



**Information
to the Condensed
Consolidated Report
of the ENERGA
Group**

for 9 months of 2016

Gdańsk, 14 November 2016

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1. SUMMARY OF THE THIRD QUARTER OF 2016



ENERGA GROUP AFTER Q3 2016

THIRD LARGEST INTEGRATED DISTRIBUTION SYSTEM OPERATOR IN TERMS OF THE VOLUME OF ENERGY SUPPLY, WITH THE HIGHEST NUMBER OF INSTALLED SMART METERS AND ONE OF THE MARKET LEADERS IN TERMS OF RELIABILITY OF ELECTRICITY SUPPLY

FIRST PLACE IN THE POLISH MARKET IN TERMS OF CONNECTION OF RENEWABLE ENERGY SOURCES AND LEADING POSITION IN OWN RES PRODUCTION

THIRD BIGGEST SELLER OF ELECTRICITY TO END USERS

Q3 RESULTS



PLN 439 m
EBITDA

PLN 190 m
Net profit

KEY RESOURCES



Distribution network with the length of over
184 thous. km



Installed capacity
1.34 GWe
of which **38%** are RES

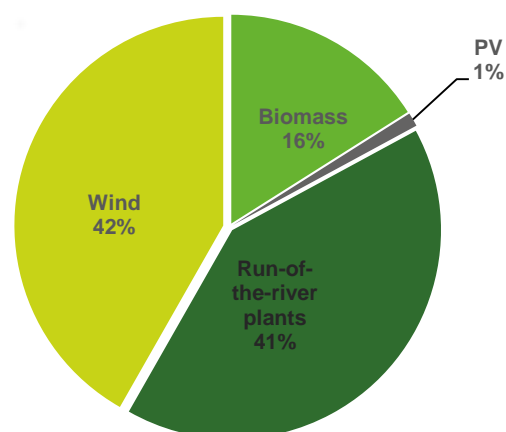


8.7 thousand
employees



RENEWABLE ENERGY SOURCES

RES installed capacity:
505 MWe



ENERGA SA AT THE WSE

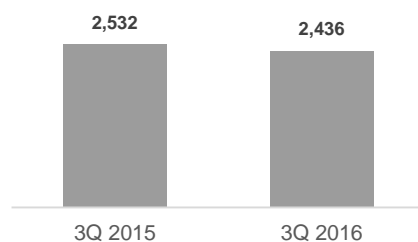
Market capitalization: PLN 3.1 bn*
Dividend payment: PLN 203 m (PLN 0.49 per share)

* According to the closing share price on 30 September 2016

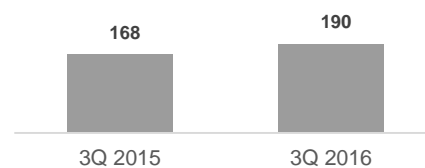
OPERATIONAL DATA

	Q3 2016	Q3 2015
Volume of electricity supplied (GWh)	5,265	5,349
Gross electricity produced (GWh)	913	914
- incl. RES (GWh)	211	334
Electricity sold (GWh)	6,001	5,813
- incl. retail sales (GWh)	4,878	4,036

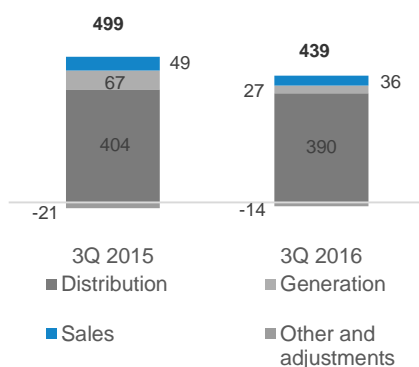
Revenues (PLN m)



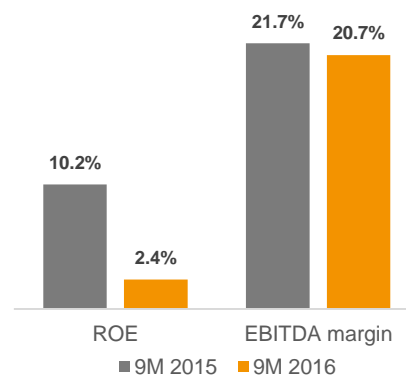
NET PROFIT (PLN m)



EBITDA (PLN m)



PROFITABILITY RATIOS



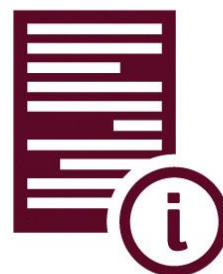
INVESTMENTS

Investment projects in the ENERGA Group

In Q3 2016, the ENERGA Group executed investment projects worth PLN 329 m, of which almost PLN 294 m in the Distribution Segment. Investment projects in the Distribution Segment included expansion of the grid to connect new clients and producers as well as modernization, which is aimed at improving the reliability of electricity supply. Expenditures were also made for innovative grid technologies and solutions.

As a result of these capital expenditures, in Q3 of this year 8.3 thousand new clients were connected, 985 thousand km of high, medium and low voltage lines were built and modernized and 10 MW of new renewable energy sources were connected to the grid.

Key information about the Group



2. KEY INFORMATION ABOUT THE GROUP

2.1. Material events in the reporting period and after the balance sheet date

Reversal of the impairment loss on the assets of Elektrownia Ostrołęka SA

On 14 October 2016, the Management Board of ENERGA SA reported on the reversal of the impairment loss on the fixed assets under construction in the amount of PLN 110 m in its Elektrownia Ostrołęka SA subsidiary. The above amount improves the Energa Group's operating result for Q3 in the Generation Segment and according to the prevailing definition will not affect its EBITDA.

The PLN 122.6 m impairment loss was recognized in 2012 when the Ostrołęka C power plant was put on hold. Today's reversal is a consequence of the progress of work to build a contemporary 1000 MW coal-fired unit in Ostrołęka, including execution of General Terms and Conditions of Cooperation with Polska Grupa Górnicza sp. z o.o. setting out the rules of coal supply to the Ostrołęka power plant.

At present, the special-purpose vehicle Elektrownia Ostrołęka SA holds complete documentation and administrative decisions allowing it to commence the work on building the 1000 MW unit after an efficient business model and financing of the investment project are worked out (Current Report No. 37/2016).

Definition of terms of coal supply from PGG to the Ostrołęka power plant

On 14 October 2016, the Company received information that the Company received information on signing a document entitled General Terms and Conditions of Cooperation (GTCC) with Polska Grupa Górnicza Sp. z o.o. defining the rules governing the supply of coal to the planned Ostrołęka C power plant. The final contract in this matter is to be signed this November. At the same time, the terms and conditions of coal supply to the existing Ostrołęka B power plant are negotiated. It is the intention of the parties set forth in GTCC to enter into a contract to supply the Ostrołęka power plant with approximately 2 million tons of coal annually for a period up to the year 2055.

The pricing formula for the coal purchased for the Ostrołęka C power plant will be based on a margin calculated at variable electricity production costs in the Ostrołęka C power plant and the level of such variable costs. The Company believes that coal pricing based on a specific margin level ensures economic optimization and profitability of the Ostrołęka C project. The formula provides for a wide price range, linking the cost of coal to a specified rate of return on investment; it will also enable the parties to share the future benefits from the capacity market or the potential awarded free carbon emission rights.

The pricing formula for the potential coal purchases for the Ostrołęka B power plant will be based on coal prices in ARA ports and margins on electricity generation by producers using 200 MW coal-fired units.

The effective date and performance of the Ostrołęka C coal supply contract will depend on fulfillment of the following conditions precedent:

- i. the Capacity Market (or another support mechanism) is launched and Ostrołęka C is covered by that support scheme;
- ii. financing is provided for Ostrołęka C (current report No. 36/2016).

Signing of the Letter of Intent on coal supply to the Ostrołęka B power plant and the planned Ostrołęka C power plant

On 19 September 2016, the Company signed a Letter of Intent with Polska Grupa Górnicza Sp. z o.o. (PGG) on launching cooperation in the supply of coal to the existing Ostrołęka B power plant and the planned Ostrołęka C power plant, guaranteeing stable supply of coal at an effective price that would optimize the operating costs of the planned Ostrołęka C power plant.

The parties intend to ensure sales of coal produced by PGG through a coal supply contract for Ostrołęka C power plant (approximately 2 million tons per year, for 30-40 years). In the contract, the Parties will employ a coal pricing formula that will ensure the required profitability of the project and allocate future benefits from market and regulatory mechanisms dedicated to conventional power production, such as the capacity market or awarding of free CO2 emission allowances between the Parties to the contract. The Parties assume that the coal supply contract for the Ostrołęka B power plant about 1 million tons per year) (Current Report No. 34/2016).

Signing a Letter of Intent with Enea S.A. on building and operating a power unit at the Ostrołęka Power Plant

On 19 September 2016, the ENERGA Group signed a Letter of Intent with Enea S.A. to launch cooperation in respect to preparation, execution and operation a contemporary 1,000 MW class coal unit at the Ostrołęka Power Plant (Investment Project, Ostrołęka C).

The Parties intend to work together to develop an efficient business model for Ostrołęka C, review its project documentation and optimize technical and economic parameters of the new unit. The cooperation also involves development of documents required to launch a tender procedure and to select the general contractor for the Investment Project.

The Parties assume that the rules of cooperation adopted after signing the letter of intent should contribute to the ultimate decision to announce the tender in 2016 in order to complete the Investment Project in the second part of 2023. Potential expenditures are estimated at about PLN 5.5-6 million per MW. The Parties do not rule out participation of other partners in the Investment Project. Any further parameters and the scale of involvement of each Party will be subject to further analyses (Current Report No. 33/2016).

Submission, together with partners, of a tentative proposal for the acquisition of EDF's assets in Poland

On 16 September 2016, ENERGA SA along with Enea S.A., PGE S.A. and PGNiG Termika S.A. ("Business Partners") submitted a joint, tentative, non-binding offer to EDF International S.A.S. ("EDF") to purchase shares in EDF companies in Poland holding conventional generating assets and carrying out service activity.

The assets include in particular:

- Elektrownia Rybnik (Rybnik Power Plant);
- Elektrociepłownia Kraków (CHP Plant in Kraków), Elektrociepłownia w Gdańsku (CHP Plant in Gdańsk), Elektrociepłownia w Gdyni (CHP Plant in Gdynia), CHP plant and heat grid in Toruń;
- CHP plant and heat grid in the Wrocław metropolitan area, CHP plant and heat grid in Zielona Góra (owned by Zespół Elektrociepłowni Wrocławskich Kogeneracja S.A. and its subsidiary, Elektrociepłownia Zielona Góra S.A.);
- Investment in the gas unit in Toruń (within EDF Gaz Toruń sp. z o.o.).

If the transaction is approved to proceed to the next stage, the Business Partners will conduct a detailed due diligence to serve as the basis for a decision on subsequent steps in the transaction, including the possible submission of a binding offer after the required corporate approvals are obtained. (Current Report No. 31/206)

On 26 October 2016, EDF announced in a press release that it conducts exclusive negotiations with IFM Investors in respect to the sale of heating assets in Poland and with EPH (Energetický a průmyslový holding) in respect to the sale of the Rybnik Power Plant.

Payment of a dividend from the profit generated in 2015

On 24 June 2016, the Annual General Meeting of ENERGA SA adopted a resolution on the distribution of net profit for the financial year covering the period from 1 January 2015 to 31 December 2015 in the amount of PLN 841,165,914.38, with the following allocation:

- 1) payment of a dividend to shareholders in the amount of PLN 202,892,885.86, i.e. PLN 0.49 per share (24.1% of profit),
- 2) PLN 570,979,755.36 to reserve capital (67.9% of profit),
- 3) PLN 67,293,273.16 to supplementary capital (8.0% of profit).

The record date was set by a resolution at 4 July 2016 and the dividend payment date at 18 July 2016 (Current Report Nos. 18/2016, 20/2016 and 25/2016).

Change in the composition of the ENERGA SA Supervisory Board

On 9 September 2016, the Company received representations from the Energy Minister, according to which, acting pursuant to § 18 section 3 item 3 of the Company's Articles of Association, as of 8 September 2016 the Energy Minister dismissed Mr. Bogdan Skalski from the Company's Supervisory Board and appointed Ms. Agnieszka Terlikowska-Kulesza (Current Report No. 15/2016).

Other

Additional details are provided in note 20 to the Consolidated financial statements: *Other information significantly affecting the assessment of assets, financial position and the financial result of the Group.*

2.2. Activities of the ENERGA Group

The core business of the ENERGA Group entails distribution, generation and sales of electricity and heat and concentrates on the following key operating segments:

The Distribution Segment – operating segment of key importance for the Group's operating profitability, involving distribution of electricity which in Poland is a regulated activity conducted on the basis of tariffs approved by the President of the Energy Regulatory Office (ERO). The ENERGA Group has a natural monopoly position in the northern and central part of Poland, where its distribution assets are located, through which it supplies electricity to over 2.9 million customers, almost 2.8 million of which are customers with comprehensive agreements and roughly 186 thousand are TPA customers. The distribution grid consists of power lines with a total length of approx. 184 thousand km (as at 30 June 2016) and covers almost 75 thousand km², i.e. about 24% of the country's landmass. ENERGA-OPERATOR SA acts as the Segment Leader.

Generation Segment – operates on the basis of four business lines: the Ostrołęka Power Plant, Hydro, Wind and Other (including cogeneration – CHP – and photovoltaics). At the end of Q3, the total installed capacity in the Group's power plants was approximately 1.3 GW.

In Q3 2016, the Group's gross production was 0.9 TWh of electricity. The installed capacity of our power plants relies on diverse energy sources, such as hard coal, hydropower, wind, biomass and solar energy. In Q3 2016, 77% of the Group's gross electricity production originated from hard coal, 14% from hydro, 7% from wind and 2% from biomass. The leader in this Segment is ENERGA Wytwarzanie SA.

The ENERGA Group owes its leading position in terms of the percentage of electricity from renewable energy sources in the total energy generated, primarily to the generation of energy in hydro power plants. Green energy is produced in 45 hydro power plants, 5 wind farms, in a biomass-fired installation (ENERGA Kogeneracja Sp. z o.o and ENERGA Elektrownie Ostrołęka SA) and in two photovoltaic farms. At the end of Q3 of this year, the Group had 0.5 GW installed capacity in renewable energy sources, in which the Group's gross electricity production reached 211 GWh.

Sales Segment provides an offer of electricity arranged in attractive bundles with gas and additional energy-related products and services. This offer is targeted at all customers, regardless of the volume of their electricity consumption, i.e. from industry, through big, medium-sized and small business, to households. The leader in this Segment is ENERGA-OBRÓT SA. The biggest share in terms of volume goes to industrial customers with households being the most numerous group of customers. At the end of Q3 2016, the ENERGA Group supplied 2.9 million customers, out of which 2.6 million were tariff G customers.

Last year, the highest sales growth was experienced in the dual-fuel offering based on electricity and gas in the business client segment. At present, the Company intends to extend this offer to retail and SOHO clients. In the period of Q1-Q3 2016, gas was sold to a total of 799 business clients. Analytical work is also conducted to introduce further utilities into the segment's offering.

At the same time, due to the increasing level of digitization of Poland's society, the company has been developing the electronic sales channel, which includes web and mobile sales (e-store). Because of the currently pending project to stabilize and develop the sales support system, the company has increased its activities leading to the stabilization of the structure of the receivables portfolio, reduce the number of clients without bills and the quantity of corrections made to the bills.

2.3. Key changes in the Group's structure and organization

As at 30 September 2016, the ENERGA Group was composed of the parent company ENERGA SA and 45 subsidiaries. The Group companies are grouped in 3 business segments managed by ENERGA SA's direct subsidiaries which are Segment Leaders. The fourth group comprises the so-called Other Companies, ENERGA SA's direct subsidiaries providing shared services for the Group and performing tasks for ENERGA SA.

All of the parent's subsidiaries are consolidated.

On 1 February 2015, the liquidation of Zakład Energetyczny Toruń - ENERGOHANDEL Sp. z o.o. commenced. The Company was deleted from the National Court Register on 25 January 2016.

On 1 February 2016, ENERGA Kogeneracja Sp. z o.o. (acquiring company) merged with ZEC Żychlin Sp. z o.o. 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.

In connection with the fact that ENERGA Kogeneracja Sp. z o.o. purchased 3 shares from the prior shareholder of ENERGA Ciepło Ostrołęka Sp. z o.o. (a natural person), as of 6 April 2016, ENERGA Kogeneracja Sp. z o.o. became the only shareholder of ENERGA Ciepło Ostrołęka Sp. z o.o.

On 27 April of this year, in connection with the resolution adopted by the General Meeting of ENERGA Kogeneracja Sp. z o.o. to increase the company's share capital by PLN 215,606,000, ENERGA SA

submitted a representation of accession to ENERGA Kogeneracja Sp. z o.o. as a new shareholder (previously, ENERGA Kogeneracja was an indirect subsidiary of the Issuer) and subscription to 431,212 new shares, which were covered by a cash contribution of PLN 510 m, with a reservation that the surplus of the cash contribution over the aggregate nominal value of the new shares in the amount of PLN 294.4 m was allocated to ENERGA Kogeneracja's supplementary capital. On 22 June 2016, the increase in the share capital of ENERGA Kogeneracja Sp. z o.o. was registered by the National Court Register and ENERGA SA, having become a new shareholder, holds a 60.3% stake in its subsidiary's share capital.

On 20 June 2016, ENERGA SA acquired from ENERGA-OBRÓT SA all shares in Enspirion Sp. z o.o., becoming the latter's sole shareholder.

On 31 August 2016, the National Court Register registered the merger of ENERGA Invest SA (acquiring company) and BORA Sp. z o.o. (acquired company). All the assets of the acquired company were transferred to the acquiring company without increasing its share capital.

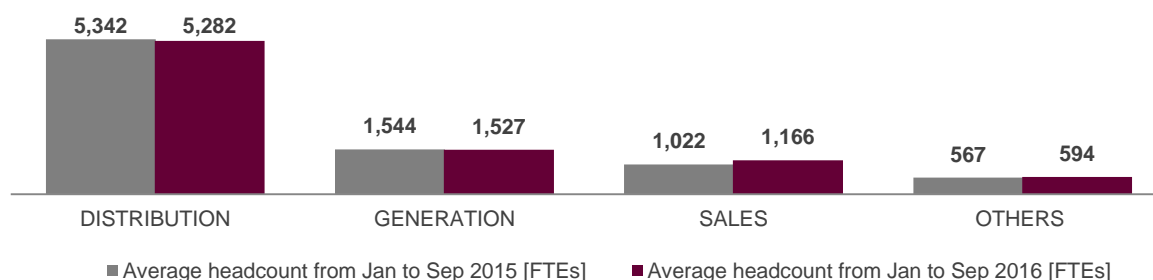
On 28 September 2016, a memorandum of agreement was signed for ENERGA Wytwarzanie SA to transfer all the shares in Elektrownia Ostrołęka SA to ENERGA SA, in exchange for the redemption of ENERGA Wytwarzanie SA's bonds. At present, ENERGA SA is the sole shareholder of Elektrownia Ostrołęka SA.

Headcount in the ENERGA Group

As at 30 September 2016, total headcount in the ENERGA Group was 8,721, compared to 8,653 at the end of the second quarter of this year. The main reason for headcount growth in Q3 was the hiring of employees for a definite term in connection with the pending stabilization process of the sales service system.

The average headcount in the ENERGA Group in the January-September 2016 period was 8,569 FTEs, compared to 8,475 FTEs in the corresponding period of the previous year. The chart below presents the average headcount by segment.

Figure 1: Average headcount in the ENERGA Group, 1 January to 30 September 2015 and 2016



Collective disputes

The general analysis of the social situation in the Group indicates that there are no conflict situations. No group layoffs were conducted in ENERGA SA and in the ENERGA Group in Q1, Q2 and Q3 of 2016. At present, there are no pending collective disputes in the ENERGA Group.

2.4. Implementation of the investment program

By the end of Q3 2016, the ENERGA Group executed investment projects worth PLN 1.1 bn, of which almost PLN 875 m in the Distribution Segment. Investment projects in the Distribution Segment included expansion of the grid to connect new clients and producers as well as modernization, which is aimed at improving the reliability of electricity supply. Expenditures were also made for innovative grid technologies and solutions.

In the Generation Segment, the 26 MW Parsówek Wind Farm construction project was completed. In the Ostrołęka C power plant construction project, the project and tender documentation necessary to commence the tender, is being reviewed. Work related to compliance with environmental requirements and modernization projects in the Ostrołęka B Power Plant constitute an important part of the Segment's capital expenditures.

Table 1: Execution of the capital expenditure program in 9 months of 2016

Description of the project	Location	Capital expenditures (PLN m)	Execution stage
GENERATION SEGMENT			
Overhauls of the Power Plant Ostrołęka B	Ostrołęka	77.5	Finalization of work
Construction of a 26 MWe wind farm	Parsówek	19.0	Finalization of work
Modernization of electrostatic precipitators for boilers at the Ostrołęka Power Plant B.	Ostrołęka	27.3	Finalization of work
Construction of a NOx emission reduction installation at the Ostrołęka B Power Plant.	Ostrołęka	38.5	Finalization of work
Modernization of heat sources and grids	Elbląg, Kalisz, Ostrołęka, Żychlin	7.1	In progress continuously
Modernization of hydro sources	Włocławek, small hydro power plants in the Group's operating area, Żydowo	4.3	In progress continuously
Other projects and adjustments	-	10.7	-
DISTRIBUTION SEGMENT			
Grid development related to connection of new customers.	Distribution areas	337.6	In progress continuously
Grid development and modernization related to connection of RES plants.	Distribution areas	26.6	In progress continuously
Distribution grid modernization to improve reliability of supply.	Distribution areas	381.8	In progress continuously
Smart metering and other elements implementing the smart grid concept, including AML.	Distribution areas	37.5	In progress continuously
Other capital expenditures.	Distribution areas and Distribution Segment companies	91.3	In progress continuously

2.5. Information on material contracts

Material contracts

A contract is recognized as material if its value exceeds 10% of the ENERGA's equity.

In connection with the signing by ENERGA-OPERATOR SA ("EOP") and Polskie Sieci Energetyczne SA („PSE”) of a document specifying the detailed rules for cooperation between EOP and PSE and the security related thereto in March 2016, cooperation between these entities was launched. The subject matter of this agreement is in particular the provision of electricity transmission services encompassing domestic transmission services and electricity cross-border exchange services rendered by PSE for EOP. This Agreement has been concluded for an indefinite term. The estimated value of the agreement over a one year period is PLN 916 m, corresponding to PLN 4,580 m over a five-year period. In connection with commencing cooperation according to the rules prescribed by the above agreement, the agreement in force to date for the provision of electricity transmission services executed by and between EOP and PSE on 29 August 2007, which was described in the Company's Prospectus approved by the Polish Financial Supervision Authority on 15 November 2013, has expired (Current Report No. 13/2006).

Agreements for loans and borrowings and a domestic bond issue program

Details on the agreements for loans and borrowings and a domestic bond issue program are provided, among others, in note 16 *Financial instruments* to the consolidated financial statements.

The table below presents the nominal value of bonds subscribed by ENERGA SA and outstanding, broken down into individual issuers from the ENERGA Group, as at 30 September 2016.

Table 2: Nominal value of bonds subscribed by ENERGA SA and outstanding, by issuer, as at 30 September 2016

No.	Company name	Nominal value of subscribed bonds (PLN m)
1.	ENERGA-OPERATOR SA	3,914
2.	ENERGA Wytwarzanie SA	1,005
3.	ENERGA Kogeneracja Sp. z o.o.	55
4.	ENERGA Elektrownie Ostrołęka SA	120
Total		5,094

Guarantees and sureties given

As at 30 September of this year, sureties extended by ENERGA SA to cover liabilities of the Group companies totaled PLN 5,521 m and included:

- surety for liabilities of ENERGA Finance AB on account of a PLN 5,390 m Eurobond issue,
- sureties for liabilities of the ENERGA Group companies arising from bank guarantees granted by Bank PKO BP SA under guarantee facilities dedicated to ENERGA Group companies in the total amount of PLN 116 m,
- surety for liabilities of ENERGA Wytwarzanie SA on account of a loan granted by WFOŚiGW in Toruń in the amount of PLN 15 m.

Information on transactions of material importance with related entities on terms other than an arm's length basis

All the transactions within the ENERGA Group are made on the basis of the market prices of goods, products or services based on their manufacturing costs.

Information on the transactions with affiliated entities is presented in Note 18 to the condensed interim consolidated financial statements on and for the period of 9 months ended 30 September 2016.

2.6. Risk management

In the ENERGA Group, risk classification is composed of the following four areas:

- strategic, encompassing the risks associated with attaining strategic objectives, including planning and execution of investments and corporate governance,
- regulatory and legal, including compliance risks with the prevailing laws and regulations,
- operating, encompassing the risks associated with attaining operating objectives, including those relating to infrastructure, processes and resources,
- financial, encompassing the risks associated with financial management.

Detailed description of risks associated with the Company's activity is presented in Information to the Condensed Consolidated Report of the ENERGA Group for H1 2016. The Management Board believes that the risks presented in the aforementioned documents remain valid.

2.7. Proceedings pending before the court, arbitration bodies or public administration bodies

As at 30 September 2016, the ENERGA Group was a party to 7818 court procedures. The Group acted as a plaintiff in 6034 cases where the aggregated value of the disputed matters was approx. PLN 179 m. The Group acted as a defendant in 1897 cases where the aggregated amount of the disputed matters was approx. PLN 571 m.

As at 30 September 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 approx. PLN 15.46 m in 2,582 cases. There were 2,727 pending court cases and the value of the disputed matters in such pending cases was PLN 298.3 m.

Based on the available data about the value of pending procedures, we assume that the actual amount to be paid after the disputes are resolved may reach PLN 80.75 m, with a reservation that this amount may change if new court cases related to placement of power devices on third party's real properties without the necessary legal title are launched against ENERGA-OPERATOR SA.

These data do not include the cases in which court and enforcement-based collection is conducted on behalf and for ENERGA-OBRÓT SA as the Company pursues amounts due from its customers and bankruptcy cases, with the exception of the case filed by ENERGA-OBRÓT against ERGO ENERGY Sp. z o.o. in the amount of PLN 12,984,195.56.

The aggregated amount of such cases conducted in this area as at 30 September 2016 was about PLN 114 m.

None of the aforementioned proceedings pertaining to the liabilities or receivables of the Issuer or its subsidiary exceeded the minimum of 10% of the Issuer's equity. Also, no pecuniary penalty, fine or other financial liability measures were imposed that would be equivalent to at least 5% of the consolidated EBITDA for the last financial year.

The table below presents the continuation of proceedings with the highest value of the dispute, which remained pending in Q3 2016. Detailed description of the disputes is presented in Information to the Condensed Consolidated Report of the ENERGA Group for H1 2016.

Table 3: Proceedings pending before the court, arbitration bodies or public administration bodies

Parties	Subject matter	Description of the case
Boryszewo Wind Invest Sp. z o.o. (plaintiff) ENERGA-OBRÓT SA (defendant)	Partial termination by ENERGA-OBRÓT of the agreement to purchase electricity and property rights to certificates of origin for electricity generated in RES.	On 26 October 2015, ENERGA-OBRÓT S.A. filed a response to the cassation complaint, in which it petitioned for refusal to accept the complaint for examination or, alternatively, for dismissing the complaint in its entirety and awarding the costs of proceedings against the plaintiff in favor of the defendant. The Supreme Court accepted the plaintiff's cassation complaint for examination. The Supreme Court's session to rule on the validity of a partial termination of long-term contracts was held on 16 September 2016. The Supreme Court repealed the judgment of the Court of Appeal in Gdańsk and returned the case to that court for re-examination.
T-Matic Systems S.A., Arcus S.A., (requesting parties) with the participation of ENERGA-OPERATOR SA	Call for a settlement attempt in connection with ENERGA-OPERATOR SA's claims	On 14 March 2016, ENERGA-OPERATOR SA received a request from T-matic Systems SA and ARCUS SA with a call for a settlement conference regarding ENERGA-OPERATOR SA's claims for payment by contractors of the amount of PLN 157 m under the execution agreement of 1 February 2013 to supply and launch a meter infrastructure. At a session on 5 August 2016, the Court agreed to the joint request of the parties to defer the session in connection with the mutual talks being conducted. The Court set the date of the hearing at 20 December 2016. The Court informed the parties that the settlement must concern only the claims covered by the application to make a summons for a settlement attempt. If the settlement contains other claims that are not included in the request, e.g. from other proceedings or additional work not included in the request then the Court will not approve such a settlement.
T-Matic S.A., Arcus S.A. (defendants) ENERGA-OPERATOR SA (plaintiff)	Lawsuit for payment of contractual penalties arising from the agreements to supply and launch the metering architecture (re: stage I of AMI).	On 18 December 2015 the defendant filed a second rejoinder comprising similar argumentation to the one presented in the statement of defense, but extended to include a charge of invalidity of the agreements due to their lack of precision and contractual inequality of the parties. On 13 January 2016 the hearing was held at which the Court obligated ENERGA-OPERATOR S.A. to file a reply to the defendant's second rejoinder within 45 days. The plaintiff's pleading was sent on 25 February 2016. In H1 2016, a number of witness hearings were held. The court has set a new hearing date on 23 November 2016.
T-Matic S.A., Arcus S.A. (plaintiffs) ENERGA-OPERATOR SA (defendant)	Lawsuit to rule on the invalidity of an agreement (re: stage II of AMI)	On 8 February 2016, the statement of claim filed by T-Matic Systems SA and ARCUS SA was delivered to ENERGA OPERATOR SA. The case is pending before the Regional Court in Gdańsk, under file ref. IX GC 893/15. The defendant's representative filed a pleading to extend the court deadline for responding to the

replication. In connection with the fact that the deadline for the response passed on 1 July 2016 and the Court failed to issue a decision to extend the deadline, the defendant sent a pleading of 1 August 2016 responding to the legal issues. A pleading responding to the technical issues was sent on 1 September 2016. The court set another hearing date on 7 November 2016. On 7 November 2016, a counterclaim was filed against Arcus, Tmatic requesting payment of PLN 157 m on account of contractual penalties in the amount of PLN 156 m and reduced remuneration in the amount of PLN 1 m, in accordance with the demand for payment of 9 November 2015.

ENERGA OPERATOR
SA (plaintiff); PKN
ORLEN SA (defendant)

Suit for payment

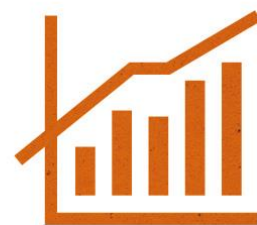
On 19 April 2016, the Court of Appeals in Warsaw announced its judgment in the case brought by ENERGA-OPERATOR SA, Branch Office in Plock, against PKN Orlen S.A. The court partially dismissed the defendant's appeal and consequently the judgment of the Regional Court in Warsaw of 27 October 2014, case file XVI GC 782/11 became final, awarding the plaintiff PLN 16.1 m with interest from 30 June 2004. The judgment is final and the parties may file a cassation complaint against the Appellate Court's judgment to the Supreme Court. ENERGA-OPERATOR SA applied for delivery of the judgment with a justification, which was delivered to the Plaintiff's representative on 1 August 2016. On 29 September 2016, ENERGA-OPERATOR SA filed a cassation complaint with the Supreme Court against the judgment of 19 April 2016 handed down by the Appellate Court in Warsaw.

ENERGA OPERATOR
SA (plaintiff); PKN
ORLEN SA (defendant)

Suit for payment on
account of unpaid
system fee

After examining the Defendant's response to the appeal, the Appellate Court in its judgment of 16 September 2016 dismissed the appeal filed by ENERGA-OPERATOR SA, arguing along with the Regional Court that ENERGA-OPERATOR SA's claim has expired. The Company requested the judgment to be delivered along with the justification. It was delivered to the representative on 12 October 2016. At present, the justification to the judgment is analyzed in the context of the possible cassation complaint.

Analysis of the financial situation and assets



3. ANALYSIS OF THE FINANCIAL STANDING AND ASSETS

3.1. Rules for preparing the interim condensed consolidated financial statements

The Condensed Interim Consolidated Financial Statements of the ENERGA Group as at and for the 9-month period ended 30 September 2016 were prepared:

- in accordance with the International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union;
- on the historical cost basis except for financial instruments measured at fair value through profit or loss and hedging derivatives;
- in PLN million ("PLN m");
- based on the assumption that the Group would continue as a going concern in the foreseeable future. As at the date of the financial statements there is no evidence indicating significant uncertainty as to the ability of the ENERGA Group to continue its business activities as a going concern.

The accounting (policy) principles used to prepare the annual consolidated financial statements were presented in Note 7 to the condensed interim consolidated financial statements of the ENERGA Group as at and for the nine-month period ended 30 September 2016.

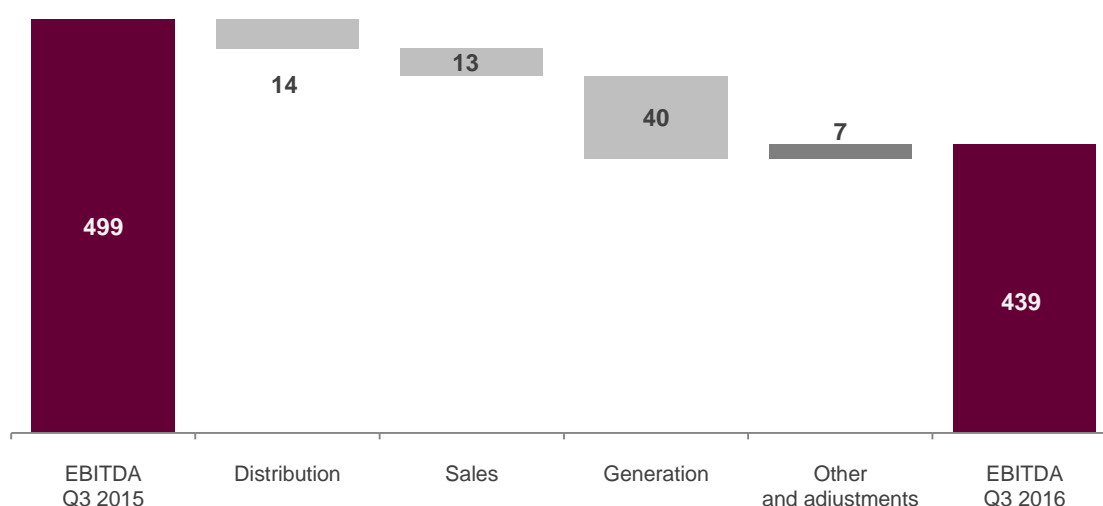
3.2. Discussion of the economic and financial data disclosed in the condensed consolidated financial statements

Table 4: Consolidated statement of profit or loss

PLN m	9M 2015	9M 2016	Change	Change (%)
Revenue	7,957	7,373	(584)	-7%
Cost of sales	(6,412)	(6,387)	25	0%
Gross profit on sales	1,545	986	(559)	-36%
Other operating income	61	81	20	33%
Selling and distribution expenses	(237)	(243)	(6)	-3%
General and administrative expenses	(246)	(240)	6	2%
Other operating expenses	(86)	(200)	(114)	< -100%
Operating profit	1,037	384	(653)	-63%
Result on financial activity	(167)	(175)	(8)	-5%
Share of profit (loss) of associates	-	(60)	(60)	-
Profit or loss before tax	870	149	(721)	-83%
Income tax	(167)	(75)	92	55%
Net profit or loss for the period	703	74	(629)	-89%
EBITDA	1,726	1,529	(197)	-11%

PLN m	Q3 2015	Q3 2016	Change	Change (%)
Revenue	2,532	2,436	(96)	-4%
Cost of sales	(2,087)	(1,957)	130	6%
Gross profit on sales	445	479	34	8%
Other operating income	17	28	11	65%
Selling and distribution expenses	(82)	(81)	1	1%
General and administrative expenses	(80)	(76)	4	5%
Other operating expenses	(28)	(37)	(9)	-32%
Operating profit or loss	272	313	41	15%
Result on financial activity	(59)	(51)	8	14%
Share of profit (loss) of associates	-	(19)	(19)	-
Profit or loss before tax	213	243	30	14%
Income tax	(45)	(53)	(8)	-18%
Net profit or loss for the period	168	190	22	13%
EBITDA	499	439	(60)	-12%

Figure 2: EBITDA bridge, by segment



In Q3 2016, the Group's revenue amounted to PLN 2,436 m and was 4%, or PLN 96 m, lower than in Q3 2015. Lower revenue was recorded in the Generation Segment (by 17% or PLN 51 m) and the biggest decrease was in the Distribution Segment (by 4% or PLN 44 m). The lower revenues in the Generation Segment were caused largely by the decline in sales revenues in the business lines of the Ostrołęka Power Plant and Wind (a total of PLN 43 m), which resulted primarily from the decline in

revenue on the sale of electricity (lower production volumes) and property rights. The drop in revenues of the Distribution Segment was mainly a result of a lower volume of distributed electricity (by almost 2%) and lower revenues on connections (by 46%). On the other hand, revenues increased in the Sales Segment (by 2% or PLN 32 m), driven mainly by the higher total volume of electricity sales.

The operating profit in Q3 of this year rose by PLN 41 m compared to Q3 of the previous year. Reversal of impairment losses on fixed assets under construction in the amount of PLN 110 m in the Elektrownia Ostrołęka SA subsidiary offset the yoy decline in EBIT due to operational factors (the decline in revenues driven by the factors described in the revenue analysis was offset by a higher reduction in operating expenses, mainly a lower fuel consumption cost in the Generation Segment and a lower cost of network losses in the Distribution Segment).

In Q3 of the current year, the Group's EBITDA was PLN 439 m, down by 12% compared to the same period of the previous year. A decrease of EBITDA was recorded in all Segments, with the most significant change in the Generation Segment (by 60%, or PLN 40 m).

The Distribution Segment contributed the most to the Group's EBITDA in Q3 2016 (89%), while the Sales and Generation Segments accounted for 8% and 6%, respectively (the aggregation of percentages must also include the Other and adjustments item).

In Q3 this year, a share of loss in associate, Polska Grupa Górnicza Sp. z o.o. ("PGG") of PLN 19 m was recognized.

The Group's net result in Q3 2016 was positive and amounted to PLN 190 m, up PLN 22 m from Q3 2015.

After the definition of EBITDA changed, requiring elimination of impairment losses on non-financial non-current assets in Q3 2016 and in Q3 2015, no other significant extraordinary events occurred that were charged to EBITDA.

Table 5: Consolidated statement of financial position

PLN m	Balance as at 31 December 2015	Balance as at 30 September 2016	Change 2016/2015	Change 2016/2015 (%)
ASSETS				
Non-current assets				
Property, plant and equipment	12,912	12,993	81	1%
Intangible assets	395	395	-	-
Goodwill	143	26	(117)	-82%
Shares in associates accounted for under the equity method	-	305	305	-
Deferred tax assets	260	391	131	50%
Other non-current financial assets	60	114	54	90%
Other non-current assets	103	106	3	3%
	13,873	14,330	457	3%
Current assets				

Inventories	513	693	180	35%
Current tax receivables	47	7	(40)	-85%
Trade receivables	1,762	1,890	128	7%
Investments in the financial assets portfolio	322	2	(320)	-99%
Other current financial assets	38	58	20	53%
Cash and cash equivalents	1,669	397	(1 272)	-76%
Other current assets	232	279	47	20%
	4,583	3,326	(1 257)	-27%
TOTAL ASSETS	18,456	17,656	(800)	-4%

EQUITY AND LIABILITIES

Equity

Share capital	4,522	4,522	-	-
Exchange differences resulting from conversion of a foreign entity	-	2	2	-
Reserve capital	447	1,018	571	> 100%
Supplementary capital	661	728	67	10%
Cash flow hedge reserve	6	31	25	> 100%
Retained earnings	3,134	2,384	(750)	-24%
Equity attributable to equity holders of the Parent Company	8,770	8,685	(85)	-1%
Non-controlling interest	44	47	3	7%
	8,814	8,732	(82)	-1%

Non-current liabilities

Loans and borrowings	2,475	2,303	(172)	-7%
Bonds issued	3,116	2,583	(533)	-17%
Non-current provisions	664	644	(20)	-3%
Deferred tax liabilities	591	594	3	1%
Deferred income and non-current grants	531	521	(10)	-2%
Other non-current financial liabilities	25	12	(13)	-52%
	7,402	6,657	(745)	-10%

Current liabilities

Trade liabilities	877	650	(227)	-26%
Current loans and borrowings	203	233	30	15%

Bonds issued	76	59	(17)	-22%
Current income tax liability	2	13	11	> 100%
Deferred income and grants	161	137	(24)	-15%
Short-term provisions	471	753	282	60%
Other financial liabilities	193	134	(59)	-31%
Other current liabilities	257	288	31	12%
	2,240	2,267	27	1%
Total liabilities	9,642	8,924	(718)	-7%
TOTAL EQUITY AND LIABILITIES	18,456	17,656	(800)	-4%

As at 30 September 2016, total assets of the ENERGA Group reached PLN 17,656 m and were PLN 800 m lower than on 31 December 2015.

In non-current assets the most significant change pertained to shares in associates measured by the equity method, which is associated with the ENERGA Group's exposure in Polska Grupa Górnicza Sp. z o.o., resulting in take-up of 15.7% of the shares in the associate by ENERGA Kogeneracja Sp. z o.o. as at 30 September this year. In current assets the most significant changes concerned in particular the following items: cash (the reasons for the change of the balance of cash were described further on, in the part devoted to cash flows) and investments in the financial assets portfolio (decrease by PLN 320 m; the line item presents the participation units in the ENERGA Trading Fund).

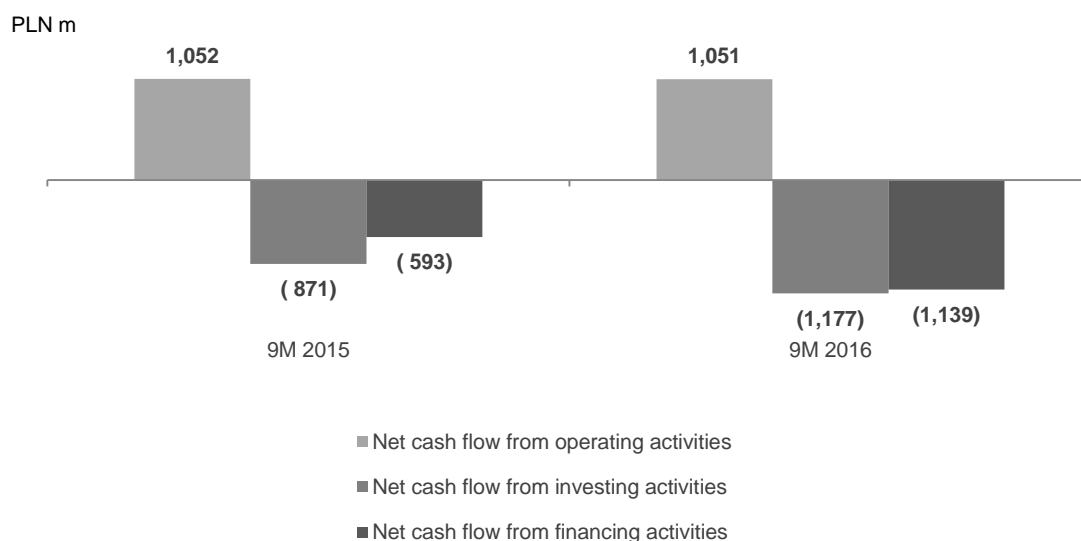
On the side of liabilities, significant changes occurred in the balance of bonds issued (the PLN 550 m decrease resulted primarily from acquisition, by a subsidiary, of bonds issued by ENERGA SA in 2012 with the nominal value of PLN 558 m), balance of trade liabilities (decrease by PLN 227 m) and the provisions item (the PLN 262 m increase resulted primarily from an increase in provisions on account of the redemption of certificates obligation).

The ENERGA Group's equity as at 30 September 2016 was PLN 8,761 m and financed 49.5% of the Group's assets. The settlement of the ENERGA SA 2015 result increased the reserve capital and supplementary capital, as compared to 31 December 2015, by PLN 571 m and PLN 67 m, respectively. The amount of PLN 203 m was allocated for shareholder dividend.

Table 6: Consolidated statement of cash flows

in PLN m	9M 2015	9M 2016	Change 2016/2015	Change 2016/2015 (%)
Net cash flow from operating activities	1,052	1,051	(1)	0%
Net cash flow from investing activities	(871)	(1,177)	(306)	-35%
Net cash flow from financing activities	(593)	(1,139)	(546)	-92%
Net increase / (decrease) in cash	(412)	(1,265)	(853)	< -100%
Cash and cash equivalents at the end of the period	1,499	393	(1,106)	-74%

Figure 3: Group's cash flows in 9 months of 2016 and 2015



As at 30 September 2016, the balance of the Group's cash was PLN 393 m and was PLN 1,106 m (or 74%) less than the cash balance one year earlier.

The total net cash flows from the Group's operating, investing and financing activities in the three quarters of 2016 were negative at PLN 1,265 m, compared to the negative cash flows of PLN 412 m in the same period of the previous year.

Cash flow on operating activity was comparable to the last year's figures.

Net cash flows from investing activities in the three quarters of 2016 increased in total by PLN 306 m (i.e. 35%), driven mainly by acquisition of the shares in Polska Grupa Górnicza Sp. z o.o. and higher expenditures incurred to purchase property, plant and equipment and intangible assets. This effect was partially offset by inflows from the sale of participation units in the ENERGA Trading fund.

In the period in question cash flows from financing activities were negative and amounted to PLN 1,139 m, or PLN 546 m (or 92%) more than in the corresponding period of 2015. The factor with the greatest contribution to the change of cash flows in the analyzed period was the redemption of series A bonds issued by ENERGA SA in the amount of PLN 578 m. Additionally, during the three quarters of 2016, financing was disbursed under the PLN 350 m loan, which was then repaid in full in the third quarter of 2016, while during the first three quarters of 2015 EIB and NBI financing was disbursed in the amount of PLN 268 m. The effect was partially offset by a PLN 393 m lower amount of dividend paid in 2016 compared to the corresponding period of the previous year.

3.3. Structure of the annual consolidated statement of financial position

Figure 4: Structure of assets and liabilities

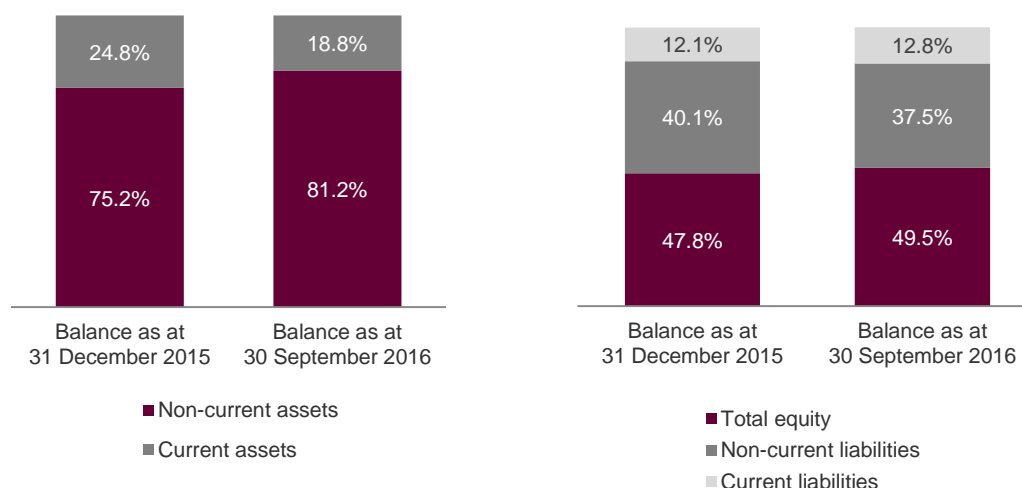


Table 7: Financial ratios of the ENERGA Group

Ratio	Definition	9M 2015	9M 2016
Profitability			
EBITDA margin	operating result + amortization and depreciation + impairment losses on non-financial non-current assets / revenue	21.7%	20.7%
return on equity (ROE)	net profit for the period* / equity at the end of the period	10.2%	2.4%
return on sales (ROS)	net profit for the period / sales revenues	8.8%	1.0%
return on assets (ROA)	net profit for the period* / total assets at the end of the period	4.8%	1.2%

* net profit for the last 12 months

Ratio	Definition	Balance as at 31 Dec. 2015	Balance as at 30 Sep. 2016
Liquidity			
current liquidity ratio	current assets/current liabilities	2.0	1.5
Indebtedness			
financial liabilities (PLN m)	sum of liabilities under loans and borrowings and under long- and short-term debt securities	5,870	5,178
net financial liabilities (PLN m)	financial liabilities - cash and cash equivalents	4,201	4,781
net debt / EBITDA ratio	net financial liabilities / EBITDA*	1.9	2.4

* EBITDA for the last 12 months

The reversal of impairment loss on fixed assets under construction in Elektrownia Ostrołęka SA in the current quarter boosted the net profit for the last 12 months (as compared to the previous quarter) and as a result improved the profitability ratios for the last 12 months. Nevertheless, compared to the corresponding period of the previous year, the significant level of impairment losses has driven down the profitability ratios for the last 12 months. On the other hand, in connection with the changed definition of EBITDA, the EBITDA margin remains at a similar level.

The current liquidity ratio remained flat from the previous quarter. The Group's exposure to PGG, redemption of bonds and lower operating results affected the level of current assets (decrease of cash and investments in the financial assets portfolio - ENERGA Trading units) translating into yoy lower current liquidity ratio.

Compared to the end of 2015, financial liabilities fell (by 12%). The higher level of the net debt to EBITDA ratio in relation to the end of last year was attributable to the change of net financial liabilities (up by 14%) and a decline of the Group's results for the past 12 months compared to 2015 (by 9%).

3.4. Description of significant off-balance sheet items

Information on this subject is provided in this Report's *Guarantees and sureties given* section and in Note 19: *Contingent assets and liabilities* of the consolidated financial statements.

3.5. Key operational data of the ENERGA Group

Table 8: Distribution of electricity, by tariff groups

Distribution of electricity, by tariff groups (invoiced sales) in GWh	Q3 2015	Q3 2016*	Change	Change (%)	9M 2015	9M 2016*	Change	Change (%)
Tariff Group A (HV)	1,210	992	(218)	-18%	3,287	3,168	(119)	-4%
Tariff Group B (MV)	1,892	2,012	121	6%	5,564	5,896	332	6%
Tariff Group C (LV)	1,031	1,022	(8)	-1%	3,167	3,150	(17)	-1%
Tariff Group G (LV)	1,216	1,238	21	2%	4,017	4,071	55	1%
Total distribution of energy	5,349	5,265	(84)	-2%	16,034	16,285	251	2%

*in connection with data migration to new billing systems, for 2016 data (for tariffs C and G), the data on invoiced sales were adjusted based on meter readings

In Q3 2016, the volume of electricity in distribution went down by nearly 2% compared to the corresponding period in 2015, while the average rate charged for distribution services stayed at a similar level yoy. The significant drop in volume occurred in tariff group A, where we lost an important client, who switched to its own power source, while the volume of the distribution service increased in group B, driven by an increasing number of customers.

Table 9: SAIDI and SAIFI

	SAIDI			SAIFI		
	Unplanned incl. catastrophic	Planned	Total	Unplanned incl. catastrophic	Planned	Total
	Number of minutes per customer in the relevant period			Disruptions per customer in the relevant period		
Q3 2015	102.7	11.4	114.1	1.1	0.1	1.1
Q3 2016	43.5	13.7	57.2	0.7	0.1	0.8
Change	(59.3)	2.4	(56.9)	(0.3)	0.0	(0.3)
Change (%)	-58%	21%	-50%	-32%	11%	-29%
9M 2015	208.0	33.6	241.5	2.5	0.2	2.7
9M 2016	117.8	34.8	152.6	1.8	0.2	2.1
Change	(90.2)	1.3	(88.9)	(0.7)	(0.0)	(0.7)
Change (%)	-43%	4%	-37%	-26%	-5%	-24%

In Q3 2016, ENERGA-OPERATOR SA achieved SAIDI and SAIFI at 57.2 min./cust. and 0.8 interruptions, respectively. The improvement of these indices compared to Q3 2015 is a result of mass failures caused by the unfavorable weather conditions in July 2015.

Table 10: Gross production of electricity in the ENERGA Group

Gross electricity produced (GWh)	Q3 2015	Q3 2016	Change	Change (%)	9M 2015	9M 2016	Change	Change (%)
Power plants - coal-fired	554	686	132	24%	1,742	1,785	43	2%
Power plants - biomass co-fired	158	10	(148)	-94%	463	10	(453)	-98%
CHP plants - coal-fired	17	13	(5)	-27%	91	71	(20)	-22%
CHP plants - biomass-fired	9	7	(2)	-19%	18	28	9	52%
Power plants - hydro	84	125	41	49%	546	556	10	2%
Pumped-storage plant	9	4	(5)	-59%	22	21	(1)	-3%
Power plants - wind	80	67	(13)	-17%	286	238	(47)	-17%
Power plants - photovoltaics	3	2	(1)	-32%	4	5	1	24%
Total electricity production	914	913	(1)	0%	3,172	2,714	(458)	-14%
<i>incl. RES</i>	334	211	(123)	-37%	1,317	836	(481)	-37%

In Q3 2016, ENERGA Group's generation assets produced a similar volume of electricity as in the corresponding period of the previous year. The decline of production in the Ostrołęka power plant (16 GWh), in wind power plants (13 GWh) and in co-generation sources (7 GWh) was offset by higher energy production in hydro power plants (better hydrological conditions). 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 property rights.

Moreover, since the beginning of 2016, the quantity of property rights arising on renewable energy production is not the same as the RES production volume because the new RES Act reduced support for fully-depreciated hydro sources with capacity exceeding 5 MW. As a result, the run-of-river power plant in Włocławek was eliminated from the support system.

Table 11 Production of heat

Gross heat production in TJ	Q3 2015	Q3 2016	Change	Change (%)	9M 2015	9M 2016	Change	Change (%)
ENERGA Kogeneracja Sp. z o.o.	233	229	(4)	-2%	1,516	1 544	29	2%
ENERGA Elektrownie Ostrołęka S.A.	185	189	4	2%	976	977	1	0%
Ciepło Kaliskie Sp. z o.o.	-	10	10	-	172	208	36	21%
Total gross heat production	418	428	10	2%	2,663	2 729	66	2%

In Q3 2016, heat production increased by approx. 10 TJ (or 2%) which was driven mainly by the increasing demand on the local markets experienced by Group companies.

Table 12: Volume and cost* of consumption of key fuels

Fuel consumption*	Q3 2015	Q3 2016	Change	Change (%)	9M 2015	9M 2016	Change	Change (%)
Coal								
Quantity (000s tons)	267	321	54	20%	895	887	(8)	-1%
Cost (PLN m)	66	70	4	6%	221	199	(23)	-10%
Biomass								
Quantity (000s tons)	106	12	(94)	-88%	312	29	(283)	-91%
Cost (PLN m)	42	4	(38)	-90%	125	11	(114)	-91%
Total fuel consumption (PLN m)	108	74	(34)	-31%	347	209	(137)	-40%

* including the cost of transportation

In Q3 2016, the producers in the ENERGA Group consumed approx. 54 thousand tons (or 20%) of black coal more than the year before. In the same period, biomass consumption fell by approx. 94 thous. tons (or 88%).

The significant reduction of the Group's fuel consumption expenses was caused by three key factors: change of the fuel mix (following from the RES Act coming into force and the current market prices of

green property rights), lower unit fuel purchase cost by the Segment and lower energy production in the Group's power plant and co-generation sources.

Table 13: Sales of electricity by the Sales Segment

Sales of electricity by the Sales Segment in GWh	Q3 2015	Q3 2016	Change	Change (%)	9M 2015	9M 2016	Change	Change (%)
Retail electricity sales	4,036	4,878	842	21%	12,344	14,366	2,023	16%
Electricity sales on the wholesale market, of which:	1,777	1,123	(654)	-37%	6,467	3,079	(3,387)	-52%
Electricity sales to the balancing market	72	94	23	32%	184	282	98	54%
Electricity sales to ENERGA-OPERATOR to cover network losses*	-	369	369	-	(16)	1,122	1,138	> 100%
Other wholesale	1,706	660	(1,046)	-61%	6,299	1,675	(4,623)	-73%
Total electricity sales	5,813	6,001	188	3%	18,811	17,446	(1,365)	-7%

* the negative volume in 2015 is an effect of settlement of a 2014 contract that was not extended to 2015

In Q3 2016, the total volume of electricity sold by the Segment rose by 3% (or 0.2 TWh) compared to Q3 2015, which is attributable to the increased volume of retail sales (by 21% or 0.8 TWh), while the sales volume on the wholesale market fell by 37% (or 0.7 TWh) in relation to the previous year.

In retail sales, the volume sold to business clients, including to Slovak market clients, went up in Q3 2016, while the volume sold to households decreased slightly. The increasing retail sales volume is the effect of acquiring several new business customers with relatively high electricity consumption. In terms of volume, sales to households (tariff G) in Q3 2016 accounted for 26% of the sales billed to end users by ENERGA-OBRÓT SA (31% in Q3 of the previous year).

In the analyzed period, electricity sales fell in the wholesale market (by 37%), despite the performance of the contract to sell electricity to ENERGA-OPERATOR SA to cover network losses started in the beginning of 2016. Such a significant decline was caused by the lower volume of energy purchased from renewable sources in the area of operation of ENERGA-OPERATOR SA, where ENERGA-OBRÓT SA is obligated to accept such energy as the "offtaker of last resort", which resulted in lower sales of excess volumes in the wholesale market. An additional factor contributing to the lower electricity sales volume on the wholesale market is the change in the forward contracting strategy in effect from 2016.

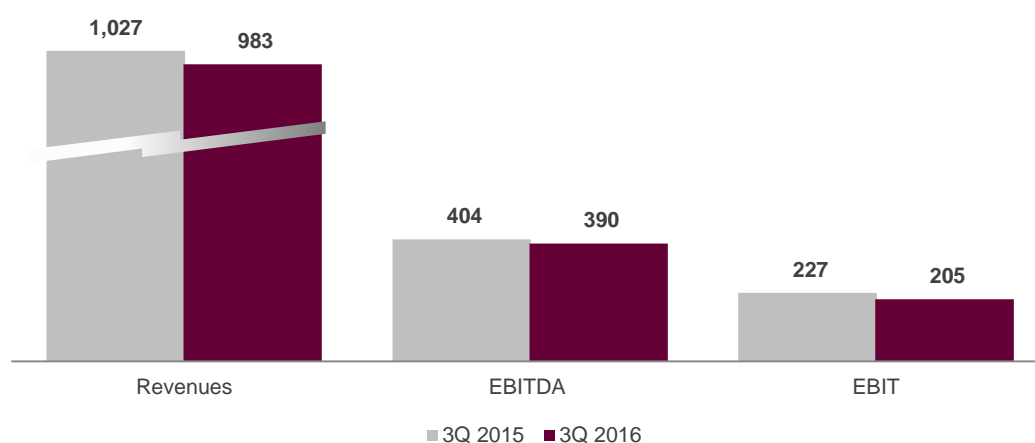
3.6. Financial results by operating segments

EBITDA (PLN m)	Q3 2015	Q3 2016	Change	Change (%)
DISTRIBUTION	404	390	(14)	-3%
GENERATION	67	27	(40)	-60%
SALES	49	36	(13)	-27%
OTHER and Consolidation eliminations and adjustments	(21)	(14)	7	33%
Total EBITDA	499	439	(60)	-12%

EBITDA (PLN m)	9M 2015	9M 2016	Change	Change (%)
DISTRIBUTION	1 338	1 310	(28)	-2%
GENERATION	306	195	(111)	-36%
SALES	116	63	(53)	-46%
OTHER and Consolidation eliminations and adjustments	(34)	(39)	(5)	-15%
Total EBITDA	1,726	1,529	(197)	-11%

Distribution Segment

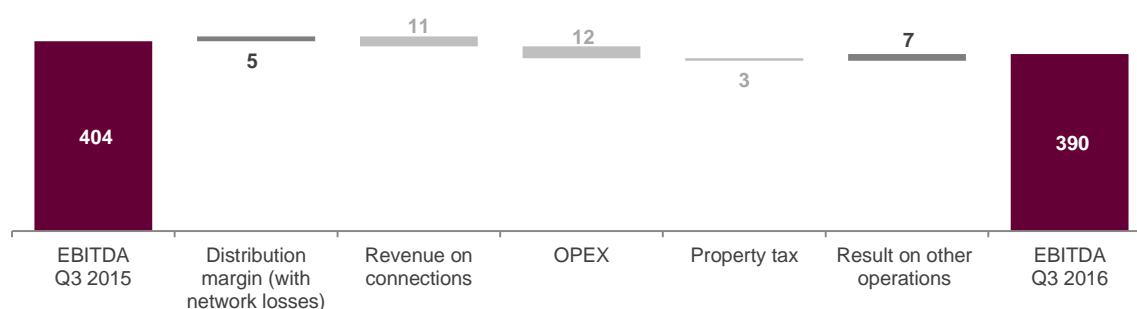
Figure 5: Results of the ENERGA Group's Distribution Segment (PLN m)



PLN m	Q3 2015	Q3 2016	Change	Change (%)
Revenue	1,027	983	(44)	-4%
EBITDA	404	390	(14)	-3%
amortization and depreciation	177	185	8	5%
impairment losses on non-financial non-current assets	-	-	-	0%
EBIT	227	205	(22)	-10%
Net profit	155	137	(18)	-12%
CAPEX	270	294	24	9%

PLN m	9M 2015	9M 2016	Change	Change (%)
Revenue	3,137	3,077	(60)	-2%
EBITDA	1 338	1 310	(28)	-2%
amortization and depreciation	529	546	17	3%
impairment losses on non-financial non-current assets	-	-	-	0%
EBIT	809	764	(45)	-6%
Net profit	563	552	(11)	-2%
CAPEX	719	875	156	22%

Figure 6: EBITDA Bridge of the Distribution Segment (PLN m)



In Q3 2016, the Distribution Segment contributed about 89% to ENERGA Group's EBITDA (81% in the comparative period).

The Q3 revenue of the Distribution Segment was 4% lower than in the corresponding period of the previous year. The decrease in revenues was driven mainly by a lower volume of distributed electricity (by nearly 2%). In Q3 2016, revenues from connection fees were PLN 13 m, almost PLN 11 m less than in the same quarter of 2015.

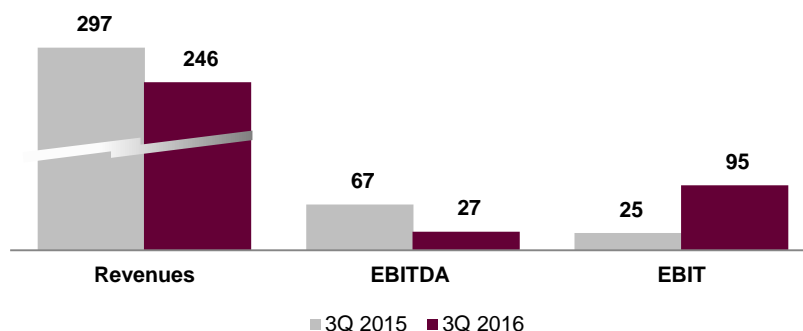
EBITDA was maintained at a level similar to last year's and amounted to PLN 390 m (down by approx. 3%), and EBIT amounted to PLN 205 m (down by 10% or PLN 22 million yoy). The lower volume of

network losses driving up the margin and increased impairment losses on receivables in OPEX had an important impact on the operating result.

Net profit in Q3 2016 was nearly PLN 18 m lower than in the same quarter of the previous year.

Generation Segment

Figure 7: Results of the ENERGA Group's Generation Segment (PLN m)



PLN m	Q3 2015	Q3 2016	Change	Change (%)
Revenue	297	246	(51)	-17%
EBITDA	67	27	(40)	-60%
amortization and depreciation	42	43	1	2%
impairment losses on non-financial non-current assets	-	(110)	(110)	-
EBIT	25	95	70	> 100%
Net profit	5	174	169	> 100%
CAPEX	87	43	(44)	-51%

PLN m	9M 2015	9M 2016	Change	Change (%)
Revenue	1 052	788	(264)	-25%
EBITDA	306	195	(111)	-36%
amortization and depreciation	121	133	12	10%
impairment losses on non-financial non-current assets	11	441	430	> 100%
EBIT	174	(379)	(553)	< -100%
Net profit	98	(275)	(373)	< -100%
CAPEX	245	184	(61)	-25%

In order to enhance transparency and simplify analyses (by ensuring comparability of the key parameter in the industry in which the Group operates), the definition of EBITDA changed starting from Q1 2016.

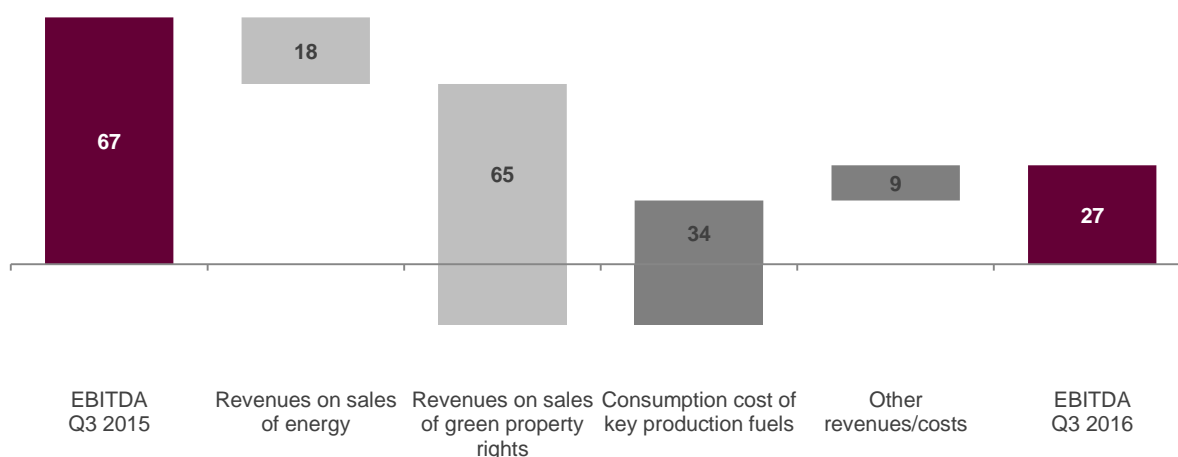
According to the new definition, performance calculations at the EBITDA level does not include impairment losses on non-financial non-current assets.

The table below presents a breakdown of EBITDA of the Generation Segment by business lines. This table includes individual data plus the management cost charge for managing the Generation Segment, elimination of transaction concluded between individual business lines and consolidation adjustments.

The data presented for Q3 2015 may be different than the presented historical data, because the methodology for allocating Segment results to individual business lines changed slightly.

EBITDA (PLN m)	Q3 2015	Q3 2016	Change	Change (%)	9M 2015	9M 2016	Change	Change (%)
Hydro	23	11	(12)	-54%	132	67	(65)	-49%
Wind	17	(5)	(22)	< -100%	47	11	(35)	-76%
Ostrołęka Power Plant	41	23	(18)	-43%	116	82	(34)	-29%
Other and adjustments	(14)	(2)	12	85%	12	35	23	> 100%
Total Generation	67	27	(40)	-60%	306	195	(111)	-36%

Figure 8: EBITDA Bridge of the Generation Segment (PLN m)



The Generation Segment's contribution to the Group's total EBITDA was 6% in Q3 of the current year (13% in the same period of the previous year). The drop in EBITDA was PLN 40 m and was caused primarily by the lower revenues on sales of electricity and property rights, which were offset by lower fuel consumption expenses.

The decrease in revenues on sales of electricity was caused by two major factors: First of all, electricity sales prices in the Ostrołęka Power Plant business line fell due to lower prices on the SPOT market and on the balancing market. Secondly, energy production fell yoy in wind farms (by 17%), Ostrołęka Power Plant (by 2%) and CHP plants (by 24%). These decreases in revenues were partially offset by the higher production from hydro power sources (by 39%).

Lower revenues on sales of property rights are associated, on the one hand, with the entry into force of the new RES Act as of 1 January 2016, which suspended support for hydro power plants with the capacity exceeding 5 MW (which resulted in the loss of green certificates for electricity production in the run-of-river power plant in Włocławek in the Hydro business line) and reduced support for large biomass

co-fired sources (Ostrołęka Power Plant). On the other hand, the market price of property rights fell (the weighted average OZEX_A index in Q3 of the previous year was 110 PLN/MWh, compared to 49 PLN/MWh in the corresponding period of 2016). The third negative factor (in the environment of falling prices) was a delay in the sale of inventories of green property rights by the Segment, which due to the falling prices pushed EBITDA further down (e.g. the Wind Q3 EBITDA without the revaluation of property rights inventories would be approximately PLN 5 m).

The costs of consumption of key fuels (including transportation) in the Generation Segment in 2016 fell by 31%, or PLN 34 m yoy because of a change in the fuel mix, lower fuel purchase costs and lower energy production.

In addition to the above factors contributing to the yoy pre-tax results of the Generation Segment, two other events must also be mentioned. The first one is the sale of the Ostrołęka C construction design by the Generation Segment to ENERGA SA (PLN 114 m). This operation was neutral in the context of the Group (adjustment in the Others and consolidation eliminations and adjustments Segment). The other event was the reversal of impairment losses on fixed assets under construction (PLN 110 m), which was related to the freezing of the Ostrołęka C power plant construction project (the reason for reversing the impairment is the progress of work to build a new coal-fired unit in Ostrołęka, including execution of General Terms and Conditions of Cooperation with Polska Grupa Górnicza sp. z o.o. setting out the rules of coal supply to the Ostrołęka power plant). These two events increased the operating result of the Generation Segment for Q3 of this year (according to the definition in effect, they did not affect EBITDA).

Hydro

PLN m	Q3 2015	Q3 2016	Change	Change (%)	9M 2015	9M 2016	Change	Change (%)
Revenue	44	29	(15)	-35%	199	127	(72)	-36%
EBITDA	23	11	(12)	-54%	132	67	(65)	-49%
EBIT	15	2	(13)	-84%	109	43	(67)	-61%
CAPEX	6	1	(5)	-84%	12	4	(8)	-64%

Wind

PLN m	Q3 2015	Q3 2016	Change	Change (%)	9M 2015	9M 2016	Change	Change (%)
Revenue	25	5	(20)	-79%	78	41	(37)	-47%
EBITDA	17	(5)	(22)	< -100%	47	11	(35)	-76%
EBIT	5	(13)	(19)	< -100%	14	(282)	(296)	< -100%
CAPEX	1	-	(1)	-100%	9	0	(9)	-100%

Ostrołęka Power Plant

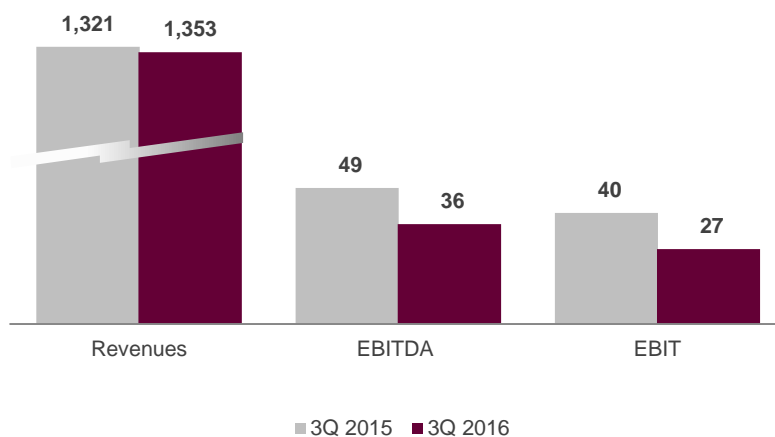
PLN m	Q3 2015	Q3 2016	Change	Change (%)	9M 2015	9M 2016	Change	Change (%)
Revenue	207	184	(23)	-11%	655	500	(155)	-24%
EBITDA	41	23	(18)	-43%	116	82	(34)	-29%
EBIT	27	5	(22)	-80%	77	30	(47)	-62%
CAPEX	37	34	(3)	-9%	113	144	31	27%

Other and adjustments

PLN m	Q3 2015	Q3 2016	Change	Change (%)	9M 2015	9M 2016	Change	Change (%)
Revenue	20	27	7	32%	121	120	(2)	-1%
EBITDA	(14)	(2)	12	85%	12	35	23	> 100%
EBIT	(22)	100	122	> 100%	(27)	(170)	(143)	< -100%
CAPEX	44	9	(35)	-80%	111	36	(75)	-67%

Sales Segment

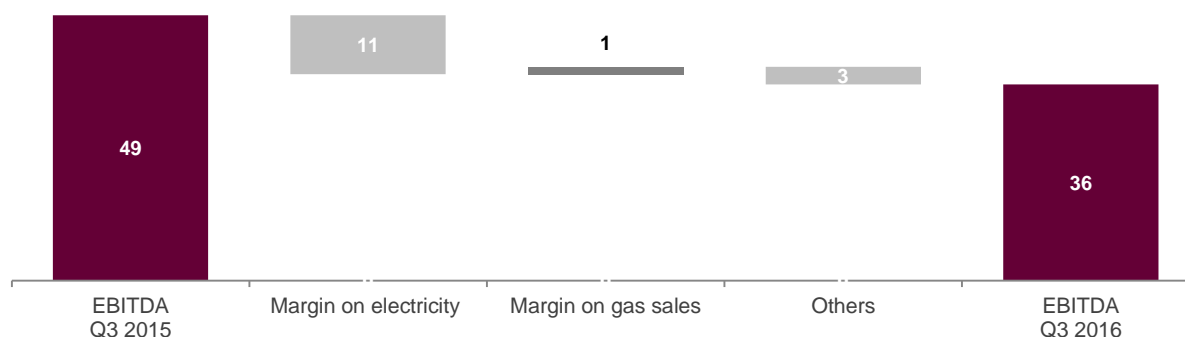
Figure 9: Results of the ENERGA Group's Sales Segment (PLN m)



PLN m	Q3 2015	Q3 2016	Change	Change (%)
Revenue	1,321	1 353	32	2%
EBITDA	49	36	(13)	-27%
amortization and depreciation	9	9	-	0%
impairment losses on non-financial non-current assets	-	-	-	0%
EBIT	40	27	(13)	-33%
Net profit	35	20	(15)	-43%
CAPEX	14	63	49	> 100%

PLN m	9M 2015	9M 2016	Change	Change (%)
Revenue	4,197	4,018	(179)	-4%
EBITDA	116	63	(53)	-46%
amortization and depreciation	25	27	2	8%
impairment losses on non-financial non-current assets	-	-	-	0%
EBIT	91	36	(55)	-60%
Net profit	84	28	(56)	-67%
CAPEX	39	76	37	95%

Figure 10: EBITDA Bridge of the Sales Segment (PLN m)



In Q3 2016, the Sales Segment recorded EBITDA of PLN 36 m, which represents 8% of ENERGA Group's EBITDA. In Q3 2015, the Segment's EBITDA was at PLN 49 m and the Segment's contribution to the Group's EBITDA was 10%.

The Sales Segment's revenue in Q3 2016 stood at PLN 1,353 m, increasing by PLN 32 m (or 2%) when compared with Q3 2015. This was driven mainly by a 3% increase in the Segment's total electricity sales volume. Revenue on retail electricity sales increased by 16% compared with the previous year thanks to a 21% hike in volume, partially offset by a 4% decline in average sales price. It is the much higher turnover on the retail market drove up the Segment's sales revenues. On the other hand, revenue on wholesale electricity sales fell by as much as 39% in Q3 2016 due to sales volume plummeting by 37% and a 4% drop in the average sales price.

The margin on sale of electricity, which is the key component generating the Segment results, fell by PLN 11 m quarter to quarter. This was the effect of a lower unit margin: average electricity sales prices to end users fell faster (-4% yoy) than the average unit variable cost, composed of the purchase cost of electricity, property rights and excise tax (-2% yoy) and the less advantageous structure of sales according to tariff groups. The factors determining margin levels on electricity sales are presented below:

- a) Volume of retail sales – a 21% increase contributed to the margin growth yoy.
- b) Structure of the sales volume by tariff groups (mix) – the change of the product mix adversely affected the margin, as it increased the percentage of clients from tariff groups with a lower unit margin.
- c) Price for end users – the prices follow the changes in variable cost and are determined by the increasing market competition. One additional element that increased the negative growth rate yoy of the average sales price was the fact that the cost of white certificates was not taken into account in the 2016 sales contracting process, since the obligation to redeem them was extended to 2016 at the end of December 2015.
- d) Cost of electricity purchase – the decrease of the average cost yoy (which fell more slowly than sales prices) is a result of the lower costs connected with the “offtaker of last resort” function performed by ENERGA-OBRÓT SA and balancing. This among others is an effect of the lower volume of electricity purchased as the “offtaker of last resort” from wind generation. The purchase cost was significantly impacted by the situation in the SPOT and the balancing market in June of this year, when as a result of a high load in the electrical power system, electricity prices remained high. This affected the level of product prices with delivery in Q3 of this year.
- e) The cost of redemption of property rights – the average unit cost in Q3 2016 was lower than in Q3 last year. This is an effect of the lower purchase prices of green certificates: in Q3 the prices were the lowest in history and the Segment used these attractive prices to purchase certificates in order to perform the redemption duty. Starting on 1 July of this year, a new obligation was introduced associated with the support for biogas-fired electricity producers (“blue” certificates): in Q3 2016, the Segment incurred PLN 10 m of costs on this account.

The gas trading business continues to exert a positive effect on the Segment's EBITDA (yoy), but its level is much lower than in the previous quarters. This is a result of more intensive gas sales in H2 2015, as a result of which the changes in volume yoy in the second half of this year are lower. In Q3 2016, the margin on gas sales generated by the Segment was PLN 1 m higher yoy. The contribution of this business line to Segment results remains insignificant, but it grows dynamically in terms of volumes and margins. In Q3 of this year, gas sales reached 0.45 TWh, compared to 0.21 TWh in the same period of the previous year.

The PLN 49 m yoy increase in capital expenditures in Q3 2016 was driven by settlements under the project associated with the sales service system (PLN 56 m) in the ENERGA Group. This transaction was eliminated at the Group's consolidated level

3.7. Projected financial results

The Management Board of ENERGA SA has not published projections of company or consolidated financial results for the financial year 2016.

3.8. Ratings

On 27 November 2015, Fitch Ratings affirmed the Company's long-term ratings at the previous level of BBB: the Company's long-term rating in local and foreign currencies and the rating for the Company's junior unsecured debt in the local and foreign currencies. The rating outlook remained stable.

On 21 December 2015, the Moody's Investors Service rating agency affirmed the Company's ratings at Baa: the Company's long-term rating in domestic currency and rating for junior unsecured debt in domestic currency extended to the EMTN Facility of the subsidiary ENERGA Finance AB (publ) with a total value of EUR 1 bn guaranteed by ENERGA. The rating outlook remained stable.

Table 14: Current ratings of ENERGA

	Moody's	Fitch
Company's long-term rating	Baa1	BBB
Rating outlook	Stable	Stable
Rating date	23 December 2011	19 January 2012
Last change of rating	-	12 October 2012
Last confirmation of rating	21 December 2015	27 November 2015

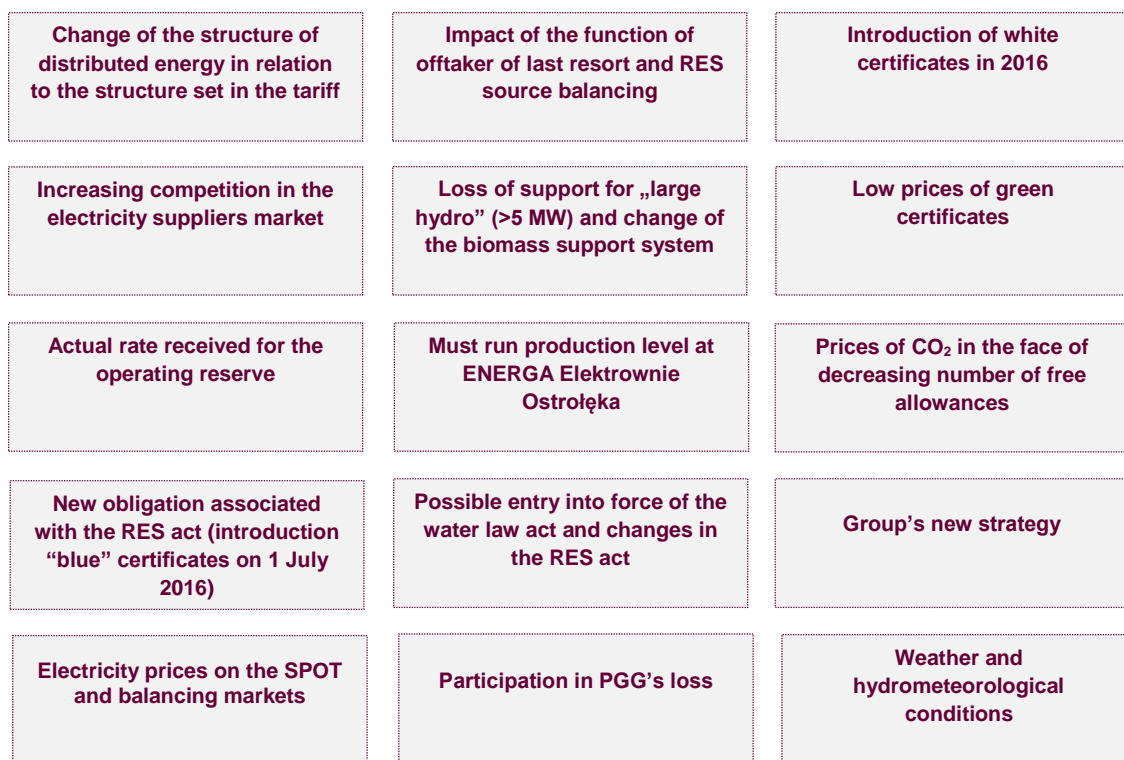
3.9. Dividend

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. The entire declared dividend was paid out by 30 September 2016.

3.10 ENERGA Group performance drivers in the next quarter and later

In the opinion of the ENERGA Management Board, the following factors will drive the results and operations of the Company and the ENERGA Group in the perspective of at least the next quarter:

Figure 11: ENERGA Group performance drivers in the next quarter



Environment



4. ENVIRONMENT

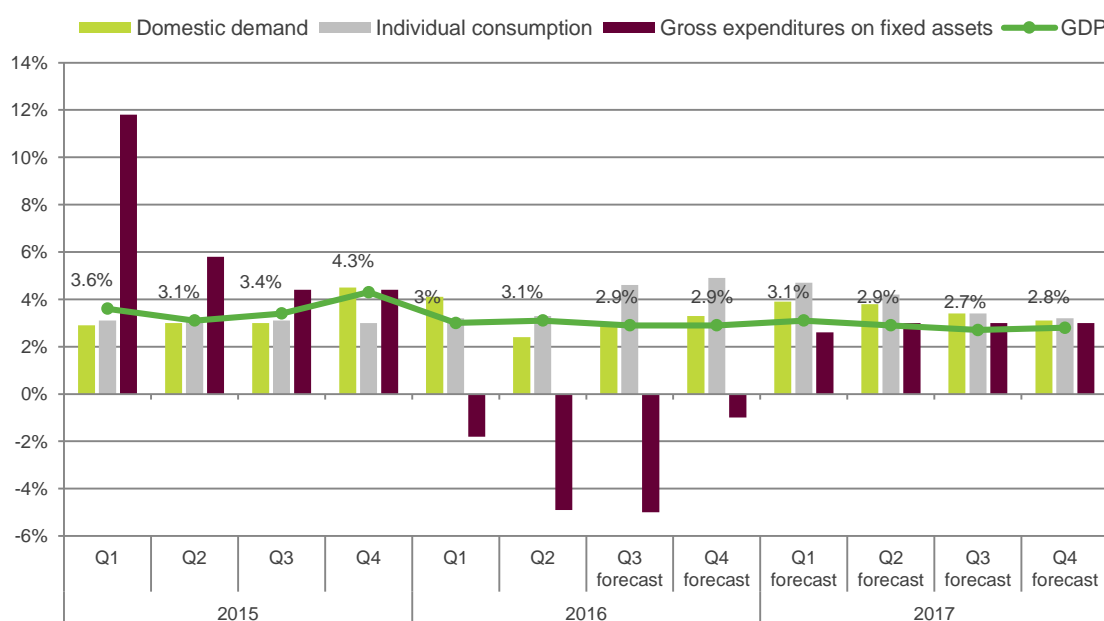
4.1. Macroeconomic situation

The domestic market is the main operating market of ENERGA Group companies and therefore variations in business conditions measured by GDP change rates, inflation or unemployment rates translate to electricity, heat and gas prices and shape demand for products supplied to customers.

The incoming macroeconomic data for Q3 and the tentative estimation of Gross Domestic Product in Q2 resulted in a lower forecast of domestic business conditions as compared to the expectations 3 months earlier.

According to the tentative date, GDP not equalized for seasonal differences increased by 3.1% in real terms compared to the same period last year. Domestic demand was the main driver of GDP. Other positive contributors to GDP included international demand and household consumption. Investments were a negative factor. The weak construction production performance in all the sectors suggest further reduction of expenditures towards fixed assets, which will adversely affect the increase in GDP growth in the second half of the year. According to the preliminary estimates, economic growth in Q3 of this year will be similar to the figure recorded in Q2. It will be driven mainly by the stable growth in consumer demand supported by a systematic improvement of the labor market situation and positive sentiments among households.

Figure 12: Annual changes in GDP, domestic demand, individual consumption and expenditures



Source: GUS and forecasts by Bank Zachodni WBK

Despite the problems arising with investments, positive trends in the Polish economy confirm the PMI readings for the industrial sector, which rose from 51.5 in August to 52.2 points in September. The rebound was caused primarily by production and new industrial orders (mainly export orders) since both measures were growing at the fastest pace since March of this year.

The consumer price index in the first three quarters of the year was negative (the prices fell by 0.9% as compared to Q1-Q3 2015). The increased price growth is driven by the easing off effects of the earlier

drop in raw material prices on global markets as well as a gradual increase of salary growth in Poland. On the other hand, the low increase in foreign prices and the continuing negative demand gap act as an anchor diminishing price growth.

During its meeting in October, the Monetary Policy Council did not change interest rates, which have remained at the same level since March 2015. The Council believed that the available macroeconomic data and forecasts do not provide grounds for changing the monetary policy and the current level of interest rates is conducive to keeping the Polish economy on the sustainable growth path and allows it to maintain macroeconomic balance.

The good situation on the labor market is reflected in average employment, which in H1 2016 was 2.3% higher than in the year before, and the average monthly (gross) salary, which increased by 3.6% yoy in the same period.

The condition of Poland's economy is largely conditional upon the situation in its external environment. NBP has noted that global economic growth remains moderate, despite uncertainty about its outlook. The Euro zone economy remains stable, even though it has been affected by poor business conditions in non-European emerging economies. In the USA, the incoming macroeconomic data suggest some increase in GDP growth in Q3 accompanied by a further improvement of the labor market situation. On the other hand, economic growth in China is lower than in the preceding years, while business activity data indicate that business conditions have stabilized in recent months.. This is accompanied by the declining scale of recession in Russia.

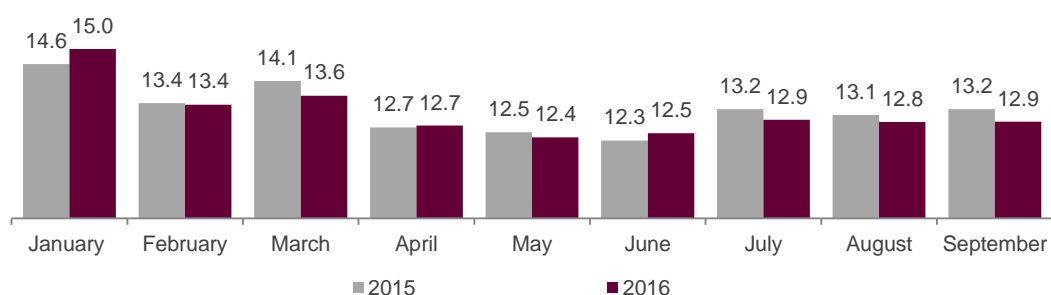
4.2. Electricity market in Poland

The situation in the market environment is really important for the Group's financial performance. In this context, one should mention in particular the production and consumption of electricity, Poland's intersystem exchange, electricity prices in Poland and in its neighboring countries, prices of property rights, fees for the operating reserve and the costs of emission allowances.

Domestic production and consumption of electricity

Production of electricity in Poland, according to the data published by Polskie Sieci Energetyczne ("PSE") in Q3 2016, reached 38.6 TWh, or 0.9 TWh less than in the corresponding period of the previous year (39.5 TWh). In the individual months of Q3, 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 neighboring countries.

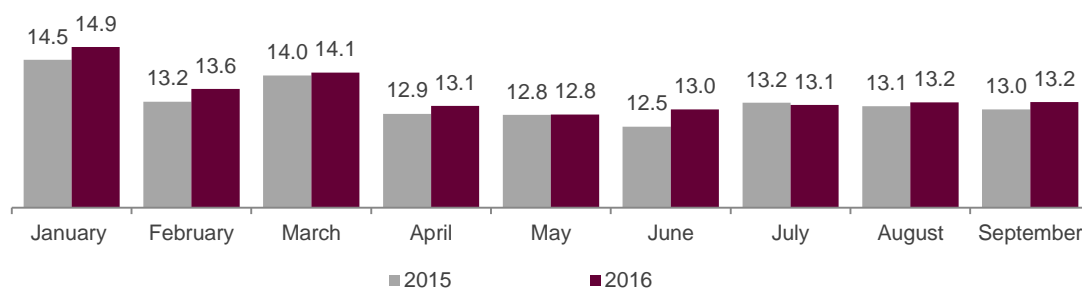
Figure 13: Production of electricity in Poland after Q3 2016 (TWh)



Source: PSE

Domestic consumption of electricity in Poland in Q3 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 increase in electricity consumption, i.e. by 0.2 TWh or 0.7%, occurred in September.

Figure 14: Consumption of electricity in Poland after Q3 2016 (TWh)

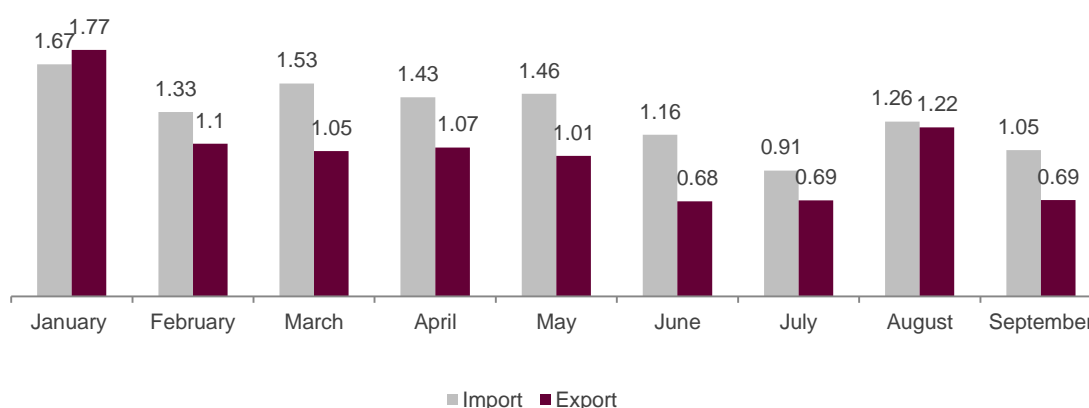


Source: PSE

Poland's inter-system exchange

The launch of 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 in Q3 2016 compared to the corresponding period of the previous year. As a result of these factors, in Q3 Poland was a large 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.

Figure 15: Monthly volumes of intersystem exchange in Poland after Q3 2016 (TWh)

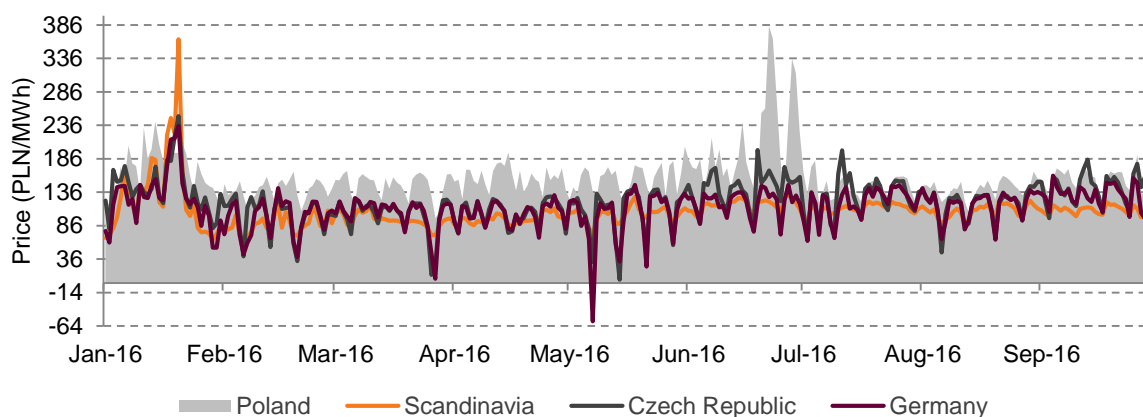


Source: PSE

Energy prices in neighboring countries

In order to compare energy prices in Poland to those in the neighboring countries, SPOT market prices were used as reference products. In Q3 2016, average prices in Poland were higher than they were in the neighboring countries. The highest price deviations, as was the case in the previous quarter, were in relation to the Scandinavian market (+34%, or 37.53 PLN/MWh) and the smallest differences in relation to the prices in the Czech Republic and Slovakia (+12%, i.e. 16.00 PLN/MWh).

Figure 16: Electricity prices on the SPOT market in Poland and in neighboring countries after Q3 2016

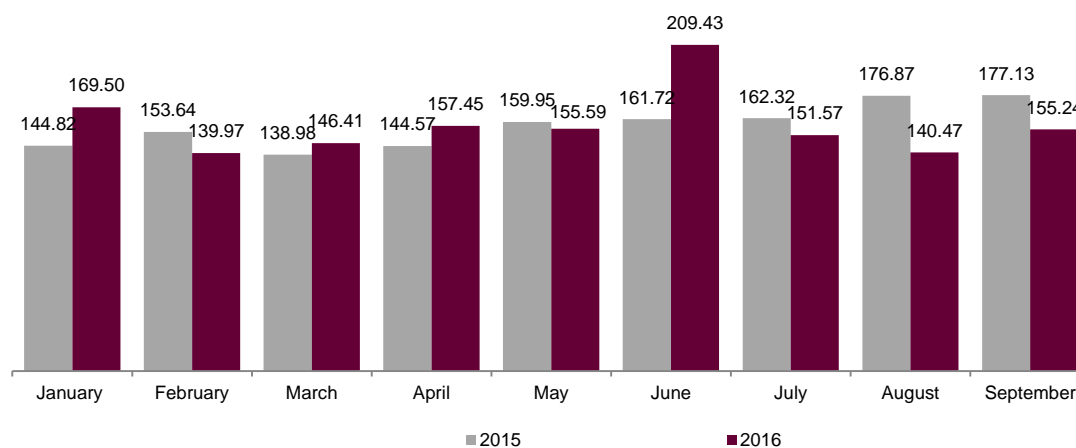


Source: Bloomberg

Electricity Day-Ahead Market (DAM) in Poland

In Q3 2016, the average level of the IRDN 24 index was 155.24 PLN/MWh and was 16.81 PLN/MWh lower than in the corresponding period of the previous year. The largest yoy drop in prices was by 36.40 PLN/MWh or 20.58%, in August.

Figure 17: IRDN 24 index after three quarters of 2016 (PLN/TWh)



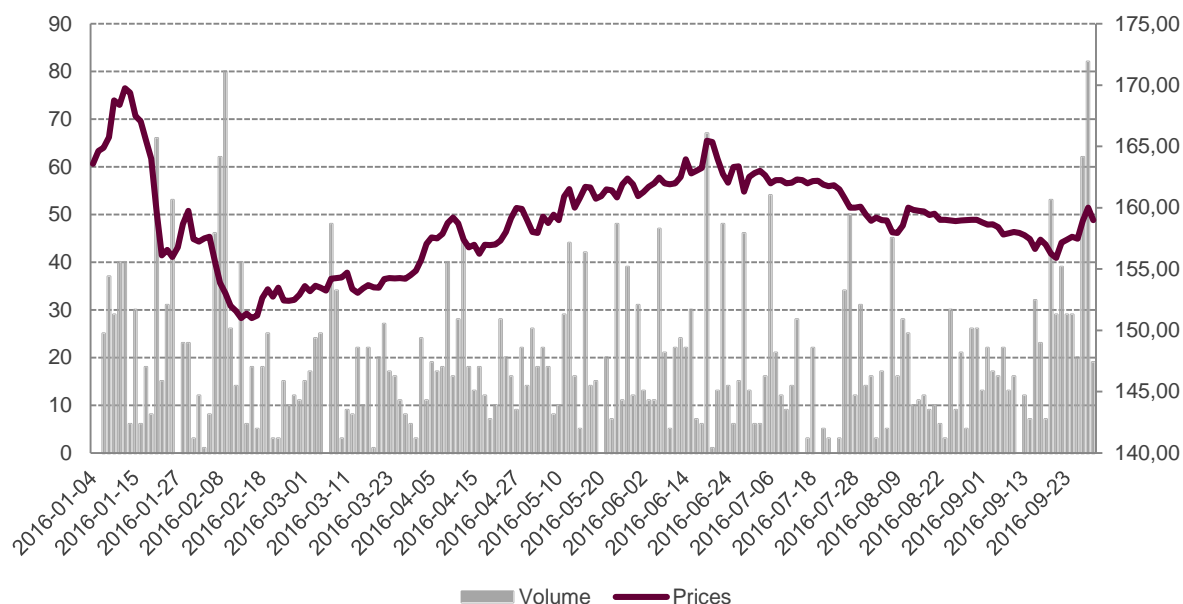
Source: TGE

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% m/m to 155.24 PLN/MWh.

Electricity forward market in Poland

In Q3 2016, the electricity forward market was in a downward trend, reaching the minimum of 155.91 PLN/MWh on 21 September. From that moment, there was a visible rebound attempt on the BASE 2017 market, boosting the prices to 159.99 PLN/MWh on 29 September.

Figure 18: Price of forward contracts – base with delivery in 2017 after Q3 2016



Source: TGE

Emission allowance market

In the beginning of 2016, there was a crash on the market for CO₂ emission allowances, which led to a decline in prices from above 8 EUR/ton 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 made attempts to increase the prices, ending the month at the level of 4.97 EUR/t (previously seen three months earlier). The rebound in prices may be explained by leaks from the works of the European Parliament's Committee on Industry on the 4th phase of the EU ETS system concerning a linear increase of the reduction factor to 2.4% and increased prices of energy market products (oil, coal, gas).

Figure 19: EUA emission allowance prices after 3 quarters of 2016



Source: Bloomberg

Property rights market

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

Table 15: Average levels of property rights indices listed on the Polish Power Exchange

Index (type of certificate)	Index value			% 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 H1 2016 (15%), in H2 broken down into: green 14.35%, blue 0.65%.

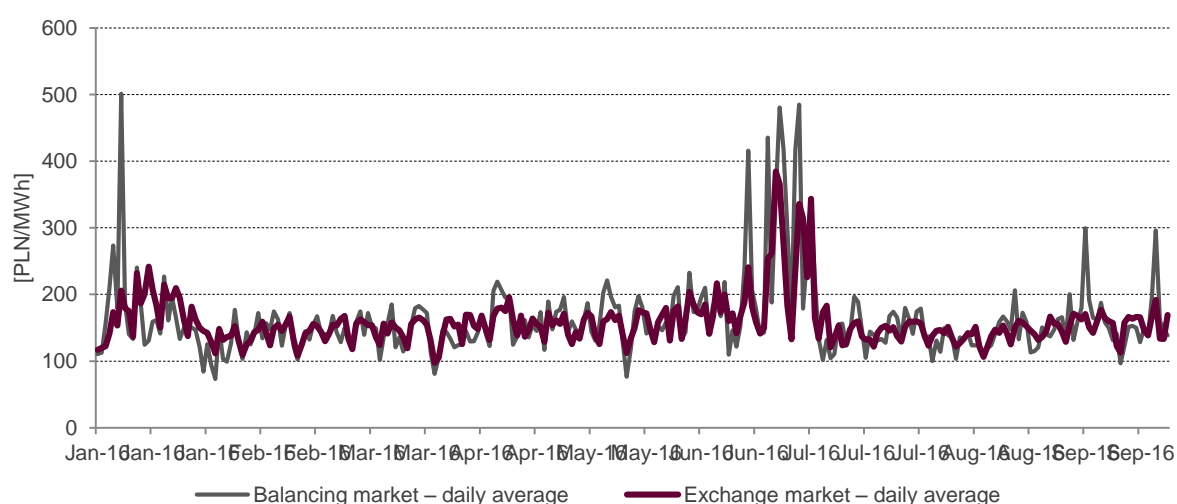
* value of the substitution fee and redemption obligation in 2016

From the standpoint of the Group's generation structure (high percentage of RES production) the quotations of 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 majority of Q3 2016, electricity prices on the balancing market were similar to day-ahead market prices. There were two exceptional dates: on 9 September of this year, the daily average price on the balancing market reached 299.28 PLN/MWh and on 27 September, the daily average price on the balancing market was 296.27 PLN/MWh. The average price level in the period in question on the balancing market was 151.12 PLN/MWh, compared to 169.61 PLN/MWh in the corresponding period of the previous year.

Figure 20: Prices on the balancing market and SPOT (exchange) market after Q3 2016

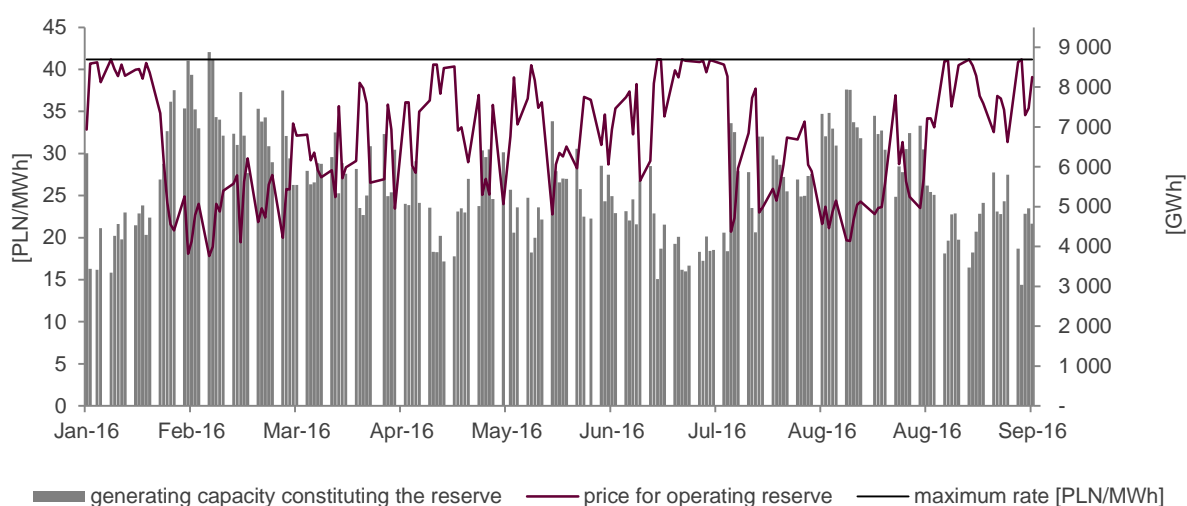


Source: TGE, PSE

Operating reserve

In 2016, the operating reserve service is continued, while its governing rules changed slightly compared to the previous year. The reference price was raised to 41.20 PLN/MWh. Also an additional monthly and annual settlement of the operating reserve, in order to expend the remaining ORM budget in the case that daily settlements do not exhaust it fully. In Q3 2016, the average fee for the operating reserve service was PLN 30.94 and was PLN 3.55 less than in the corresponding period of the previous year.

Figure 21: Prices and generating capacity constituting operating reserve after Q3 2016



Source: PSE

4.3. Regulatory environment

Table 16 List of legal acts affecting the performance of the ENERGA Group

Legal act	Purpose of changes	Risks	
		Opportunities	Threats
(1) planned amendment of the Renewable Energy Sources Act ("big amendment")	Modification of the auction-based RES support system and preparation for the first auction	(1) limitation of risks and excessive costs for "offtaker of last resort" (in the ENERGA Group it is ENERGA-OBRÓT); (2) changes in support for modernized RES installations (3) more precise definition of rules for supporting so-called "energy clusters" (4) change in the rules for settlements of electricity produced by prosumers (5) elimination of interpretation	(1) support for new Group projects conditional upon changes in the terms of RES auctions (reference price) (2) limited nature of the first planned RES auction and absence of information about further plans (3) uncertainty regarding the full launch of the system within the assumed timeline. (4) risk associated with the unplanned amendment of the act in H1 2016 will result in increasing uncertainty about the regulations right before the launch of the auction system. Additionally, such an amendment may bring about

Legal act	Purpose of changes	Risks	
		Opportunities	Threats
		concerns in the RES Act	many unplanned changes to the act. (5) Risk of interpretation of unclear provisions of the act by the ERO President
(6) Government Water Law Bill	Implementation of the requirements of the Water Framework Directive (WFD) in respect to the principles of water management. In its preamble, the Water Framework Directive states that the Community water policy requires a transparent, effective and coherent legislative framework, which should be understood as a postulate to introduce legal regulations at the local level that would ensure full and rational legal regulation of this area.	(1) rationalization and stimulation of investments in the area of water management in Poland (2) change of the financing model by the State Water Management Institution	(1) abandonment of exemptions from water fees for power facilities (both hydro and coal-fired) and CHP plants (2) unknown level of fees for business use of water for energy production and rates for handing over land covered by water for use, will generate important costs for owners of hydro power plants and conventional heat installations (power plants and combined heat and power plants) (3) uncertainty regarding the implementation date of the planned legal changes (2016 vs. 2017) (4) risk of legislative inconsistency of the new act because of its broad scope and the pace of legislative work (5) increase in the rates of the fees in the future
planned amendment of the Act on wind farm investment projects.	Change of the rules for locating wind power plants	(1) mitigation of legal requirements will, to some extent, enable the development of wind power	(1) concerns about interpretation concerning the possibility of executing wind farms
Government Bill on audiovisual fee	Introduction of an additional public levy, which is to replace the current radio and tv subscription fee (Bill proceedings suspended)	(1) None	(6) imposition of additional duties on companies responsible for distribution of electricity, which will result in additional significant costs (7) introduction of additional fees as components of the electricity distribution fee (8) changes required in the billing systems and additional training for staff
Assumptions (Minister of Energy) for the "Capacity Market") should	Guaranteeing long-term safety of	(1) new investment projects associated with the construction	(1) lack of implementation of the legislative proposal within the assumed time framework

Legal act	Purpose of changes	Risks	
		Opportunities	Threats
precede the government legislative initiative regarding the Capacity Market.	electricity supply to KSE	<p>of new conventional power plants</p> <p>(2) introduction of main auction n-5</p> <p>(3) introduction of a consistent system to guarantee electricity supply to KSE</p> <p>(4) launch of the mechanism to prevent excessive support for RES and CHP installations</p>	<p>(2) unplanned changes in the concept during the legislative process</p> <p>(3) delay in announcing the first capacity auctions planned for 2017</p> <p>(4) lack of notification of the system by the European Commission</p>
Electric Mobility development program (Ministry of Energy)	Adoption of legal regulations to foster and promote development of the electric vehicle market and correlation of this process with activities to improve stability of the National Power System	<p>(1) dynamic growth of electric mobility will expand the range of services of demand aggregators</p> <p>(2) Increased demand for electricity arising from the use of electric cars</p>	<p>(1) Necessity for additional development of distribution networks</p> <p>(2) Absence of dedicated legal solutions supporting development of electric mobility and regulating its impact on the National Power System and power companies</p>
The government bill to amend certain acts setting forth the terms and conditions for running innovative activity	development of mechanisms to strengthen private R&D expenditures incurred by companies. The need to shift aid patterns from grant streams to a broader support in the form of tax exemptions. This involves a change in the financing of innovative activity after 2020 when the current EU funding perspective ends.	<p>(1) Simplification of asset disposal procedures for sovereign legal persons, financing of reviews of environmental technologies</p> <p>(2) Simplification of research results commercialization procedures</p> <p>(3) introduction of measures in amended acts, which are aimed at supporting research and development activity, including among others: taxation of contribution-in-kind in the form of intellectual and industrial property, extension and increase of "eligible expenses"</p>	<p>(3) None</p>

Shares and shareholding structure



5. SHARES AND SHAREHOLDING STRUCTURE

5.1. ENERGA's shareholding structure

Table 17: Issuer's shares by series and types

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

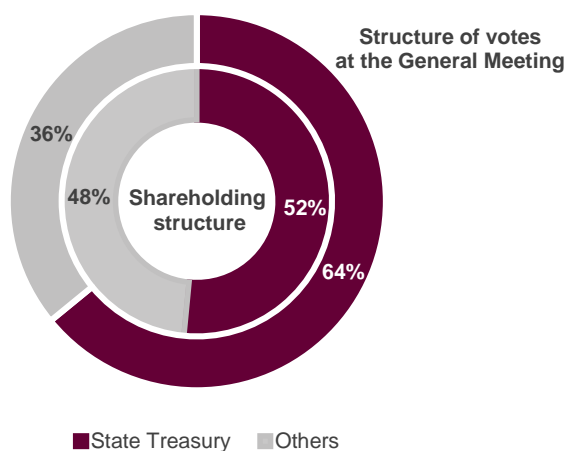
* One preferred share entitles its holder to 2 votes at the General Meeting. These shares are owned by the State Treasury.

Table 18: Shareholding structure of ENERGA as at 11 August 2016, 30 September 2016 and the date of preparing this Information

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

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

Figure 22: Shareholding and voting structure at the General Meeting of ENERGA as at 11 August 2016, 30 September 2016 and the date of preparing this Information



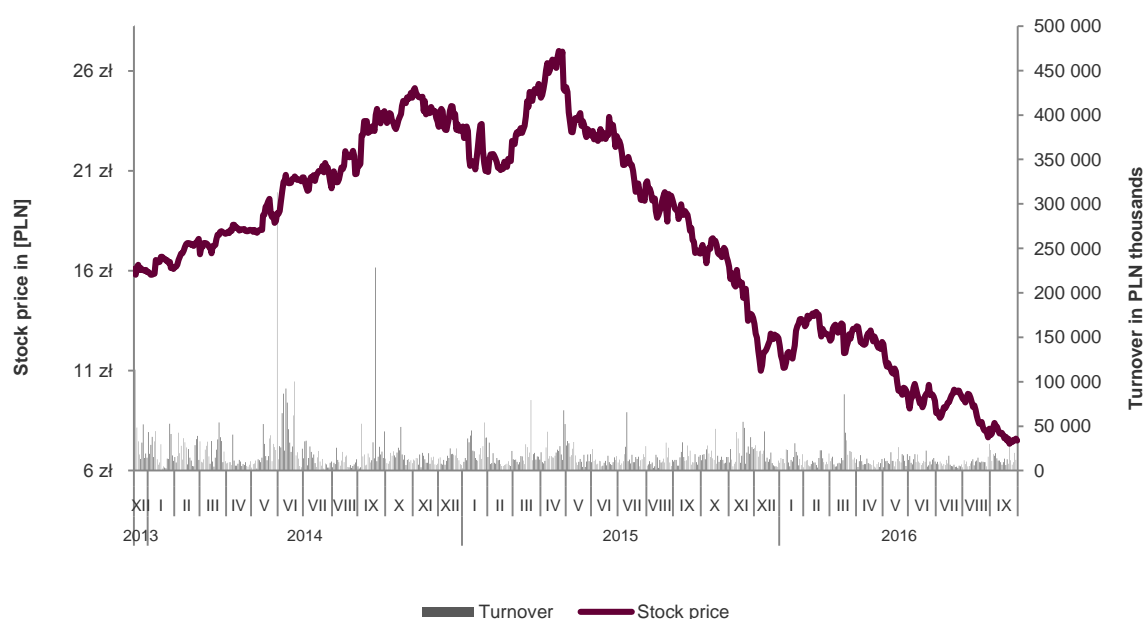
4.1. Company stock prices on the Warsaw Stock Exchange

Table 19: Data on ENERGA shares as at 30 September 2016

Data	Value
Issue price	PLN 17.00
Number of shares	414,067,114 shares
Stock price at the end of the period	PLN 7.50
Capitalization at the end of the period	PLN 3.1 bn
Minimum at closing in 9M	PLN 7.34
Maximum at closing in 9M	PLN 13.94
Minimum in 9M	PLN 6.93
Maximum in 9M	PLN 14.30
Average trading value	PLN 11,755 thous.
Average trading volume	1,125,451
Average number of trades	2,149

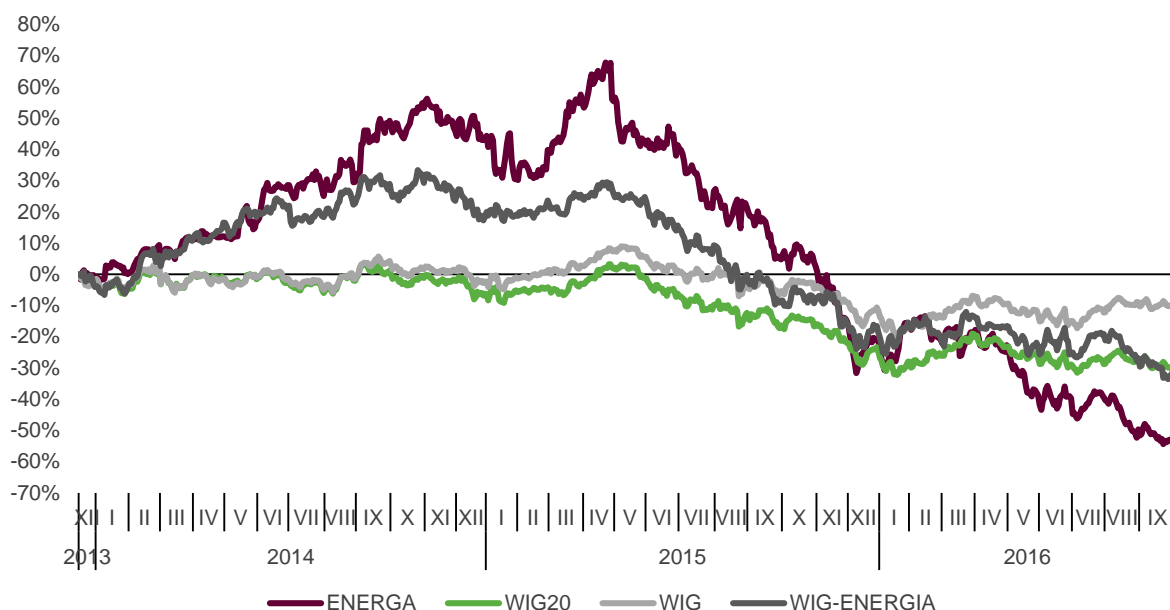
Source: Proprietary material based on data from www.gpwinfostrefa.pl

Figure 23: : ENERGA SA stock price, in the period from IPO (i.e. 11 December 2013) to 30 September 2016



Source: Proprietary material based on data from gpwinfostrefa.pl

Figure 24: Changes in ENERGA SA stock prices in comparison with changes in WIG, WIG20 and WIG-ENERGIA indices



Source: Proprietary material based on data from gpwinfstrefa.pl

4.2. Recommendations for the Company's stock

<p>13</p> <p>Analyst recommendations during the 9 months of 2016</p>	<p>4 Buy recommendations</p> <p>1 Accumulate recommendation</p> <p>5 Hold recommendations</p> <p>3 Sell recommendations</p>
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A list of the recommendations can be found at the Company's Investor Relations website.

4.3. Shares held by executive and supervisory personnel

As at 11 August 2016, 30 September 2016 and as at the date of preparing this Information, no member of ENERGA SA's Supervisory Board and no member of ENERGA SA's Management board held the Company's shares, rights to the Company's shares or shares in the Company's affiliates.

Signatures of ENERGA SA Management Board Members

Dariusz Kaśków
President of the ENERGA SA Management Board

Mariusz Rędaszka
Vice-President of the ENERGA SA Management Board for Financial Matters

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

Przemysław Piesiewicz
Vice-President of the ENERGA SA Management Board for Strategy

Mariola Zmudzińska
Vice-President of the ENERGA SA Management Board for Investor Relations

Marcin Biniś
Head of Finance Department

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Glossary of terms and abbreviations

Biomass	Solid or liquid, biodegradable substances of plant or animal origin, originating from products, waste and remnants of agricultural and forestry production, the industry processing their products, and also a portion of other biodegradable waste, and especially agricultural raw materials
CAPEX (Capital Expenditures)	Capital expenditures
CIRS, CCIRS	Currency Interest Rate Swap, Cross-Currency Interest Rate Swap; Currency Interest Rate Swap transactions, as part of which payments will be made in two different currencies (CIRS) or more currencies (CCIRS) on the basis of variable interest rates for the set period of time and in the set frequency
CO ₂	Carbon dioxide
EIB	European Investment Bank
EBITDA	ENERGA SA defines and calculates EBITDA as operating profit /(loss) (calculated as the net profit /(loss) on continuing operations for the financial period/year, adjusted by (i) income tax, (ii) the share of profit of the associate, (iii) financial income and (iv) financial costs) adjusted by amortization and depreciation (posted to the profit and loss account). EBITDA has not been defined by IFRS and it should not be treated as an alternative for measures and categories consistent with IFRS. In addition, EBITDA does not have a single definition. The method of calculating EBITDA by other companies may significantly differ from the method in which ENERGA SA calculates it. As a result, EBITDA presented herein cannot be compared to EBITDA presented by other companies.
EBIT	Earnings before interest and taxes; Operating profit
ENERGA SA, ENERGA	Parent company in the ENERGA Group
EMTN (Euro Medium Term Notes)	Program to issue Euro Medium Term Notes
EUA	European Union Allowance; Emission allowances
EUR	Euro, currency used in countries belonging to the European Union's Eurozone
WSE	Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.)
ENERGA Capital Group, ENERGA Group, Group	Capital Group dealing with the distribution, sales and generation of electricity and heat. It also conducts activity related to street lighting, design, procurement of materials, grid-related services, specialized transport, hotel and IT services
Tariff group	Group of customers off-taking electricity or heat or using electricity or heat supply services with respect to which a single set of prices or fee rates along with their terms and conditions are applicable
GUS	Central Statistical Office of Poland
GW	Gigawatt, unit of power in the International System of Units, 1 GW = 10 ⁹ W
GWe	Gigawatt of electrical power
GWh	Gigawatt hour
IRM	Stimulated Demand Reduction
IRS (Interest Rate Swap)	An interest rate swap agreement between two parties, under which the parties pay interest on the contractual nominal amount calculated according to a different interest rate.
Cogeneration, CHP	Technological process of simultaneous production of heat and electrical or mechanical energy in the course of the very same technological process
KRS	National Court Register
kWh	Kilowatt hour, unit of electrical energy generated or used by equipment with 1 kW of power in an hour; 1 kWh = 3,600,000 J = 3.6 MJ
MW	Unit of power in the International System of Units, 1 MW = 10 ⁶ W
MWe	Megawatt of electrical power
MWh	Megawatt hour
NIB	Nordic Investment Bank
Renewable Energy Sources, RES	Sources converting the energy of the wind, solar radiation, geothermal energy, waves, currents and marine tides, run of rivers and energy obtained from biomass, garbage dump biogas as well as biogas ensuing from waste removal or treatment processes or the degeneration of stored plant and animal remains to generate electricity.
ORM	Operating reserve
DSO, Distribution System Operator	Utility dealing with the distribution of gaseous fuels or electricity, responsible for grid operation in the gaseous distribution system or in the electricity distribution system, the current and long-term operational safety of this system, the operation, maintenance, refurbishment and required expansion of the distribution grid, including connections with other gaseous systems or other electrical power systems
TSO, Transmission System Operator	Utility dealing with the transmission of gaseous fuels or electricity, responsible for grid operation in the gaseous transmission system or in the electrical energy transmission system, the current and long-term operational safety of this system, the operation, maintenance, refurbishment and

	required expansion of the transmission grid, including connections with other gaseous systems or other electrical power systems
OZEX_A	Volume-weighted average price using all transactions pertaining to the PMOZE_A contract on an exchange session
GDP	Gross Domestic Product
PLN	Polish zloty, national currency
PMI	Industrial economic activity index computed by Markit in cooperation with HSBC
PMOZE_A	Property rights to certificates of origin for electricity generated in RES whose period of generation, as specified in the certificate of origin, commenced after 1 March 2009
Property rights	Negotiable rights constituting a commodity arising from certificates of origin for energy generated from renewable energy sources and cogeneration
PSE	Polskie Sieci Elektroenergetyczne Spółka Akcyjna with its registered office in Warsaw, entered in the register of entrepreneurs of the National Court Register under file number KRS 0000197596; company designated by ERO President decision No. DPE-47-58(5)/4988/2007/BT of 24 December 2007 to be the electrical power Transmission System Operator in the Republic of Poland for the period from 1 January 2008 until 1 July 2014
yoy	Year on year
SAIDI	System Average Interruption Duration Index
SAIFI	System Average Interruption Frequency Index
SFIO	Specialized Open-end Mutual Funds
SPOT	Day-Ahead Market (DAM) – energy market operating in the “day ahead” time interval (DA) providing for energy supply on day D
Certificate of origin from co-generation	Document issued by the ERO President pursuant to art. 9l of the Energy Law confirming the generation of electricity in highly-efficient co-generation generated in: (i) a co-generation unit fired with gaseous fuels or with the total installed electrical capacity at source being under 1 MW (known as a yellow certificate), (ii) a co-generation unit fired with methane released and drained in the course of underground mining activity in hard coal mines that are active, that are being shut down or that have been shut down or with gas obtained by processing biomass (known as a purple certificate), or (iii) some other co-generation unit (known as a red certificate)
Certificate of origin from renewable energy sources, green certificate	Document issued by the ERO President pursuant to art. 9e of the Energy Law confirming the generation of electricity in a renewable energy source (known as a green certificate)
Tariff G	Tariff group for individual customers – households
Polish Power Exchange, TGE	Polish Power Exchange S.A., a mercantile exchange on which commodities admitted to be traded on the exchange are traded, i.e. electricity, liquid and gaseous fuels, mine gas, pollution emission limits and property rights ensuing from certificates of origin whose price is directly or indirectly dependent on the price of electricity, liquid or gaseous fuels and the quantity of pollution emissions
TWh	Terawatt hour, a multiple unit of electricity in the International System of Units. 1 TWh is 10 ⁹ kWh
ERO	Energy Regulatory Office
WACC (Weighted Average Cost of Capital)	Weighted average cost of capital
WIBOR (Warsaw Interbank Offered Rate)	Warsaw Interbank Offered Rate
RAB	Regulatory Asset Base
Cofiring	Generation of electricity or heat using a process of simultaneous and joint combustion of biomass or biogas with other fuels in a single device; a portion of the energy generated in this manner may be deemed to be energy generated in a renewable energy source