100	100
29	ZEC Żychlin Sp. z o.o. <sup>1</sup>	Żychlin	distribution of heat	-	100



Accounting principles (policies) and notes to the condensed interim consolidated financial statements constitute an integral part thereof

No.	Company name	Registered office	Line of business	% held by the Group in share capital as at	
				30 September 2016	31 December 2015
30	Elektrownia Ostrołęka SA	Ostrołęka	production of energy	100	100
31	AEGIR 4 Sp. z o.o.	Gdańsk	production of energy	100	100
32	BORA Sp. z o.o. <sup>1</sup>	Gdańsk	production of energy	-	100
33	Ekologiczne Materiały Grzewcze Sp. z o.o.	Gdańsk	consulting activity	100	100
34	Elektrownia CCGT Gdańsk Sp. z o.o.	Gdańsk	production of energy	100	100
35	Elektrownia CCGT Grudziądz Sp. z o.o.	Grudziądz	production of energy	100	100
<b>Others Segment</b>					
36	ENERGA Centrum Usług Wspólnych Sp. z o.o.	Gdańsk	accounting, payroll and administrative services	100	100
37	ENERGA Finance AB (publ)	Stockholm	financing activity	100	100
38	ENERGA Informatyka i Technologie Sp. z o.o.	Gdańsk	information and communication technologies	100	100
39	RGK Sp. z o.o.	Gdańsk	financing services and property management	100	100
40	ENSA PGK1 Sp. z o.o.	Gdańsk	financing services	100	100
41	ENSA PGK2 Sp. z o.o.	Gdańsk	financing services	100	100
42	ENSA PGK3 Sp. z o.o.	Gdańsk	financing services	100	100
43	ENSA PGK4 Sp. z o.o.	Gdańsk	financing services	100	100
44	ENSA PGK5 Sp. z o.o.	Gdańsk	financing services	100	100
45	ENSA PGK6 Sp. z o.o.	Gdańsk	financing services	100	100
46	ENSA PGK7 Sp. z o.o.	Gdańsk	financing services	100	100
47	ENSA PGK8 Sp. z o.o.	Gdańsk	financing services	100	100

<sup>1</sup> See Note 2.2.

Additionally, the Group holds 15.7% stake in the associate Polska Grupa Górnicza Sp. z o.o. ("PGG") with its registered office in Katowice (see description in note 2.2.). Shares in PGG are measured by the Group by the equity method.



Accounting principles (policies) and notes to the condensed interim consolidated financial statements constitute an integral part thereof

**2.2. Changes in the composition of the Group and investments in associates in the reporting period****2.2.1. Investment in an associate Polska Grupa Górnicza**

On 28 April 2016, the subsidiary ENERGA Kogeneracja Sp. z o.o. signed an Investment Agreement defining the terms and conditions of the financial investment in Polska Grupa Górnicza Sp. z o.o. As part of the investment in PGG, ENERGA Kogeneracja Sp. z o.o. undertook to make payments to the newly-issued shares in PGG in the total amount of PLN 500 m, which will ultimately allow the company to subscribe for 17.1% of PGG's share capital (the number of shares corresponds to the number of voting rights). At the end of the current reporting period, capital contribution of PLN 361 m was made, which results in the subscription of 15.7% of PGG's share capital (the number of shares corresponds to the number of voting rights). Under the Investment Agreement, the next tranches of capital contributions are as follows:

- PLN 83 m – by 3 November 2016 (as at the date of preparing these statements, the tranche has been paid, which gives a 16.6% share in PGG's share capital),
- PLN 56 m – by 1 February 2017 (as at the date of preparing these statements, the tranche has been paid, which gives a 17.1% share in PGG's share capital).

Disbursement of the remaining tranches was conditional upon, among others, the absence of default on terms and conditions of the bonds issued by PGG.

PGG is in the business of coal production and it offers access to extensive resources of energy fuels, which may be used by the Group's production entities. The registered office of PGG is in Katowice, Poland.

Even though it has less than 20 percent of votes in PGG, the Group assessed that it exerts significant influence on the entity. The Investment Agreement provides for a number of mechanisms, which enable investors to monitor PGG's financial standing on an ongoing basis, including fulfillment of its business plan and undertaking of optimization activities, among others when market conditions change to the worse. These rights are exercised by PGG's Supervisory Board, while according to the Agreement, each shareholder in PGG has the right to appoint, dismiss and suspend one Supervisory Board member (as a personal entitlement) out of total of 6 members. For this reason, it was decided that the number of Supervisory Board members is of key importance in determining that the Group exerts significant influence on PGG.

PGG is a privately held company and therefore there are no quotations for its share prices.

As the acquisition transaction took place during the current reporting period, the work associated with allocating the consideration for the shares purchased in PGG have not yet been completed. Accordingly, these consolidated financial statements present only the provisional amounts corresponding to the book value following the conversion of PGG's figures to International Financial Reporting Standards adopted for application in the EU. The final fair values will be determined within 12 months of the investment acquisition date and the impact of these changes will be fully recognized retrospectively.

**2. Composition of the Group and its changes (cont.)**

Provisional values	
Group's share in identifiable net assets (provisional values) of PGG	361
Consideration paid plus transaction costs	364
<b>Goodwill</b>	<b>3</b>

The investment in PGG is accounted for using the equity method. The Group's share of the loss of PGG for the period from the acquisition date amounted to PLN 60 and is presented in the separate line item in the consolidated statement of profit or loss.

**2.2.2. Other changes in the composition of the Group**

Change in the Group which had not impact on the consolidated financial statements:

- On 28 September 2016, ENERGA Wytwarzanie SA transferred the ownership of a block of Elektrownia Ostrołęka SA shares under an agreement to ENERGA SA.
- On 31 August 2016, ENERGA Invest SA acquired Bora Sp. z o.o. through a transfer of all the assets of the acquired company to the acquiring company without increasing the share capital of the acquiring company (resolution of the Extraordinary General Meeting adopted on 17 August 2016, registered in the National Court Register on 31 August 2016).
- On 20 June 2016, ENERGA SA acquired all shares in Enspirion Sp. z o.o. from ENERGA-OBRÓT SA on the basis of a share sale agreement.
- On 1 February 2016, ENERGA Kogeneracja Sp. z o.o. (acquiring company) merged with ZEC Żychlin Sp. z o.o. (acquired company) without increasing the share capital of the acquiring company. Following the merger, ZEC Żychlin Sp. z o.o. was deleted from the National Court Register.
- On 25 January 2016, the Court of Registration removed Zakład Energetyczny Toruń - ENERGOHANDEL Sp. z o.o. w likwidacji (in liquidation) from the National Court Register.



Accounting principles (policies) and notes to the condensed interim consolidated financial statements constitute an integral part thereof



Transactions with non-controlling interest:

- As of 6 April 2016, ENERGA Kogeneracja Sp. z o.o. became the only shareholder of ENERGA Ciepło Ostrołęka Sp. z o.o. by purchasing 3 shares from a shareholder, a natural person.

### 3. Composition of the Parent Company's Management Board

In the period from 1 to 3 January 2016, the Management Board of the Parent Company was as follows:

- Roman Pionkowski – President of the Management Board,
- Seweryn Kędra – Vice-President of the Management Board for Financial Matters.

On 29 December 2015, the Company's Supervisory Board adopted a resolution to appoint as of 4 January 2016 the Company's Management Board for the 5th term of office comprised of:

- Dariusz Kaśków – President of the Management Board,
- Mariusz Rędaszka – Vice-President of the Management Board for Financial Matters,
- Roman Pionkowski – Vice-President of the Management Board for Development Strategy, dismissed as of 26 February 2016.

On 1 February 2016, the Company's Supervisory Board adopted a resolution to appoint Mr. Grzegorz Ksepko to the Company's Management Board as of 1 February 2016 to serve as the Vice-President of the Management Board for Corporate Matters.

On 19 March 2016, the Company's Supervisory Board adopted a resolution to appoint to the Company's Management Board as of 21 March 2016: Ms. Mariola Zmudzińska to serve as the Vice-President of the Management Board for Investor Relations and Mr. Przemysław Piesiewicz to serve as the Vice-President of the Management Board for Development Strategy.

On 17 January 2017 the Supervisory Board dismissed from the Management Board of ENERGA SA:

- Dariusz Kaśków – President of the Management Board;
- Mariusz Rędaszka – Vice-President of the Management Board for Financial Matters;
- Przemysław Piesiewicz – Vice-President of the Management Board for Development Strategy.

Simultaneously on 17 January 2017 the Supervisory Board seconded the member of the Supervisory Board Mr. Jacek Kościelniak to perform temporarily the duties of the Company's Management Board Member for a period of up to 3 months. Mr. Jacek Kościelniak holds the position of President of the Management Board.

### 4. Approval of the financial statements

These condensed interim consolidated financial statements were approved by the Company's Management Board on 10 February 2017.

### 5. Basis for preparation of the financial statements

These condensed interim consolidated financial statements have been prepared on the historical cost basis except for financial instruments measured at fair value through profit or loss and hedging derivatives.

These condensed interim consolidated financial statements are presented in millions of Polish zloty ("PLN m") and have been prepared based on the assumption that the Group would continue as a going concern in the foreseeable future.

As at the date of these condensed interim financial statements there is no evidence indicating significant uncertainty as to the ability of the Group to continue its business activities as a going concern.



Accounting principles (policies) and notes to the condensed interim consolidated financial statements constitute an integral part thereof

**5. Basis for preparation of the financial statements (cont.)****5.1. Statement of compliance**

These condensed interim consolidated financial statements of ENERGA SA Group have been prepared in accordance with the International Accounting Standard 34 "Interim financial reporting" as adopted by the European Union. These financial statements do not include all the information required for a complete set of financial statements compliant with the International Financial Reporting Standards ("IFRS"). However, selected notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements as at and for the year ended 31 December 2015.

**5.2. Functional and presentation currency**

The functional currency of the parent company and other Polish companies covered by these condensed interim consolidated financial statements and the presentation currency of these condensed interim consolidated financial statements is the Polish zloty, except for ENERGA SLOVAKIA s.r.o. and ENERGA Finance AB (publ) where the functional currency is euro. For the purpose of these financial statements, the underlying accounts of the above-mentioned companies have been translated into PLN as follows: data in the statement of financial position, except equity - exchange rates at the reporting date; equity - exchange rates at the date of transaction and data in the statement of profit or loss - at the weighted average exchange rate for the financial period. Exchange differences from translation were captured in other comprehensive income.

**6. Material items subject to judgment and estimates**

In the current reporting period no changes were made in the methods used to make material estimations. Changes of estimates resulted from events that occurred during the reporting period.

The preparation of the condensed interim consolidated financial statements in accordance with the International Accounting Standard 34 "Interim financial reporting" as adopted by the European Union ("EU") requires the Management Board to adopt certain assumptions and estimates that affect the amounts reported in these condensed interim consolidated financial statements and notes thereto. The assumptions and estimates are based on the Management Board's best knowledge of current and future activities and events. However actual results may differ from those anticipated.

The significant judgement made by the Group in relation to the existence of the significant influence over the PGG (new investment acquired in 2016) is disclosed in the Note 2.2.1. All other areas of significant accounting estimates and judgements are the same as in the last annual consolidated financial statements.

**7. Significant accounting policies**

The accounting policies applied by the Group are consistent with those applied in the annual consolidated financial statements for the year ended 31 December 2015, except for the income tax (i.e. income tax expense is recognized based on management's estimate of the weighted average effective annual income tax rate expected for the full financial year). The new or amendment standards or interpretations applied for the first time in the year 2016 have no impact on the accounting policies applied by the Group (for further information see Note 7.1).

**7.1. Standards and interpretations adopted for the first time in 2016**

The following amendments to the existing standards published by the International Accounting Standards Board (IASB) and endorsed in the EU came into force in 2016:

- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures" - Investment Entities: Applying the Consolidation Exception (applicable to annual periods beginning on or after 1 January 2016),
- Amendments to IAS 19 "Employee Benefits" – Defined Benefit Plans: Employee Contributions - endorsed in the EU on 17 December 2015 (applicable to annual periods beginning on or after 1 February 2015),
- Amendments to various standards "Annual Improvements to IFRS (2010-2012 cycle)" – changes introduced during the annual cycle of improvements to IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) aimed mainly at removing inconsistencies agreeing on the wording - endorsed in the EU on 17 December 2015 (applicable to annual periods beginning on or after 1 February 2015),
- Amendments to IFRS 11 "Joint Arrangements" (applicable to annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" – Acceptable methods of amortization and depreciation (applicable to annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture – Bearer Plants" (applicable to annual periods beginning on or after 1 January 2016),
- Amendments to IAS 27 "Separate Financial Statements" – Equity Method in Separate Financial Statements (applicable to annual periods beginning on or after 1 January 2016),



Accounting principles (policies) and notes to the condensed interim consolidated financial statements constitute an integral part thereof

- Amendments to various standards "Annual Improvements to IFRS (2012-2015 cycle)" – changes introduced during the annual cycle of improvements to IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) aimed mainly at removing inconsistencies agreeing on the wording (applicable to annual periods beginning on or after 1 January 2016),
- Amendments to IAS 1 "Presentation of Financial Statements" – Disclosure Initiative (applicable to annual periods beginning on or after 1 January 2016).

These amendments to the standards have had no significant impact on the Group's accounting policies applied so far.

#### **7.2. Standards and interpretations already published and endorsed in the EU, which have not come into effect**

- IFRS 9 "Financial Instruments" (applicable to annual periods beginning on or after 1 January 2018),
- IFRS 15 "Revenue from Contracts with Customers" with clarifications (applicable to annual periods beginning on or after 1 January 2018).

### **7. Significant accounting policies (cont.)**

#### **7.3. Standards and interpretations adopted by the IASB but not yet endorsed in the EU**

IFRS as endorsed in the EU do not currently differ from the regulations adopted by the International Accounting Standards Board, with the exception of the following standards, amendments to standards and interpretations, which as at the date of approving these financial statements have not yet been adopted for application:

- IFRS 14 "Regulatory Deferral Accounts" (applicable to annual periods beginning on or after 1 January 2016),
- IFRS 16 "Leases" (applicable to annual periods beginning on or after 1 January 2019),
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - Sales or contributions of assets between an investor and its associate/joint venture (no effective date specified),
- Amendments to IAS 12 "Income Taxes" – Detailed regulation of the recognition of deferred tax assets for unrealized losses (applicable to annual periods beginning on or after 1 January 2017),
- Amendments to IAS 7 "Statement of Cash Flows" – Disclosure Initiative (applicable to annual periods beginning on or after 1 January 2017),
- Amendments to IFRS 2 "Share-based Payment" – Classification and Measurement of Share-based Payment Transactions (applicable to annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 4 "Insurance Contracts" – Applying changes introduced by IFRS 9 "Financial Instruments" (applicable to annual periods beginning on or after 1 January 2018),
- Clarifications to IFRS 15 "Revenue from Contracts with Customers" (applicable to annual periods beginning on or after 1 January 2018),
- Amendments to IAS 40 "Investment Property" – Transfers of Investment Property (applicable to annual periods beginning on or after 1 January 2018),
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (applicable to annual periods beginning on or after 1 January 2018),
- Amendments to various IFRS standards (2014-2016 cycle) – changes introduced to IFRS 1, IAS 28 (applicable to annual periods beginning on or after 1 January 2018) and IFRS 12 (applicable to annual periods beginning on or after 1 January 2017).

New standards IFRS 9 "Financial Instruments", IFRS 15 "Revenue from Contracts with Customers" introduce significant changes as compared to the currently applicable standards. After a preliminary analysis, the Group expects that abovementioned standards will change i.a. method of bad debt allowance calculation and can affect period of connection fees recognition.

The new standard IFRS 16 "Leases" changes the rules for recognizing agreements that satisfy the definition of a lease. From the Group's point of view, the main change is the requirement to recognize the right to use an asset and a financial liability in the lessee's statement of financial position – both in the case of agreements that meet the criteria of finance leases and operating leases. This change will increase the value of assets and liabilities. The Group has not yet conducted a detailed analysis of the impact that the new standard will exert on the consolidated financial statements.

The Group does not expect the remaining amendments to IFRSs mentioned above to have a material influence on its financial statements.

### **8. Explanations regarding the seasonality and cyclicity of operations in the period under review**

Sales and distribution of electricity and heat during the year are subject to seasonal fluctuations. The volume of energy sold and distributed, and consequently revenue, rise during the winter months and fall in the summer months. This is dependent on the ambient temperature and length of the day. The extent of fluctuations is determined by low temperatures and shorter days in winter and higher temperatures and longer days in summer. The seasonal nature of electric energy sales and distribution applies to a greater extent to small individual customers than to industrial sector clients.



Accounting principles (policies) and notes to the condensed interim consolidated financial statements constitute an integral part thereof

## NOTES ON REPORTABLE SEGMENTS

**9. Reportable segments**

The Group presents segment information in accordance with IFRS 8 Operating Segments. The Group is organized and managed within operating segments, which are divided according to the types of products offered. The operating segments equal the reportable segments. There are no changes in the basis of segmentation as compared to the last annual consolidated financial statements.

The Group's disclosures are made for the following operating segments:

- Distribution – distribution of electricity by ENERGA-OPERATOR SA (Distribution System Operator), as well as operations directly associated with the distribution operations conducted by other Group companies;
- Generation – production of electricity from conventional and renewable sources, production and distribution of heat and maintenance and repair activity, related directly to the production of energy;
- Sales - trading in electricity (wholesale trading and retail sales) and lighting services.
- Other - shared services centers in the accounting, HR and salary, administration and ITC areas as well as financing activity and real estate management areas. The Parent Company has also been classified as belonging to the other segment.

The key measures used by the ENERGA SA Management Board to assess the performance of the segments is net profit and EBITDA, i.e. operating profit /(loss) (calculated as the profit /(loss) before tax adjusted by the share of profit of the associate, financial income and financial costs) plus amortization and depreciation and impairment losses on non-financial non-current assets (mainly property, plant and equipment, intangible assets and goodwill). The EBITDA calculation method changed in the current reporting period. In the previous periods, EBITDA was not adjusted for impairment losses on non-financial non-current assets. This modification chiefly aims to enhance transparency and simplify analyses by ensuring comparability for the key parameter in the industry in which the Group operates. Comparative data have been restated accordingly.

The rules applied to the determination of segment results and measure the segment's assets and liabilities are consistent with the rules used to prepare the consolidated financial statements.

Transactions between segments are settled on market terms.

The Group does not present information by geographic segments since its operations conducted for international clients and its international assets do not have a significant impact on the Group's results.

The tables below show the allocation of revenues and expenses for the period from 1 January to 30 September 2016 and the assets and liabilities as at 30 September 2016 by individual reporting segments, together with appropriate comparative information.



Accounting principles (policies) and notes to the condensed interim consolidated financial statements constitute an integral part thereof

## 9. Operating segments (cont.)

9-month period ended 30 September 2016 (unaudited) or as at 30 September 2016 (unaudited)	Distribution	Sales	Generation	Other	Total	Consolidation eliminations and adjustments	Total activity
<b>Revenues</b>							
Sales to external clients	3,045	3,767	556	5	7,373	-	7,373
Inter-segment sales	32	251	232	102	617	(617)	-
<b>Total segment revenues</b>	<b>3,077</b>	<b>4,018</b>	<b>788</b>	<b>107</b>	<b>7,990</b>	<b>(617)</b>	<b>7,373</b>
<b>EBITDA</b>	<b>1,310</b>	<b>63</b>	<b>195</b>	<b>(38)</b>	<b>1,530</b>	<b>(1)</b>	<b>1,529</b>
Amortization and depreciation	546	27	133	13	719	(15)	704
Impairment losses on non-financial non-current assets	-	-	441	-	441	-	441
<b>Operating profit or loss</b>	<b>764</b>	<b>36</b>	<b>(379)</b>	<b>(51)</b>	<b>370</b>	<b>14</b>	<b>384</b>
Net finance income/expense	(84)	3	55	856	830	(1 005)	(175)
Share in result of an associate	-	-	-	-	-	(60)	(60)
<b>Profit or loss before tax</b>	<b>680</b>	<b>39</b>	<b>(324)</b>	<b>805</b>	<b>1,200</b>	<b>(1 051)</b>	<b>149</b>
Income tax	(128)	(11)	49	15	(75)	-	(75)
<b>Net profit or loss</b>	<b>552</b>	<b>28</b>	<b>(275)</b>	<b>820</b>	<b>1,125</b>	<b>(1 051)</b>	<b>74</b>
<b>Assets and liabilities</b>							
Cash and cash equivalents	4	13	3	377	397	-	397
<b>Total assets</b>	<b>12,597</b>	<b>2,848</b>	<b>4,496</b>	<b>13,631</b>	<b>33,572</b>	<b>(15,916)</b>	<b>17,656</b>
Financial liabilities	3,931	7	1,220	5,714	10,872	(5,694)	5,178
<b>Total liabilities</b>	<b>6,433</b>	<b>2,089</b>	<b>1,699</b>	<b>6,261</b>	<b>16,482</b>	<b>(7,558)</b>	<b>8,924</b>
<b>Other segment information</b>							
Capital expenditures	875	76	184	78	1,213	(98)	1,115



## 9. Operating segments (cont.)

9-month period ended 30 September 2015 (unaudited) (restated) or as at 31 December 2015	Distribution	Sales	Generation	Other	Total	Consolidation eliminations and adjustments	Total activity
<b>Revenues</b>							
Sales to external clients	3,100	4,068	786	3	7,957	-	7,957
Inter-segment sales	37	129	266	136	568	(568)	-
<b>Total segment revenues</b>	<b>3,137</b>	<b>4,197</b>	<b>1,052</b>	<b>139</b>	<b>8,525</b>	<b>(568)</b>	<b>7,957</b>
<b>EBITDA</b>	<b>1,338</b>	<b>116</b>	<b>306</b>	<b>(4)</b>	<b>1,756</b>	<b>(30)</b>	<b>1,726</b>
Amortization and depreciation	529	25	121	14	689	(11)	678
Impairment losses on non-financial non-current assets	-	-	11	-	11	-	11
<b>Operating profit or loss</b>	<b>809</b>	<b>91</b>	<b>174</b>	<b>(18)</b>	<b>1,056</b>	<b>(19)</b>	<b>1,037</b>
Net finance income/expense	(98)	13	(53)	893	755	(922)	(167)
<b>Profit or loss before tax</b>	<b>711</b>	<b>104</b>	<b>121</b>	<b>875</b>	<b>1,811</b>	<b>(941)</b>	<b>870</b>
Income tax	(148)	(20)	(23)	21	(170)	3	(167)
<b>Net profit or loss</b>	<b>563</b>	<b>84</b>	<b>98</b>	<b>896</b>	<b>1,641</b>	<b>(938)</b>	<b>703</b>
<b>Assets and liabilities</b>							
Cash and cash equivalents	708	115	227	619	1,669	-	1,669
<b>Total assets</b>	<b>12,259</b>	<b>2,461</b>	<b>4,589</b>	<b>12,811</b>	<b>32,120</b>	<b>(13,664)</b>	<b>18,456</b>
Financial liabilities	3,670	255	1,512	5,835	11,272	(5,402)	5,870
<b>Total liabilities</b>	<b>5,994</b>	<b>1,580</b>	<b>2,052</b>	<b>6,076</b>	<b>15,702</b>	<b>(6,060)</b>	<b>9,642</b>
<b>Other segment information</b>							
Capital expenditures	719	39	245	30	1,033	(37)	996





## NOTES TO CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

**10. Property, plant and equipment and goodwill**

In the current reporting period, the Group:

- incurred expenditures towards property, plant and equipment in the amount of PLN 1,041 m (PLN 946 m in the corresponding period of 2015);
- sold and scrapped property, plant and equipment with a total carrying value of PLN 25 m (PLN 29 m in the corresponding period of 2015);
- recognized impairment losses on property, plant and equipment in the amount of PLN 434 m (PLN 11 m in the corresponding period of 2015) and reversed impairment losses on property, plant and equipment in the amount of PLN 110 m (no reversal of impairment losses in the corresponding period of 2015). The reversal of the impairment losses referred to the value of fixed assets under construction in the Elektrownia Ostrołęka SA subsidiary. The impairment loss of PLN 122.6 m was recognized in 2012 after the Ostrołęka C power plant project was frozen. The reversal of the impairment loss was caused by the decision of the Management Board to continue with the project realization. It was affirmed by Group's strategy for 2016-2025 where one of primary investments is the construction of a modern Ostrołęka C power plant with a capacity of approx. 1,000 MWe. The ENERGA Group also intends to take advantage of the opportunities offered by the planned Capacity Market, which alongside with coal supply agreement concluded with PGG, makes the project profitable.
- recognized impairment losses on goodwill in the amount of PLN 117 m (no impairment losses in the corresponding period of 2015). Further details about the impairment test are provided in the Note 11.

**Impairment tests for property, plant and equipment and goodwill**

In connection with changes occurring in its market and regulatory environment in 2016, such as the declining prices of certificates of origin of energy, persisting low prices for electricity in forward and SPOT contracts and introduction of the Act on wind farm investments, the Group has identified certain indications, which may result in a decline of recoverable amount of property, plant and equipment of the companies in the Generation Segment.

The impairment tests for cash generating units ("CGUs") were performed using the value in use based on the discounted value of estimated cash flows from operating activities, taking into account, among others, the following assumptions:

- price forecasts have been adopted for electricity, coal, CO<sub>2</sub> allowances and for certificates of origin, based on a report on the Polish market prepared for the Group by an independent agency in April 2016; the forecast was prepared with the timeframe until 2035;
- assumptions adopted for costless CO<sub>2</sub> emission allowances for 2015-2021 as specified in the Regulation of the Council of Ministers of 31 March 2014 (Item 439) and 8 April 2014 (Item 472),
- assumptions made for capital expenditures at the levels allowing for maintenance of the production capacity of the existing non-current assets after replacement investments, including capital expenditures to adjust industrial emission levels to the requirements of the Industrial Emission Directive 2010/75/EU of the European Parliament and of the Council of 24 November 2010,
- support maintained for production of energy from the existing renewable sources in accordance with the Renewable Energy Sources Act of 20 February 2015,
- support system maintained for high-efficient cogeneration throughout the forecast period,
- Operating Reserve maintained throughout the forecast period,
- the length of forecasts for the individual CGUs has been adopted in such a way to ensure that the cash flow used to calculate residual value was as similar as possible to the cash flows expected in the coming years (in the case of CGU Ostrołęka B, projections were extended to consider the negative effect of the termination of support in the form green certificates).

**Wind farms ("CGU Karcino, CGU Karścino, CGU Bystra, CGU Myślino, CGU Parsówek")**

The impairment tests for the wind farms were conducted as at 31 May 2016. The value in use was calculated on the basis of financial projections for the full useful life period of the wind farms, that is 25 years. The discount rates at the pre-tax weighted-average cost of capital (WACC) used for calculation fell within the range from 6.76% to 7.52% (6.13% after tax on the average).

Based on the results of the tests, the Group has found necessary to recognize impairment losses on the wind farms in the amount of PLN 324 m. The tests have also shown the necessity to write down the entire goodwill coming from the acquisition of the wind farm portfolio in 2013, in the amount of PLN 117 m.

**Wind projects (CGU being each wind project)**

The impairment tests for the projected wind farms were conducted as at 31 May 2016. The value in use was calculated for each of the 4 wind projects on the basis of financial projections for the full useful life period of the projected farms, that is 25 years, assuming that the auction system comes into effect. The discount rates at the pre-tax weighted-average cost of capital (WACC) used for calculation fell within the range from 7.03% to 8.29%. Based on the results of the tests, the Group has found necessary to recognize impairment losses on the tested wind projects in the amount of PLN 14 m.

Moreover, after the Act on wind farm investments came into effect and the minimum distance between a wind farm and residential buildings was introduced, it was determined that the remaining wind projects cannot be executed. Accordingly, an impairment loss was recognized for these projects in the amount of PLN 68 m.

After impairment losses, the carrying value of the projected wind farms amounts to PLN 11.9 m.

**Ostrołęka B Power Plant ("CGU Ostrołęka B")**

The impairment test for CGU Ostrołęka B was conducted as at 31 March 2016. The value in use was calculated on the basis of financial projections for the period of April 2016 - December 2023 and residual value. To calculate value in use of CGU Ostrołęka B, a discount rate was applied, which was equal to the weighted average cost of capital (WACC) at 6.91% (6.49%

after tax). The growth rate used to extrapolate cash flow projections beyond the period covered by detailed planning was adopted at the level of 2.0% which does not exceed the average long-term inflation growth rates in Poland.

#### 11. Impairment tests for property, plant and equipment and goodwill (cont.)

Based on the results of the test, the Group has found no need to change the impairment losses on CGU Ostrołęka B (please find further comments in note 21 'Subsequent events').

##### Photovoltaic farms ("CGU PV Delta, PV Czernikowo")

The impairment tests for the photovoltaic farms were conducted as at 31 March 2016. The value in use was calculated on the basis of financial projections for the full useful life period of the farms, that is 25 years. The discount rates at the pre-tax weighted-average cost of capital (WACC) used for calculation fell within the range from 6.69% to 6.71% (5.73% after tax).

Based on the results of the tests, the Group has found necessary to recognize impairment losses on the photovoltaic farms in the amount of PLN 11.2 m.

##### Sensitivity analysis

The estimated impact of the change of selected parameters on the overall valuation of the above-mentioned assets is presented below. The sensitivity analyses show that the factors with the highest impact on the estimated value in use of the above CGUs are: electricity prices, coal prices and discount rates. In case of their negative change, impairment losses may have to be recognized for the total amount specified below.

The sensitivity analysis takes into account the change of the factors over the entire forecast period.

Parameter	Amount and direction of change	Impact on overall estimate of value in use of tested CGUs [PLN m]		Change in impairment loss amount [PLN m]
		Increase in value in use	Decrease in value in use	
Discount rates	[+ 0.5 p.p.]	-	(80)	20
	[- 0.5 p.p.]	94	-	(21)
Electricity prices	[+ 1%]	89	-	(9)
	[- 1%]	-	(94)	92
Coal prices	[+ 1%]	-	(35)	35
	[- 1%]	35	-	-

If market conditions change, there is a risk that test results will be different in the future.

#### 12. Cash and cash equivalents

Cash in the bank earns interest at variable interest rates negotiated with banks, the level of which depends on the interest rate applicable to overnight bank deposits. Short-term deposits are made for different periods, from one day to three months, depending on the Group's current cash requirements and earn interest at interest rates negotiated individually with banks.

The balance of cash and cash equivalents presented in the statement of cash flows comprises the following items:

	As at 30 September 2016 (unaudited)	As at 30 September 2015 (unaudited)
Cash at bank and in hand	289	702
Short-term deposits up to 3 months	108	857
<b>Total cash and cash equivalents presented in the statement of financial position</b>	<b>397</b>	<b>1,559</b>
Unrealized foreign exchange differences and interest	3	1
Current account overdraft	(7)	(61)
<b>Total cash and cash equivalents presented in the statement of cash flows</b>	<b>393</b>	<b>1,499</b>
<i>including restricted cash</i>	-	-

#### 13. Earnings per share

There were no diluting instruments and therefore diluted earnings per share are equal to basic earnings per share. The data used to calculate earnings per share are presented below.



	9-month period ended 30 September 2016 (unaudited)	9-month period ended 30 September 2015 (unaudited)
Net profit or loss on continuing operations attributable to equity holders of the Parent Company	71	696
Net profit or loss on discontinued operations attributable to equity holders of the Parent Company	-	-
<b>Net profit or loss attributable to common equity holders of the Parent Company</b>	<b>71</b>	<b>696</b>
Number of shares at the end of the reporting period (millions)	414	414
<b>Number of shares used to calculate earnings per share (millions)</b>	<b>414</b>	<b>414</b>
<b>Earnings or loss per share on continuing operations (basic and diluted) (in PLN)</b>	<b>0.17</b>	<b>1.68</b>

#### 14. Dividends

	9-month period ended 30 September 2016 (unaudited)	9-month period ended 30 September 2015 (unaudited)
<b>Dividends declared in the period</b>		
dividend declared by subsidiaries	-	-
dividend declared by the Parent Company	203	596
<b>TOTAL</b>	<b>203</b>	<b>596</b>
<b>Dividends paid in the period</b>		
dividends paid in the period by subsidiaries to non-controlling shareholders	-	-
dividends paid in the period by the Parent Company	203	596
<i>of which attributable to preferred shares</i>	71	209
<b>TOTAL</b>	<b>203</b>	<b>596</b>

On 24 June 2016, the Annual General Meeting adopted a resolution to distribute the 2015 profit, out of which PLN 203 m, i.e. PLN 0.49 per share, was allocated to a dividend for the Company's shareholders.

#### 15. Provisions

##### 15.1. Provisions for employee benefits

The Group recognizes provisions for post-employment benefits and jubilee bonuses in amounts calculated using actuarial methods. The amount of provisions recognized in these financial statements derives from the projection of provisions as at 30 September 2016, carried out by an independent actuary. The projection was based on the previously calculated amounts of provisions as at 31 December 2015 and based on the main assumptions used as at that date, except the updated discount rate, the expected salary growth rate and the expected growth rate of the energy equivalent. The discount rate used to project the provisions as at 30 September 2016 was assumed at 3.14% (2.88% as at 31 December 2015). The expected salary growth rate was adopted at 3% (4% as at 31 December 2015). The expected growth rate of the energy equivalent was determined on the basis of industry experts' reports from June 2016.

	Pension and similar benefits	Energy tariff	Company Social Benefit Fund	Jubilee bonuses	Restructuring	TOTAL
<b>As at 1 January 2016</b>	<b>120</b>	<b>223</b>	<b>59</b>	<b>261</b>	<b>2</b>	<b>665</b>
Current service cost	3	1	1	10	-	15
Actuarial gains and losses	(15)	(9)	-	(21)	-	(45)
Benefits paid	(3)	(5)	(2)	(16)	-	(26)
Interest costs	3	5	1	5	-	14
Used	-	-	-	-	(1)	(1)
<b>As at 30 September 2016 (unaudited), of which:</b>	<b>108</b>	<b>215</b>	<b>59</b>	<b>239</b>	<b>1</b>	<b>622</b>
<b>Short-term</b>	<b>5</b>	<b>10</b>	<b>3</b>	<b>18</b>	<b>1</b>	<b>37</b>
<b>Long-term</b>	<b>103</b>	<b>205</b>	<b>56</b>	<b>221</b>	<b>-</b>	<b>585</b>

## 15. Provisions (cont.)

	Pension and similar benefits	Energy tariff	Company Social Benefit Fund	Jubilee bonuses	Restructuring	TOTAL
<b>As at 1 January 2015</b>	<b>108</b>	<b>209</b>	<b>71</b>	<b>241</b>	<b>18</b>	<b>647</b>
Current service cost	3	1	2	10	-	16
Actuarial gains and losses	(2)	(5)	(1)	(4)	-	(12)
Benefits paid	(2)	(5)	(2)	(13)	-	(22)
Interest costs	2	5	1	5	-	13
Reversed	(1)	(1)	-	(2)	(6)	(10)
Used	-	-	-	-	(5)	(5)
Transfer from liabilities related to assets classified as held for sale	4	2	1	8	-	15
<b>As at 30 September 2015 (unaudited), of which:</b>	<b>112</b>	<b>206</b>	<b>72</b>	<b>245</b>	<b>7</b>	<b>642</b>
<b>Short-term</b>	<b>3</b>	<b>10</b>	<b>3</b>	<b>18</b>	<b>7</b>	<b>41</b>
<b>Long-term</b>	<b>109</b>	<b>196</b>	<b>69</b>	<b>227</b>	<b>-</b>	<b>601</b>

## 15.2. Other provisions

	Legal claims	Land reclamation and liquidation costs	Liabilities for gas emissions	Redemption of certificates	Other provisions	TOTAL
<b>As at 1 January 2016</b>	<b>97</b>	<b>38</b>	<b>33</b>	<b>247</b>	<b>55</b>	<b>470</b>
Interest costs	-	1	-	-	-	1
Recognized	13	21	31	539	40	644
Reversed	(12)	(1)	-	-	(1)	(14)
Used	(2)	-	(36)	(251)	(37)	(326)
<b>As at 30 September 2016 (unaudited), of which:</b>	<b>96</b>	<b>59</b>	<b>28</b>	<b>535</b>	<b>57</b>	<b>775</b>
<b>Short-term</b>	<b>96</b>	<b>-</b>	<b>28</b>	<b>535</b>	<b>57</b>	<b>716</b>
<b>Long-term</b>	<b>-</b>	<b>59</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>59</b>

	Legal claims	Land reclamation and liquidation costs	Liabilities for gas emissions	Redemption of certificates	Other provisions	TOTAL
<b>As at 1 January 2015</b>	<b>83</b>	<b>36</b>	<b>40</b>	<b>154</b>	<b>46</b>	<b>359</b>
Interest costs	-	1	-	-	-	1
Recognized	14	2	26	464	40	546
Reversed	(15)	(1)	-	(2)	(1)	(19)
Used	(1)	-	(40)	(142)	(35)	(218)
<b>As at 30 September 2015 (unaudited), of which:</b>	<b>81</b>	<b>38</b>	<b>26</b>	<b>474</b>	<b>50</b>	<b>669</b>
<b>Short-term</b>	<b>81</b>	<b>-</b>	<b>26</b>	<b>474</b>	<b>50</b>	<b>631</b>
<b>Long-term</b>	<b>-</b>	<b>38</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>38</b>

## NOTES ON FINANCIAL INSTRUMENTS

## 16. Financial instruments

## 16.1. Carrying value of financial instruments by category and class

As at 30 September 2016 (unaudited)	Financial assets at fair value through profit or loss	Loans and receivables	Cash and cash equivalents	Financial liabilities measured at amortized cost	Hedging derivatives	Financial instruments excluded from the scope of IAS 39	TOTAL
<b>Assets</b>							
Trade receivables	-	1,890	-	-	-	-	1,890
Portfolio of financial assets	2	-	-	-	-	-	2
Cash and cash equivalents	-	-	397	-	-	-	397
Other financial assets	-	78	-	-	94	-	172
Bonds, treasury bills and other debt instruments	-	19	-	-	-	-	19
Derivative financial instruments	-	-	-	-	94	-	94
Other	-	59	-	-	-	-	59
<b>TOTAL</b>	<b>2</b>	<b>1,968</b>	<b>397</b>	<b>-</b>	<b>94</b>	<b>-</b>	<b>2,461</b>
<b>Liabilities</b>							
Loans and borrowings	-	-	-	2,536	-	-	2,536
Preferential loans and borrowings	-	-	-	1,506	-	-	1,506
Loans and borrowings	-	-	-	1,023	-	-	1,023
Current account overdraft	-	-	-	7	-	-	7
Bonds issued	-	-	-	2,642	-	-	2,642
Trade payables	-	-	-	650	-	-	650
Other financial liabilities	-	-	-	128	-	18	146
Liabilities on purchase of property, plant and equipment and intangible assets	-	-	-	111	-	-	111
Derivative financial instruments	-	-	-	-	-	-	-
Other	-	-	-	17	-	18	35
<b>TOTAL</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,956</b>	<b>-</b>	<b>18</b>	<b>5,974</b>



## 16. Financial instruments (cont.)

As at 31 December 2015	Financial assets at fair value through profit or loss	Loans and receivables	Cash and cash equivalents	Financial liabilities measured at amortized cost	Hedging derivatives	Financial instruments excluded from the scope of IAS 39	TOTAL
<b>Assets</b>							
Trade receivables	-	1,762	-	-	-	-	1,762
Portfolio of financial assets	322	-	-	-	-	-	322
Cash and cash equivalents	-	-	1,669	-	-	-	1,669
Other financial assets	-	58	-	-	40	-	98
Bonds, treasury bills and other debt instruments	-	19	-	-	-	-	19
Derivative financial instruments	-	-	-	-	40	-	40
Other	-	39	-	-	-	-	39
<b>TOTAL</b>	<b>322</b>	<b>1,820</b>	<b>1,669</b>	<b>-</b>	<b>40</b>	<b>-</b>	<b>3,851</b>
<b>Liabilities</b>							
Loans and borrowings	-	-	-	2,678	-	-	2,678
Preferential loans and borrowings	-	-	-	1,550	-	-	1,550
Loans and borrowings	-	-	-	1,116	-	-	1,116
Current account overdraft	-	-	-	12	-	-	12
Bonds issued	-	-	-	3,192	-	-	3,192
Trade payables	-	-	-	877	-	-	877
Other financial liabilities	-	-	-	186	8	24	218
Liabilities on purchase of property, plant and equipment and intangible assets	-	-	-	155	-	-	155
Derivative financial instruments	-	-	-	-	8	-	8
Other	-	-	-	31	-	24	55
<b>TOTAL</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,933</b>	<b>8</b>	<b>24</b>	<b>6,965</b>

**16. Financial instruments (cont.)****16.2. Fair value of financial instruments****Financial instruments measured at fair value on an ongoing basis**

Some of the Group's financial assets and liabilities are measured at fair value at the end of each reporting period.

The table below analyses fair value measurements for financial assets and financial liabilities categorized into three level hierarchy:

- level 1 – fair value based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- level 2 – fair value based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly;
- level 3 – fair value based on unobservable inputs for the asset or liability.

	30 September 2016 (unaudited)	31 December 2015
	Level 2	Level 2
<b>Assets</b>		
Portfolio of financial assets held by ENERGA Trading SFIO fund	2	322
Hedging derivatives (CCIRS I)	87	38
Hedging derivatives (CCIRS II)	5	2
Hedging derivatives (IRS)	2	-
<b>Liabilities</b>		
Hedging derivatives (IRS)	-	8

The Group measures participation units in the ENERGA Trading SFIO fund as the product of their quantity and the value of a single participation unit, as measured by the fund management company pursuant to the Mutual Funds Act of 27 May 2004.

Cross Currency Interest Rate Swaps (CCIRSs) and Interest Rate Swaps (IRSs) are measured at fair value by discounting future cash flows. The interest rates and the basis spread used in discounting are obtained from Bloomberg.

**Financial instruments not measured at fair value on an ongoing basis**

Except for the information given in the table below, the carrying amounts of financial assets and liabilities do not depart in a material way from their fair values.

Liabilities arising from the issue of Eurobonds	Carrying amount	Fair value Level 1
As at 30 September 2016 (unaudited)	2,185	2,364
As at 31 December 2015	2,176	2,266

Fair value of liabilities arising from the issue of Eurobonds has been estimated on the basis of quotations from the Bloomberg system from 30 September 2016.

**16.3. ENERGA Trading SFIO fund**

The Group has been investing in a portfolio of assets financed through the Fund in which it has 100% participation units.

The Fund has been established to manage financial surpluses of ENERGA SA Group companies and is an alternative to bank deposits, even overnight deposits. The fund is high liquidity and low risk. Mechanisms embedded in the fund settlement system offer the redemption of Fund units to cash on the same or the next business day. Additionally, ENERGA SA Group companies may offset their mutual receivables and liabilities using the units in the Fund.

The Group classifies the following assets within the Fund portfolio structure:

- treasury bills and bonds,
- corporate debt instruments – financial sector,
- corporate debt instruments – non-financial sector,
- bonds issued by Bank Gospodarstwa Krajowego,
- mortgage bonds,
- municipal bonds,
- other.

**16. Financial instruments (cont.)**

The following table presents the structure of the Fund's assets at the end of the reporting period and comparative periods.

	As at 30 September 2016 (unaudited)	As at 31 December 2015
Treasury bills and bonds	2	115
Corporate debt instruments – financial sector	-	51
Corporate debt instruments – non-financial sector	-	29
Bonds issued by Bank Gospodarstwa Krajowego	-	47
Mortgage bonds	-	63
Municipal bonds	-	17
<b>TOTAL</b>	<b>2</b>	<b>322</b>

**16.4. Financial liabilities**

All of the Group's financial liabilities are classified as financial liabilities measured at amortized cost, except for hedging derivatives. This category of the Group's financial instruments includes primarily contracted loans and borrowings and issued bonds.

**Loans and borrowings**

	As at 30 September 2016 (unaudited)	As at 31 December 2015
<b>Currency</b>	PLN	
<b>Reference rate</b>	WIBOR, Rediscount rate	
<b>Carrying Value of the loan/borrowing</b>	<b>2,536</b>	<b>2,678</b>
<b>Of which maturing in:</b>		
up to 1 year (short-term)	233	203
1 to 2 years	263	223
2 to 3 years	278	259
3 to 5 years	559	561
over 5 years	1,203	1,432

As at 30 September 2016 and 31 December 2015, the amount of credit limits available to the Group was PLN 4,382 m (58.5% used) and PLN 4,763 m (57.4% used) respectively.

Detailed information on contracted loans and borrowings is presented in Note 16.5.

**Liabilities under bonds issued**

	As at 30 September 2016 (unaudited)	As at 31 December 2015
<b>Currency</b>	PLN	
<b>Reference rate</b>	WIBOR	
<b>Carrying Value of the issue</b>	<b>457</b>	<b>1,016</b>
<b>of which maturing in:</b>		
up to 1 year (short-term)	15	16
3 to 5 years	442	1,000

**16. Financial instruments (cont.)**

	As at 30 September 2016 (unaudited)	As at 31 December 2015
Currency		EUR
Reference rate		fixed
<b>Carrying Value of the issue</b>		
in currency	507	511
in PLN	2,185	2,176
<b>of which maturing in:</b>		
up to 1 year (short-term)	44	60
3 to 5 years	2,141	2,116

Detailed information on bonds issued is provided in Note 16.5.

**16.5. Available external financing**

In the current reporting period and as at the last day of the reporting period and as at the date of approving these financial statements for publication, there were no events of default on contractual obligations under the terms and conditions of any external funding acquired. In the current reporting period the Group redeemed series A bonds issued by ENERGA SA in the amount of PLN 578 m.

**Loans to finance the investment program at ENERGA-OPERATOR SA for the years 2009-2012**

In the years 2009-2010 ENERGA SA together with its subsidiary ENERGA-OPERATOR SA entered into loan agreements to finance the investment programme of ENERGA-OPERATOR SA for the period 2009-2012 associated with the redevelopment and modernization of the distribution grid:

- agreement with the European Investment Bank ("EIB") with the limit of up to PLN 1,050 m;
- agreement with the European Bank for Reconstruction and Development ("EBRD") with the limit of up to PLN 800 m;
- agreement with the Nordic Investment Bank ("NIB") with the limit of up to PLN 200 m.

The above funding has been fully utilized and the following amounts are still outstanding and remain to be repaid:

- EIB – PLN 741 m with final maturity of 15 December 2025,
- EBRD – PLN 480 m with final maturity of 18 December 2024,
- NIB – PLN 124 m with final maturity of 15 June 2022.

In 2014, ENERGA SA with ENERGA-OPERATOR SA and EBRD amended the above loan agreement, as a result of which, among others, the available loan amount increased by PLN 276 m and is to be used to fund ENERGA-OPERATOR SA's capital expenditures, with the funds available for disbursement by the end of 2016.

As at 30 September 2016, the amount of additional financing available by the end of 2016 under the EBRD agreement and not yet disbursed was PLN 276 m.

**Loans to finance the investment program at ENERGA-OPERATOR SA for the years 2012-2015**

In 2013, ENERGA SA together with its subsidiary ENERGA-OPERATOR SA entered into loan agreements to finance the investment programme of ENERGA-OPERATOR SA for the period 2012-2015 associated with the redevelopment and modernization of the distribution grid:

- agreement with EBRD with a limit of PLN 800 m – as at 30 September 2016, PLN 312 m of the loan has been utilized. PLN 460 m remains available; the funds may be disbursed by the end of 2016. The final maturity of the loan is 18 December 2024;
- agreement with EIB with a limit of PLN 1,000 m – as at 30 September 2016, PLN 800 m of the loan has been utilized. PLN 200 m remains available; the funds may be disbursed by 10 December 2016. The final maturity of the drawn loan is 15 March 2030.

**Eurobond issue program**

As part of the Euro Medium Term Note (EMTN) issue program launched in 2012 for up to EUR 1,000 m, on 19 March 2013, the subsidiary Energa Finance AB (publ) conducted the first issue of Eurobonds in the amount of EUR 500 m. The first issue includes Eurobonds with a 7-year maturity paying an annual coupon of 3.25%. The Eurobonds are listed on the Luxembourg exchange.

**Domestic bond issue**

In 2012 a domestic bond issue program for up to PLN 4,000 m was established. As part of the program, on 19 October 2012 ENERGA SA issued 7-year bonds for the total amount of PLN 1,000 m. Since 29 January 2014, the bonds issued by ENERGA SA have been listed on the regulated market run by BondSpot S.A. As at 30 September 2016, the value of bonds subscribed by external investors was PLN 442 m.

**Loans from PKO Bank Polski SA**

ENERGA SA entered into the following loan agreements with PKO Bank Polski SA:



- master agreement to extend an overdraft limit to ENERGA SA and its subsidiaries with a total limit of PLN 150 m. As at 30 September 2016, the total available financing limit was PLN 4 m, out of which PLN 4 m had been used, including PLN 1 m in the form of bank guarantees. The limit expired on 30 August 2016.

#### 16. Financial instruments (cont.)

- master agreement to extend an overdraft limit to ENERGA SA and its subsidiaries with a total limit of PLN 200 m. As at 30 September 2016, the total available financing limit was PLN 116 m, out of which PLN 78 m had been used, all in the form of bank guarantees. The limit will expire on 19 September 2017.
- agreement for arranging loans for ENERGA SA with a total limit of PLN 300 m. As at 30 September 2016, the financing has not been used. The limit will expire on 7 June 2021.

#### Loans from Bank Pekao SA

ENERGA SA entered into the following loan agreements with Bank Pekao SA:

- renewable loan agreement with a limit of PLN 500 m. As at 30 September 2016, the financing has not been used. The final maturity of the loan is 29 May 2020;
- loan agreement in the amount of PLN 85 m to be used to acquire bonds issued by ENERGA Elektrownie Ostrołęka SA in connection with the implementation of the investment program of the company. The aggregate use of the loan as at 30 September 2016 was PLN 22 m. The final maturity of the loan is 29 May 2022.

#### Bonds issue through PKO Bank Polski SA

In 2012, ENERGA SA concluded with PKO Bank Polski SA a bond issue agreement where the funds raised under the agreement were to be used to acquire bonds issued by ENERGA Elektrownie Ostrołęka SA in connection with the implementation of the investment program. The bonds may only be issued as short-term securities. As at 30 September 2016, no bond issue has been carried out under the agreement. As at 30 September 2016, PLN 69 m was available under the bond issue agreement.

#### NIB loan

On 23 October 2014, ENERGA SA signed an investment loan agreement with NIB in the amount of PLN 67 m to finance the Myślino wind farm construction project. The aggregate use of the loan as at 30 September 2016 was PLN 63 m. The final maturity of the loan is 15 September 2026.

#### 16.6. Cash flow hedge accounting

##### FX risk hedging

The special purpose vehicle ENERGA Finance AB (publ) (the issuer of Eurobonds – see description in Note 16.5) and ENERGA SA signed two loan agreements denominated in EUR for the total amount of EUR 499 m. In order to hedge currency risk under these loans, in 2013 and in July 2014, the Group concluded cross-currency interest rate swap transactions with nominal values of EUR 400 m (CCIRS I) and EUR 25 m (CCIRS II), respectively.

As a hedged position under the above hedging relationships the Group designated the foreign currency risk arising from intra-group loans denominated in EUR. The foreign currency risk is hedged at the level of 85% of the total nominal amount of loans.

As the hedge the Group designated CCIRS transactions under which the Group receives fixed-rate cash flows in EUR and pays fixed-rate cash flows in PLN. Cash flows received by the Group correspond with the cash flows under the intra-group loans. The Group expects that the hedged cash flows will continue until March 2020.

##### Interest rate risk hedging

In January 2016, the Group concluded interest rate swap transactions to hedge the interest rate risk arising from the financing used under (see description in note 16.5):

- loan agreement concluded with EIB in 2013 – PLN 200 m;
- loan agreement concluded with EBRD in 2010 – PLN 200 m.

In August 2016, the Group additionally concluded IRS transactions with similar characteristics for the following:

- loan agreement concluded with EBRD in 2010 – PLN 150 m;
- loan agreement concluded with EBRD in 2013 – PLN 150 m;
- loan agreement concluded with EIB in 2013 – PLN 150 m.

As hedged positions under hedging relationships, the Group designated the risk related to the WIBOR 3M interest rate arising from interest payments on the financial liabilities stated above in the period no longer than 2 years from the date of the hedging transactions. In the case of the PLN 150 m transaction pertaining to the 2013 EIB loan agreement, this is a four-year period.

As the hedge the Group designated the IRS transactions under which the Group receives floating-rate cash flows in PLN and pays fixed-rate cash flows in PLN. Interest cash flows received by the Group correspond with interest cash flows under the hedged financial liabilities. The Group expects that the hedged cash flows will continue until June 2020 and not longer.

Additionally, the IRS transactions concluded in June 2014 expired in June 2016. They previously hedged the interest rate risk arising from the financing used in the amount of PLN 1,940 m.



**16. Financial instruments (cont.)****Fair value of hedging instrument**

The fair value of hedging instrument was:

	Value	Recognition in the statement of financial position
<b>As at 30 September 2016 (unaudited)</b>		
CCIRS I	87	Non-current assets – Other financial assets
CCIRS II	5	Non-current assets – Other financial assets
IRS	2	Non-current assets – Other financial assets
<b>As at 31 December 2015</b>		
CCIRS I	38	Non-current assets – Other financial assets
CCIRS II	2	Non-current assets – Other financial assets
IRS	8	Equity and liabilities – Other non-current financial liabilities

Under cash flow hedge accounting, the cash flow hedge reserve (the effective portion of changes in the value of the hedge, less deferred tax) increased in the reporting period by PLN 25 m.

The table below presents changes in the cash flow hedge reserve resulting from the hedge accounting in the reporting period:

Change in cash flow hedge reserve during the reporting period	9-month period ended 30 September 2016 (unaudited)	9-month period Ended 30 September 2015 (unaudited)
<b>At the beginning of the reporting period</b>	<b>6</b>	<b>(17)</b>
Amount recognized in the cash flow hedge reserve in the period, equal to the change in the fair value of hedging instruments	58	38
Accrued interest transferred from the reserve to financial income/costs	(6)	(6)
Revaluation of hedging instruments transferred from the reserve to financial income/costs	(21)	10
Income tax on other comprehensive income	(6)	(8)
<b>At the end of the reporting period</b>	<b>31</b>	<b>17</b>

As at 30 September 2016, no inefficiencies were identified resulting from the applied cash flow hedge accounting.

**16.7. Liability repayment collateral**

At the end of the reporting period, assets with the following carrying amounts constituted collateral securing the repayment of actual or contingent liabilities:

Group of assets on which collateral was established	Carrying value of assets securing repayment of liabilities	
	As at 30 September 2016 (unaudited)	As at 31 December 2015
Property, plant and equipment	-	42
Cash	9	82
<b>TOTAL</b>	<b>9</b>	<b>124</b>

## OTHER NOTES

**17. Investment commitments**

At the end of the reporting period, the Group's commitments to incur expenditures for the purchase of property, plant and equipment and intangible non-current assets, which have not yet been included in the statement of financial position, were about PLN 3,910 m, of which:

- undertakings covered by the development plan of ENERGA-OPERATOR SA to satisfy the current and future demand for electricity in the years 2015-2019 (agreed upon with the President of the Energy Regulatory Office) – approx. 3,614 m;
- undertakings executed in the Ostrołęka Power Plant (modernization of power units, construction of an installation for denitrifying exhaust fumes) – approx. PLN 124 m;
- execution of the Przykona Wind Farm project – approx. PLN 138 m;
- gas-steam power plants in Grudziądz and Gdańsk – approx. PLN 34 m.

**18. Information on related entities**

Transactions with related entities are made based on market prices of goods, products or services delivered..

**18.1. Transactions involving entities related to the State Treasury**

The Group's controlling entity is the State Treasury. Accordingly, other entities related to the State Treasury (controlled, jointly controlled, under significant influence of the State Treasury) are treated by the Group as related entities.

Transactions with entities related to the State Treasury were concluded in regular business dealings and pertained mainly to the purchase and sale of electricity and property rights, sale of electricity distribution services (including transit), settlements with the transmission system operator in the balancing market, for transmission services, system services and intervention work services and the purchase and transportation of fuel (mainly coal). The Group does not keep records that would allow it to aggregate the value of all transactions concluded with all state institutions and with subsidiaries of the State Treasury.

**18.2. Transactions with associates**

In the period from the acquisition to the end of the current reporting period, the total value of purchases of assets from the associate Polska Grupa Górnicza Sp. z o.o. was PLN 13 m, while sales in the same period was PLN 8 m. The value of receivables as at 30 September 2016 is PLN 20 m.

**18.3. Transactions with Parent Company's Management Board members**

During the reporting period, the Parent Company did not conclude material transactions with Management Board members.

**18.4. Compensation paid or due to key management and Supervisory Boards of Group companies**

	9-month period ended 30 September 2016 (unaudited)	9-month period ended 30 September 2015 (unaudited)
Management Board of the parent company	4	2
Supervisory Board of the parent company	<1	<1
Management Boards of subsidiaries	24	25
Supervisory Boards of subsidiaries	1	<1
Other key management	13	15
<b>TOTAL</b>	<b>42</b>	<b>42</b>

**19. Contingent assets and liabilities****19.1. Contingent liabilities**

As at 30 September 2016, the Group recognizes contingent liabilities of PLN 241 m (PLN 217 m as at 31 December 2015), including mainly the contingent liabilities relating to disputes involving ENERGA SA Group companies, where a victory by the company is probable and no provision has been recognized for these cases.

The largest contingent liability item consists of disputes relating to power infrastructure of ENERGA-OPERATOR SA where it is located on private land. The Group recognizes provisions for reported legal claims. If there is uncertainty whether a claim amount or legal title to land is justified, the Group recognizes contingent liabilities. As at 30 September 2016, the estimated value of those claims recognized as contingent liabilities is PLN 198 m, compared with PLN 164 m on 31 December 2015.

**19.2. Contingent assets**

At the end of the reporting period there were no significant contingent assets.



**20. Other information significantly affecting the assessment of assets, financial position and the financial result of the Group****20.1 Establishment of the ENERGA Tax Group**

On 27 January 2015, ENERGA SA and its related entities: ENERGA-OPERATOR SA, ENERGA-OBRÓT SA, ENERGA Wytwarzanie SA, ENERGA Informatyka i Technologie Sp. z o.o., ENERGA Centrum Usług Wspólnych Sp. z o.o., RGK Sp. z o.o., ENSA PGK1 Sp. z o.o., ENSA PGK2 Sp. z o.o., ENSA PGK3 Sp. z o.o., ENSA PGK4 Sp. z o.o., ENSA PGK5 Sp. z o.o., ENSA PGK6 Sp. z o.o., ENSA PGK7 Sp. z o.o., ENSA PGK8 Sp. z o.o., EOB PGK1 Sp. z o.o. and EOB PGK2 Sp. z o.o., concluded a tax group agreement for a tax group under the name of PGK ENERGA. The agreement was registered by the Head of the Pomorski Tax Authority on 27 February 2015. ENERGA SA was selected as the company representing PGK ENERGA in respect to the duties arising from the Corporate Income Tax Act and the Tax Ordinance Act.

The launch date of PGK ENERGA's activity is 1 May 2015. The agreement was concluded for 3 fiscal years, that is until 31 December 2017. Income tax will be calculated on income earned in the fiscal year equal to the surplus of aggregated income of all companies comprising the group over their aggregate losses.

**20.2 Dispute with PKN ORLEN S.A.**

On 27 October 2014, the District Court in Warsaw announced its judgment in the case filed by ENERGA-OPERATOR SA against PKN ORLEN S.A. ("PKN") to pay PLN 46.2 m following a re-examination of the case (more details of the case is presented in the annual consolidated financial statements for the year 31 December 2015). The court awarded ENERGA-OPERATOR SA the full amount of the claim pursued in the lawsuit, that is PLN 46.2 m, with interest calculated for the period from 30 June 2004. PKN filed an appeal against the judgment. On 19 April 2016, the Appellate Court in Warsaw handed down a judgment, awarding PLN 32 m to ENERGA-OPERATOR (PLN 16 m of the main receivable and PLN 16 m of interest). On 29 September 2016, ENERGA-OPERATOR filed a cassation appeal with the Supreme Court.

**20.3 Disputes with Arcus and T-Matic Systems**

In October 2015 Arcus S.A. and T-Matic Systems S.A. filed case for annulment of contract concerning supply of intelligent metering infrastructure for ENERGA-OPERATOR SA. As a result on 7 October 2016 ENERGA-OPERATOR SA filed a case against Arcus S.A. and T-Matic Systems S.A. to pay PLN 157 m for contract penalties.

On 19 January 2017 ENERGA-OPERATOR SA received from the District Court Gdańsk-Północ motion to set conciliatory hearing filed by Arcus S.A. and T-Matic Systems S.A. regarding:

claim of T-Matic for PLN 5 m, concerning payment for works that were out of scope of contract,  
claim of Arcus for PLN 174 m, concerning illegitimate charging of contract penalties and repairing suffered losses.  
The hearing will take place on 11 April 2017.

**21. Subsequent events**

- On 8 December 2016 ENERGA SA entered into an investment agreement with Enea S.A. and Elektrownia Ostrołęka SA regarding the execution of the Ostrołęka C project. The condition precedent for entry of the agreement into effect was the approval of the President of the Office of Competition and Consumer Protection ("UOKiK") for the concentration involving acquisition by ENEA S.A. 50% of the shares of the special purpose vehicle Elektrownia Ostrołęka SA. On 11 January 2017 the UOKiK's President issued a decision containing an unconditional approval for the concentration, which means, that the sole condition precedent has been fulfilled. On 1 February 2017 ENEA S.A. purchased shares in Elektrownia Ostrołęka SA.
- On 18 January 2017 the Management Board of ENERGA SA signed an investment agreement with ENEA S.A., PGE S.A., PGNiG Technologie S.A. (along with the Company jointly referred to as "Investors") and Polimex-Mostostal S.A. ("Polimex") in which, the Investors undertook to make an investment in Polimex. ENERGA SA acquired 37,500,000 newly issued shares with a par value of PLN 2 each, for the total price of PLN 75 m and acquired 1,500,000 shares of Polimex listed on the Warsaw Stock Exchange from SPV Operator sp. z o.o. for the total price of PLN 5.8 m. As a result the Company holds approximately 16% of the total shares of Polimex.
- On 30 November 2016 ENERGA SA, together with PGE S.A., Enea S.A. and PGNiG Termika S.A. submitted a new proposal to EDF International SAS ("EDF") to purchase shares in EDF companies in Poland holding conventional generation assets and carrying out service activities. The new proposal was submitted in connection with the approaching date of expiry of the proposal submitted on 16 September 2016. The new proposal will be valid for 90 days of the date of submission and will depend on i.e. the outcome of the due diligence, which will provide the basis for making further decisions regarding the transaction, if any.
- On 15 November 2016 Supervisory Board adopted Group's strategy for 2016-2025, which alongside with the obtained revised forecasted electricity prices, caused the need to reassess assumptions for previously prepared impairment tests. Based on the results of the revised impairment tests, it was decided to recognize impairment losses in the Generation segment on CGU Ostrołęka B in the amount of PLN 132 m.

Signatures of Management Board Members and persons responsible for the accounts of the ENERGA SA Group:

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.....

President of the Management Board

Grzegorz Ksepko

.....

Vice-President of the Management Board for Corporate Matters

Mariola Zmudzińska

.....

Vice-President of the Management Board for Investor Relations

Marek Pertkiewicz

.....

Deputy Director of the Finance Department

Karol Jacewicz

.....

Director of the Financial Reporting Unit  
Chief Accountant

Gdańsk, 10 February 2017

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