

New corporate governance allows for optimum use of organisational capabilities

Q3, Q1-Q3 2014

Krzysztof Zamasz
President of the Board

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Agenda

Energy market and key operating data

ENEA CG's results in Q3 and Q1-Q3 2014

ENEA's corporate governance

A new unit in Kozenice

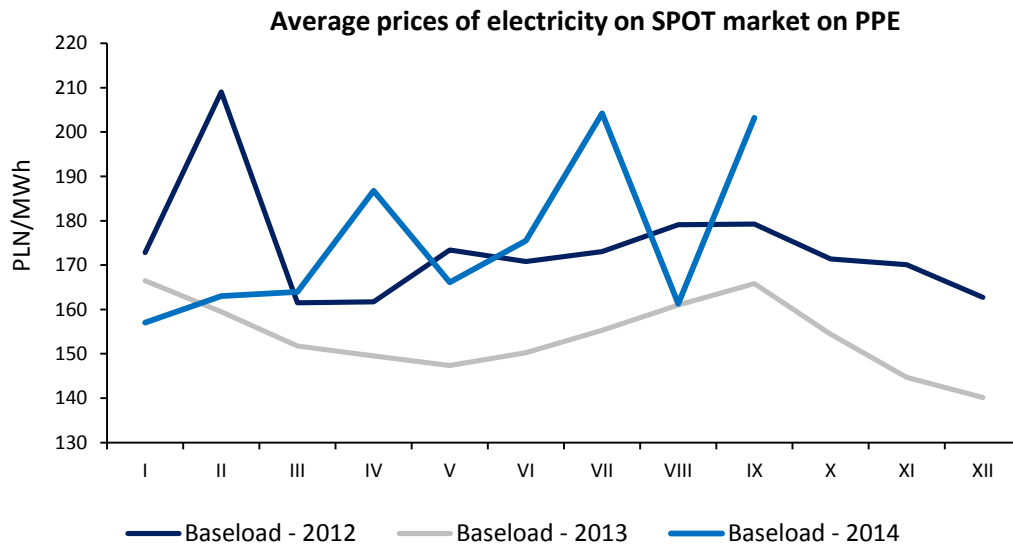
Grzegorz Kinelski

Vice-President of the Board for Commercial Affairs

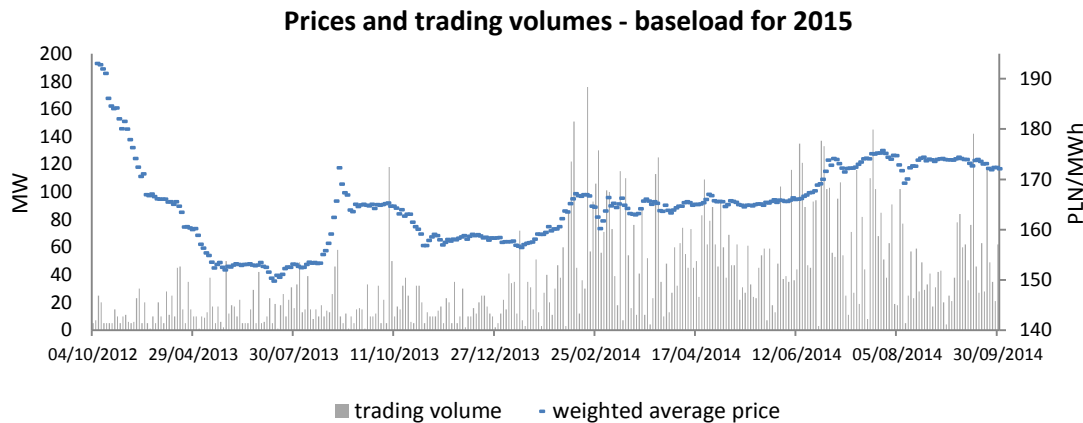
**Energy market is sensitive
to actions undertaken
in the EU**



The average price of energy in Q3 2014 was the highest in the recent ten quarters

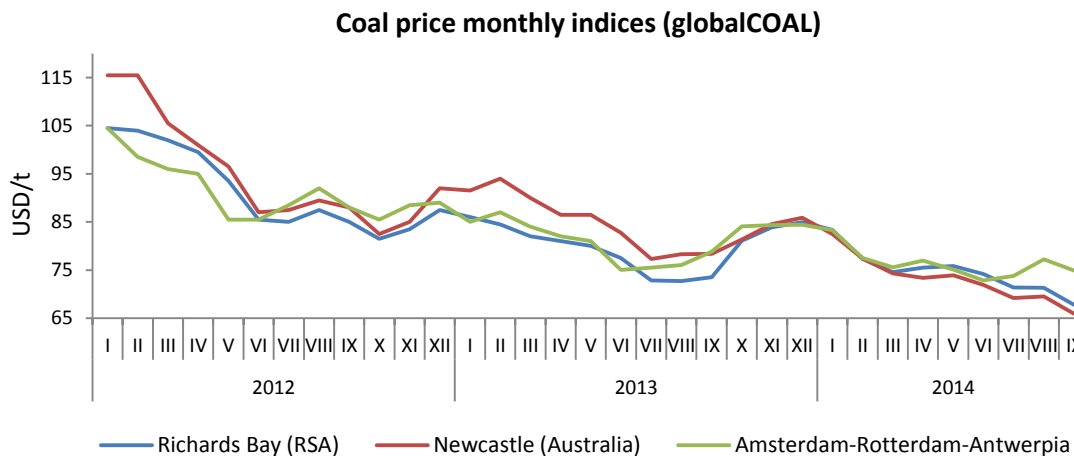
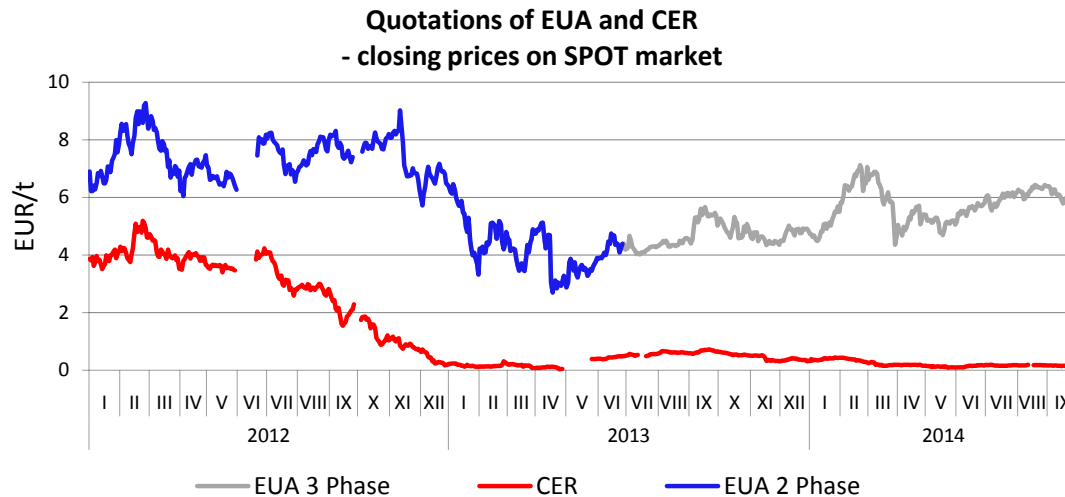


- Higher average price of baseload by 14.4% yoy
- SPOT market was affected by:
 - situation on the European carbon market
 - demand for energy
 - introduced mechanism of compensating for operating power reserve
 - deficiencies in the capacity available for the Operator of the transmission system
 - significant growth in capacities installed in wind farms
 - limitations in intersystem exchange



- Almost for the whole period of Q1-Q3 2014 energy prices on the forward market were in the upward trend and only during the last months of Q3 2014 a sideways trend was observable

Lack of significant grounds for coal price increases



- The market of allowances for emissions was affected by:
 - the so-called *backloading*
 - structural reform
 - reduction of *carbon leakage* phenomenon
 - determination of the strategy of a new climate and energy package
- Price of EUA allowances on SPOT market during Q1-Q3 2014 grew by 23%
- Great surplus of EUA in the system
- Low prices of coal on external markets
- Changes in coal prices in the ARA port set, during Q2 and Q3 2014 ranging from 72 to 77 USD/t
- Decreased prices of African and Australian coal in Q3 2014 to the level of 65-70 USD/t

Higher energy production in ENEA CG

[GWh]	Q3 2013	Q3 2014	Change	Q1-Q3 2013	Q1-Q3 2014	Change
Total energy generation, including:	3 010	3 341	11.0% ✓	8 988	9 455	5.2% ✓
Conventional generation	2 784	3 096	11.2% ✓	8 321	8 680	4.3% ✓
Production from RES	226	245	8.4% ✓	667	775	16.2% ✓



ENEA CG increased energy production in Q1-Q3 2014 both from conventional sources and RES

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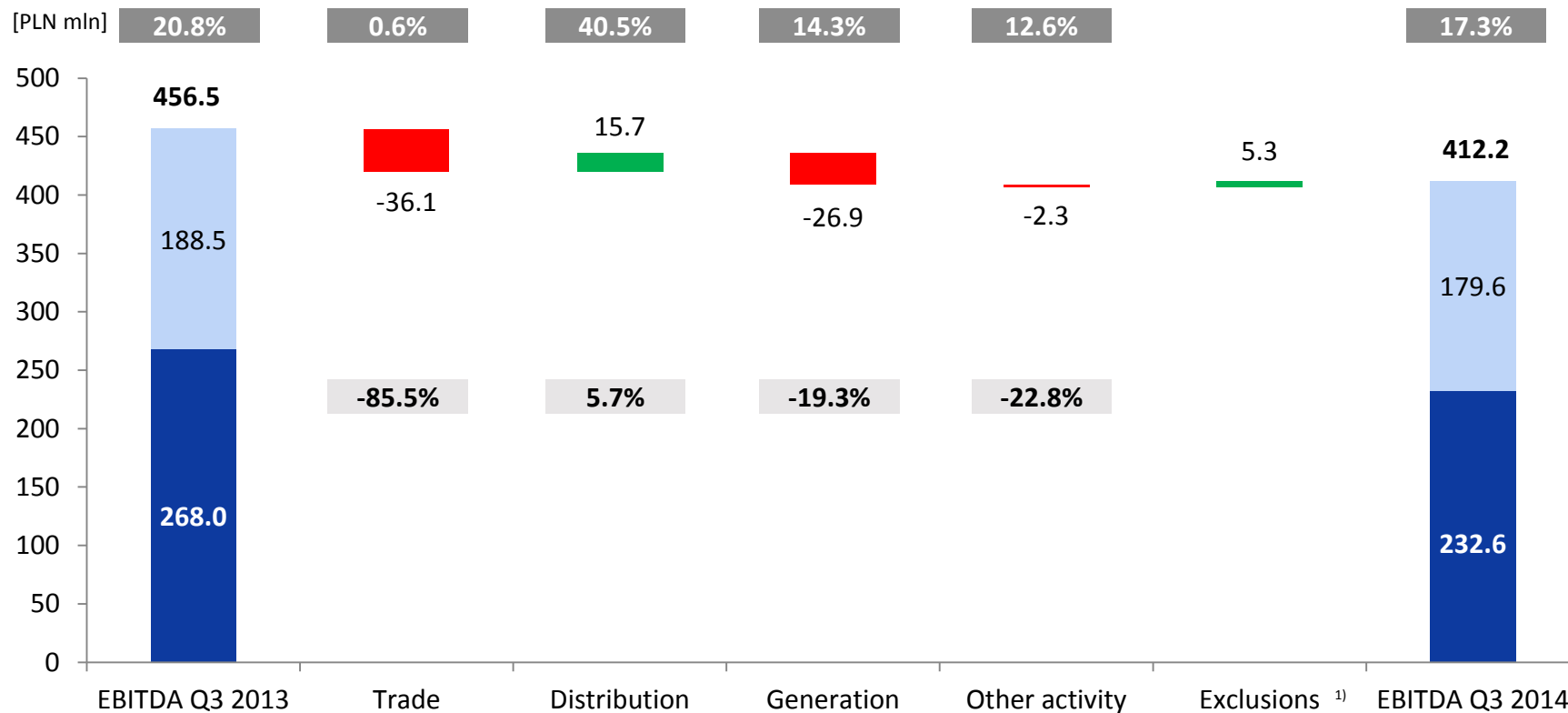
**ENEA CG reports
good financial results**



Financial results of ENEA CG exceeded the market consensus

[PLN mln]	Q3 2013	Q3 2014	Change	Q1-Q3 2013	Q1-Q3 2014	Change
Net sales revenue	2 191.6	2 387.0	8.9% ✓	6 787.2	7 227.2	6.5% ✓
EBITDA	456.5	412.2	-9.7%	1 394.1	1 515.7	8.7% ✓
Net profit	206.8	211.4	2.2% ✓	661.7	836.3	26.4% ✓
Net debt/EBITDA	-0.6	0.2	0.8	-0.6	0.2	0.8

Decreased margin on generation and reduced selling prices in the segment of trade charged the Group's EBITDA in Q3 2014



■ EBIT ■ Growth in segment ■ Change in segment yoy [%]
■ Amortisation/depreciation ■ Drop in segment ■ EBITDA margin [%]

1) Includes undistributed expenses of the whole Group and exclusions

Decreased margin on generation and reduced selling prices in the segment of trade charged the Group's EBITDA in Q3 2014

[PLN mln]	Q3 2013	Q3 2014	Change
Trade	42.2	6.1	-85.5%

Segment of trade

Lower EBITDA by PLN 36.1 mln (-85.5%)

- lower average selling price by 15.3%
- higher costs of ecological duties by PLN 26 mln
- lower average purchase price of energy by 9.7% ✓
- higher volumes of sales by 1,060 GWh ✓

[PLN mln]	Q3 2013	Q3 2014	Change
Distribution	273.8	289.5	5.7%

Segment of distribution

Higher EBITDA by PLN 15.7 mln (5.7%) ✓

- higher costs of purchase of transmission services
- lower costs of purchasing energy for coverage of book-tax difference
- lower costs of employee benefits - employment optimisation and Programme of Voluntary Redundancy ✓

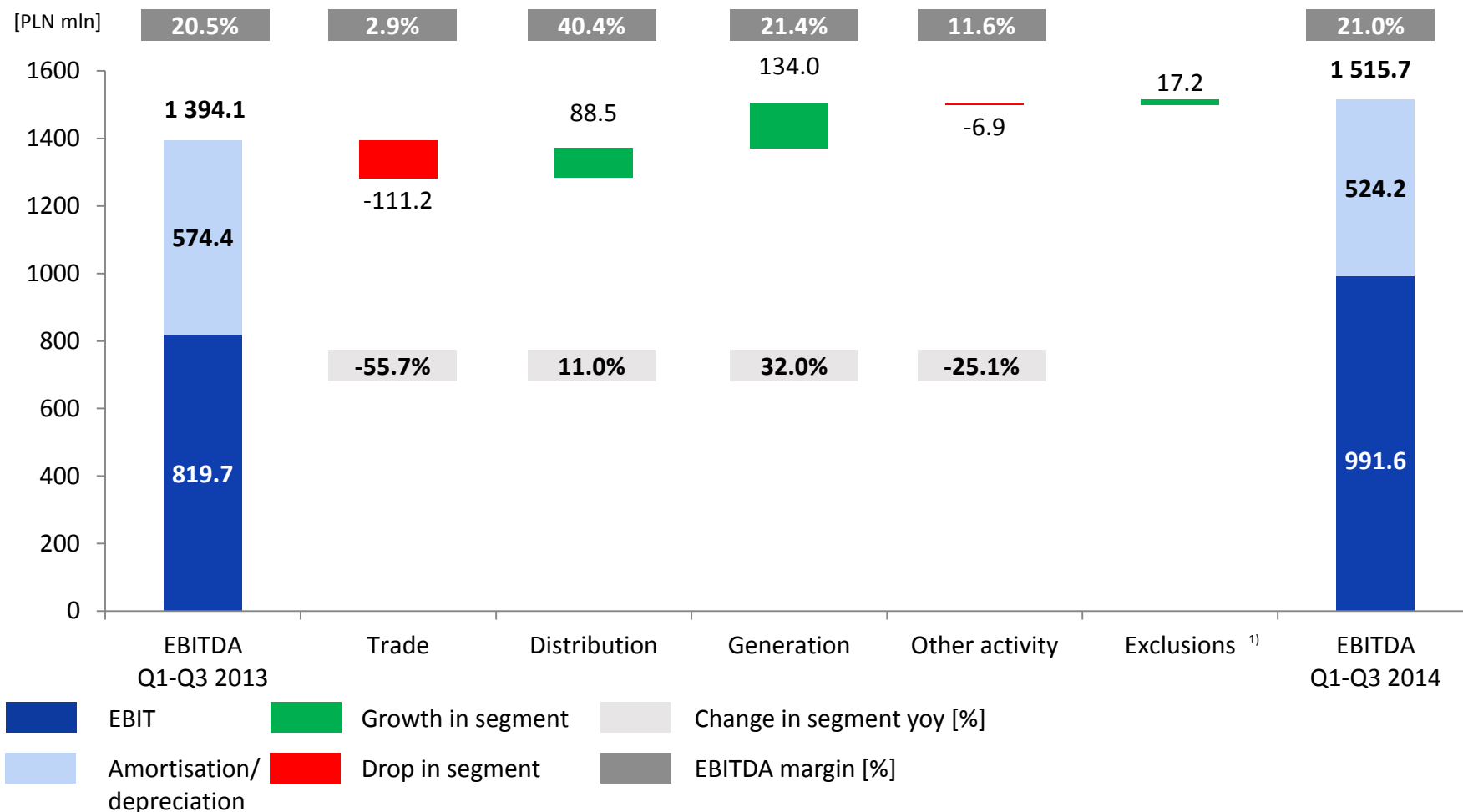
[PLN mln]	Q3 2013	Q3 2014	Change
Generation	139.0	112.2	-19.3%

Segment of generation

Lower EBITDA by PLN 26.9 mln (-19.3%)

- lower margin on generation by PLN 20 mln
- lower margin on co-combustion by PLN 9 mln
- lower fixed costs by PLN 13 mln ✓

In Q1-Q3 2014 ENEA CG responded flexibly to the demanding situation on the energy market, reaching 8.7% growth of EBITDA



1) Includes undistributed expenses of the whole Group and exclusions

In Q1-Q3 2014 ENEA CG responded flexibly to the demanding situation on the energy market, reaching 8.7% growth of EBITDA

[PLN mln]	Q1-Q3 2013	Q1-Q3 2014	Change
Trade	199.6	88.4	-55.7%

[PLN mln]	Q1-Q3 2013	Q1-Q3 2014	Change
Distribution	806.7	895.2	11.0%

[PLN mln]	Q1-Q3 2013	Q1-Q3 2014	Change
Generation	418.5	552.5	32.0%

Segment of trade

Drop of EBITDA by PLN 111.2 mln (-55.7%)

- lower average selling price by 16.6%
- higher costs of ecological duties by PLN 43 mln
- lower average purchase price of energy by 12.2% ✓
- higher volumes of sales by 2,234 GWh ✓

Segment of distribution

Growth of EBITDA by PLN 88.5 mln (11.0%) ✓

- higher costs of purchase of transmission services
- lower costs of purchasing energy for coverage of book-tax difference
- cost optimisation and drop in liabilities for grid assets ✓
- lower costs of employee benefits
 - employment optimisation and Programme of Voluntary Redundancy ✓

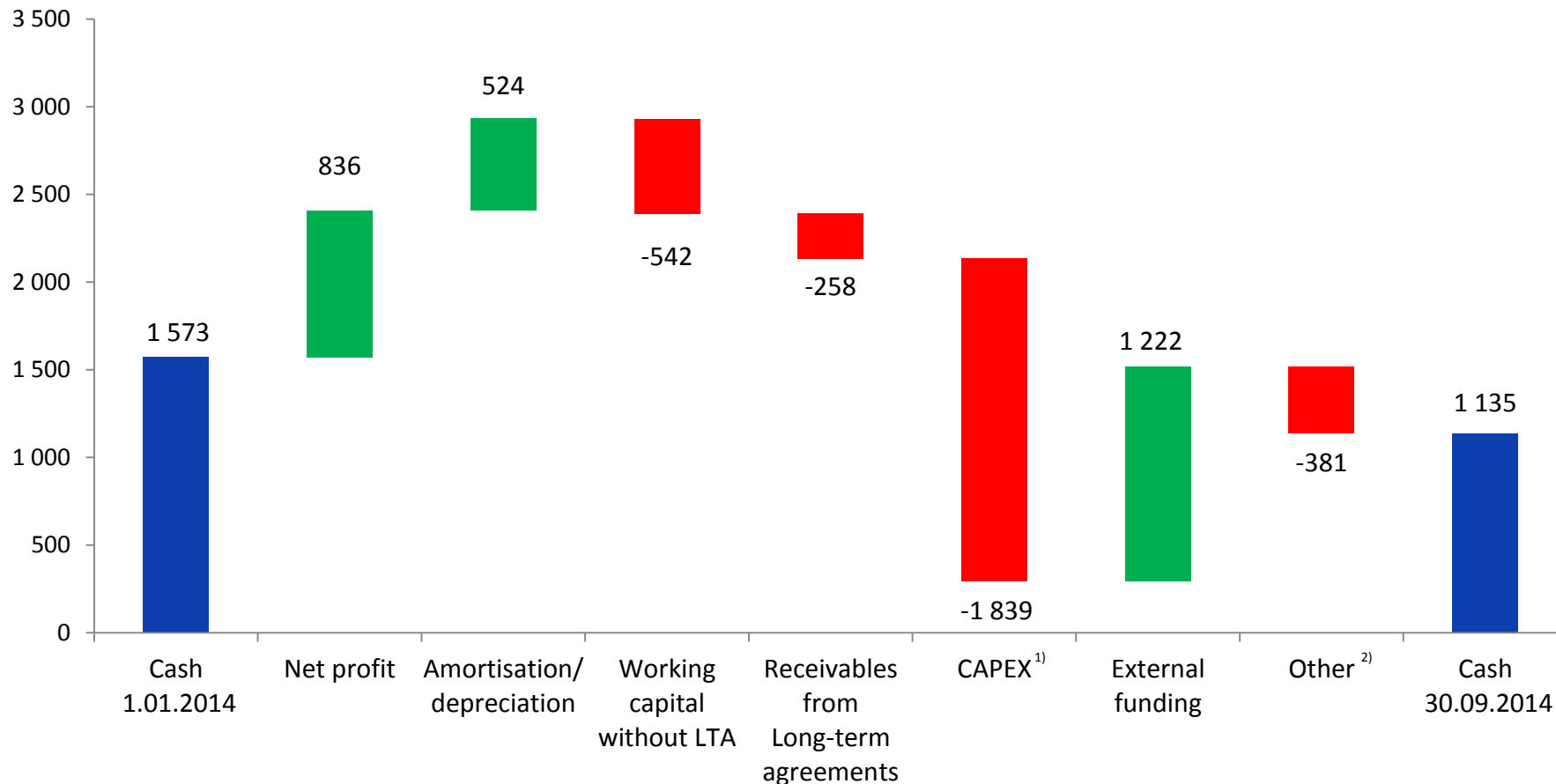
Segment of generation

Higher EBITDA by PLN 134.0 mln (32.0%) ✓

- lower margin on generation by PLN 103 mln
- loss of EBITDA stemming from the unit no. 9's failure by PLN 23 mln
- higher revenue from recovery of stranded costs by PLN 257 mln ✓

We are firmly prepared to finance strategic investment projects

[PLN mln]



1) Acquisition of property, plant and equipment and intangibles and acquisition of MPEC Białystok

2) Including distribution of dividend (PLN 252 mln)

After Q1-Q3 2014 cost reduction in ENEA CG amounted to PLN 124 mln

<i>Cost savings [PLN mln]</i>	Q1-Q3 2014	Initiatives implementation forecast for 2014
1. Generation	86	130
2. Distribution	29	64
3. Sales	3	5
4. SSC	1	5
5. Other companies	5	4
TOTAL	124	208

**Undertaken activities
will allow to reduce
costs by ca.
PLN 500 mln**

ENEA CG develops according to the precise plan



ENEA CG's financial results are above the market consensus



Consistent development of ENEA CG - higher CAPEX by PLN 258 mln in Q1-Q3 2014 with a low value of net debt/EBITDA ratio on the level of 0.2



PLN 124 mln cost savings after Q1-Q3 2014



Pursuant to the strategy, we are researching the market as regards new acquisitions (wind power plants, cogeneration sources and heating networks)



New corporate governance increases ENEA CG's strength of action

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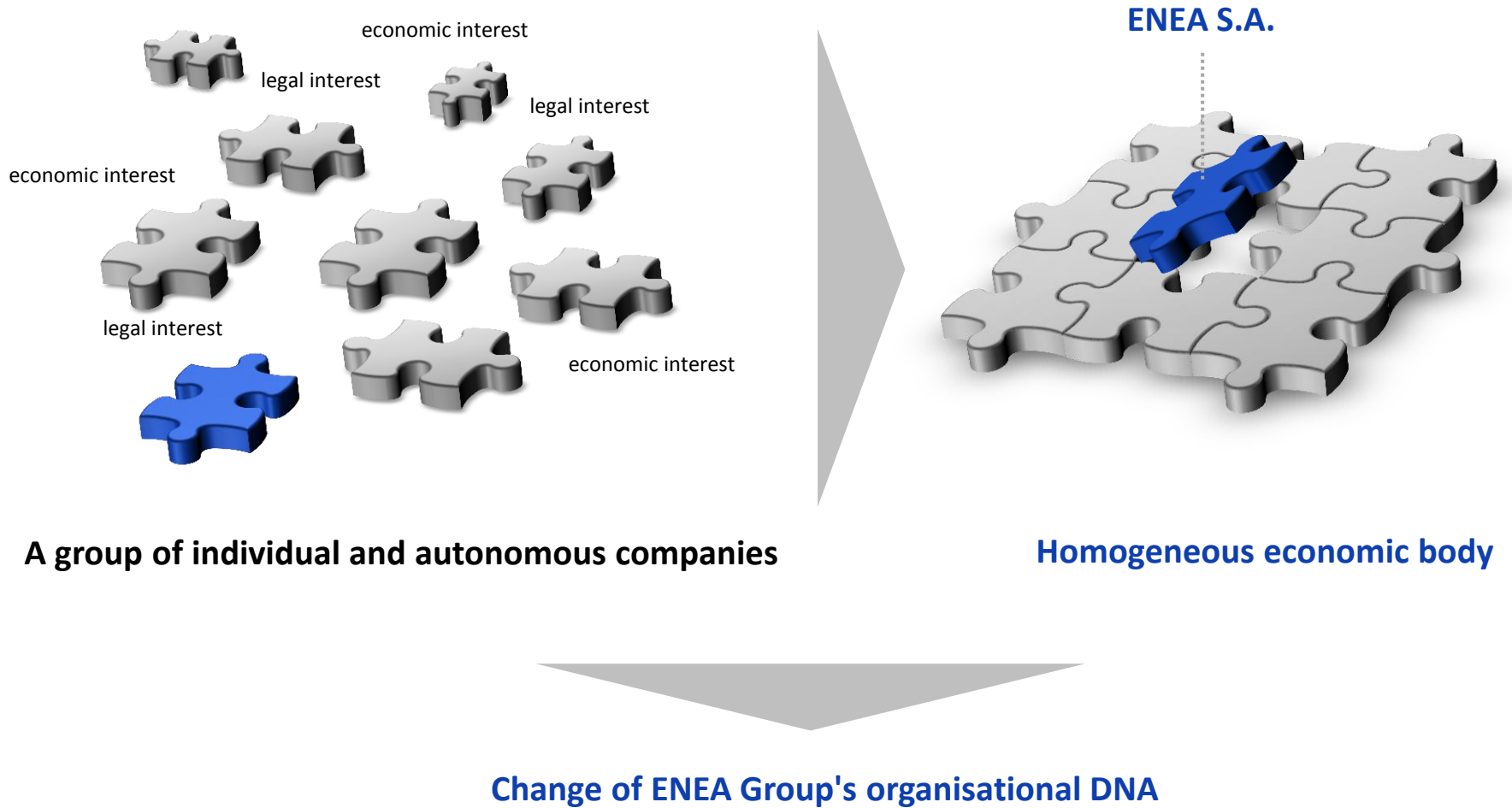
Paweł Orlof

Vice-President of the Board for Corporate Affairs

**New corporate governance
- efficient management of ENEA CG**



ENEA CG's organisation strategy - introduction of Corporate Governance



Corporate Governance - benefits



Standardisation of the Group companies' interest with the interest of the whole Group specified by the Board of the parent company



Revaluation of ENEA CG's employee thinking to the realisation of ENEA CG's interest identified with the interest and goal of each company comprising ENEA CG



Shortening of the decision making process within ENEA Group



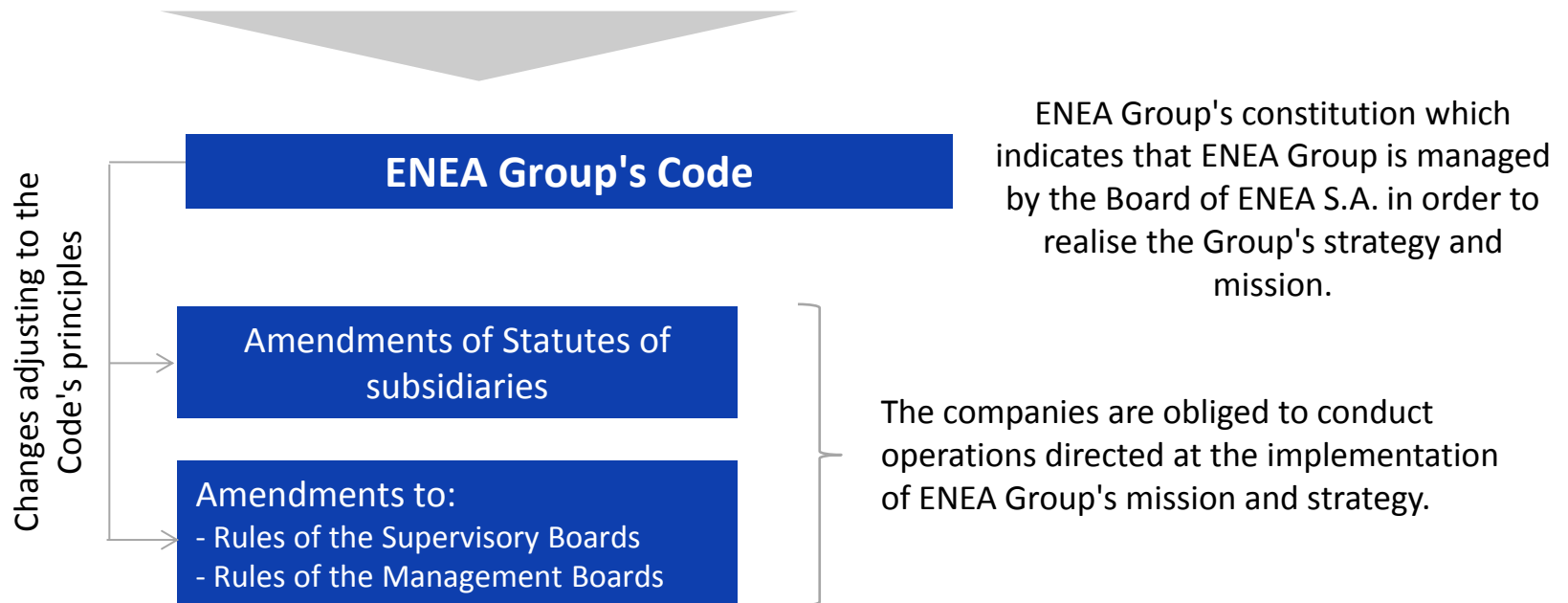
Shortening of the communication paths between the parent company and subsidiaries (including in relation to the disclosure requirements)



Establishment of the communication channel to the leading shareholder of the companies, i.e. ENEA S.A.

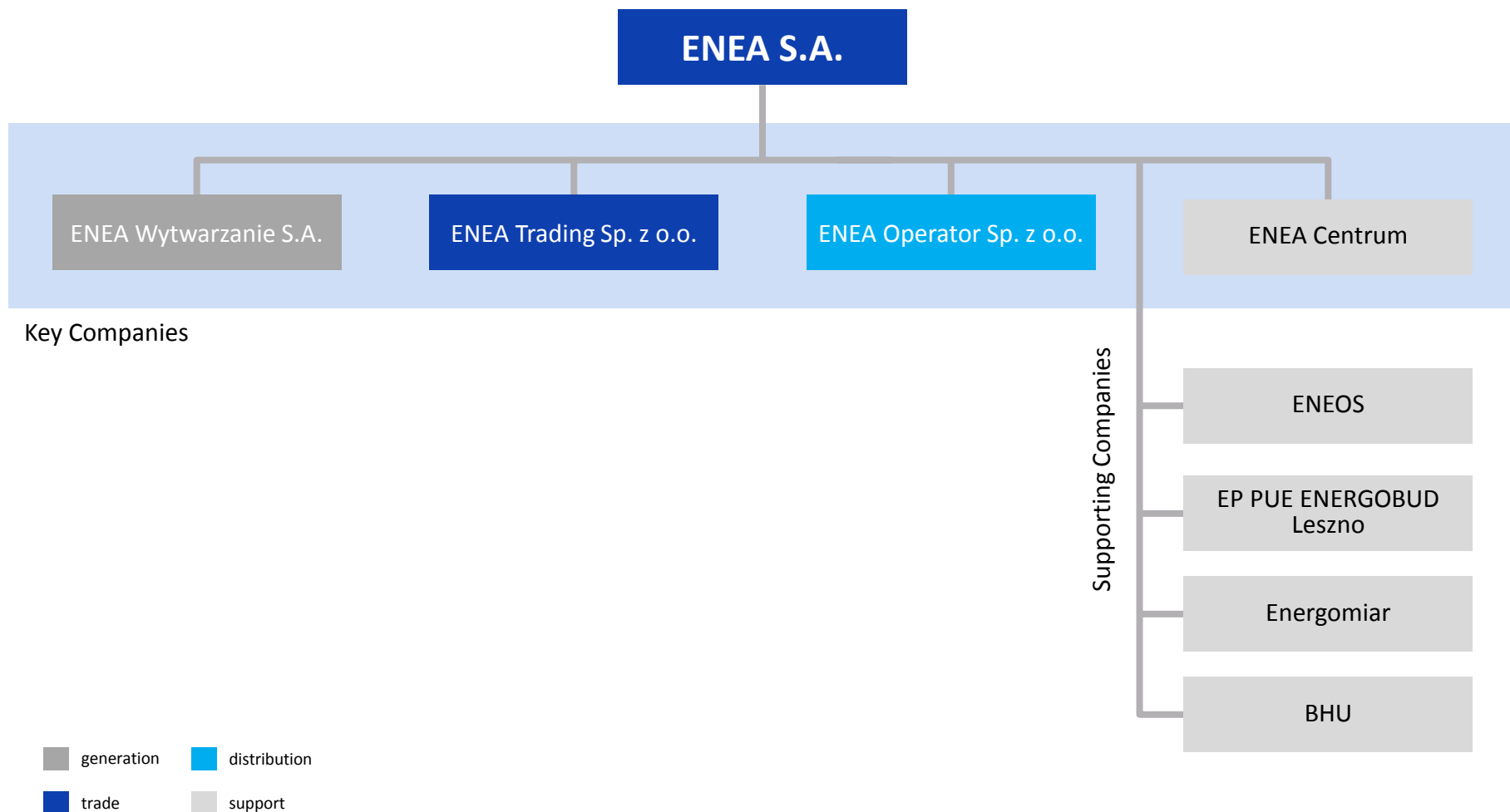
ENEA Group - legal measures

**A homogeneous legal basis (internal) of activity of ENEA CG
with no contractual relationships.**

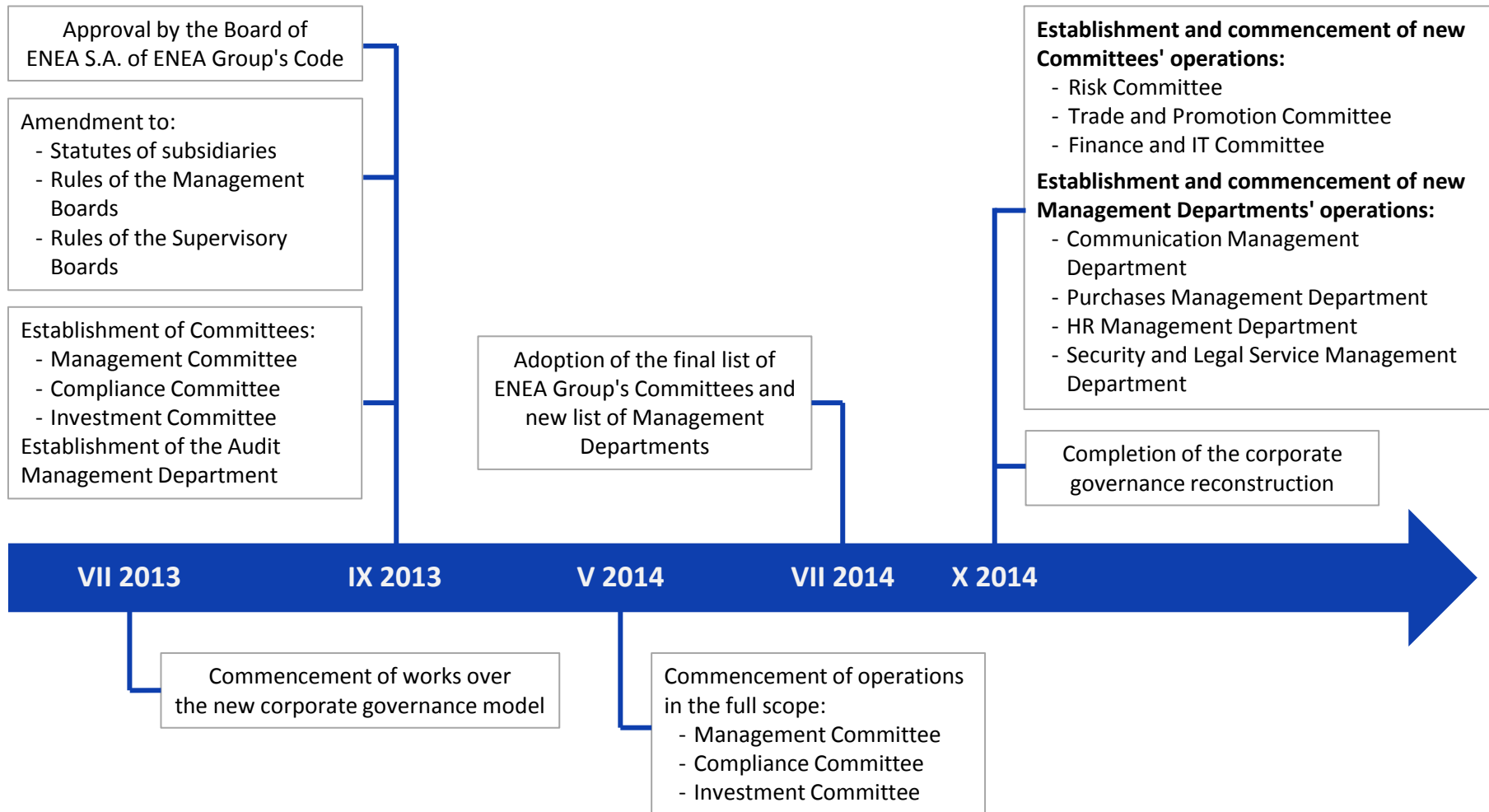


Each company comprising ENEA Group bears legal liability for observing the Code of ENEA Group.

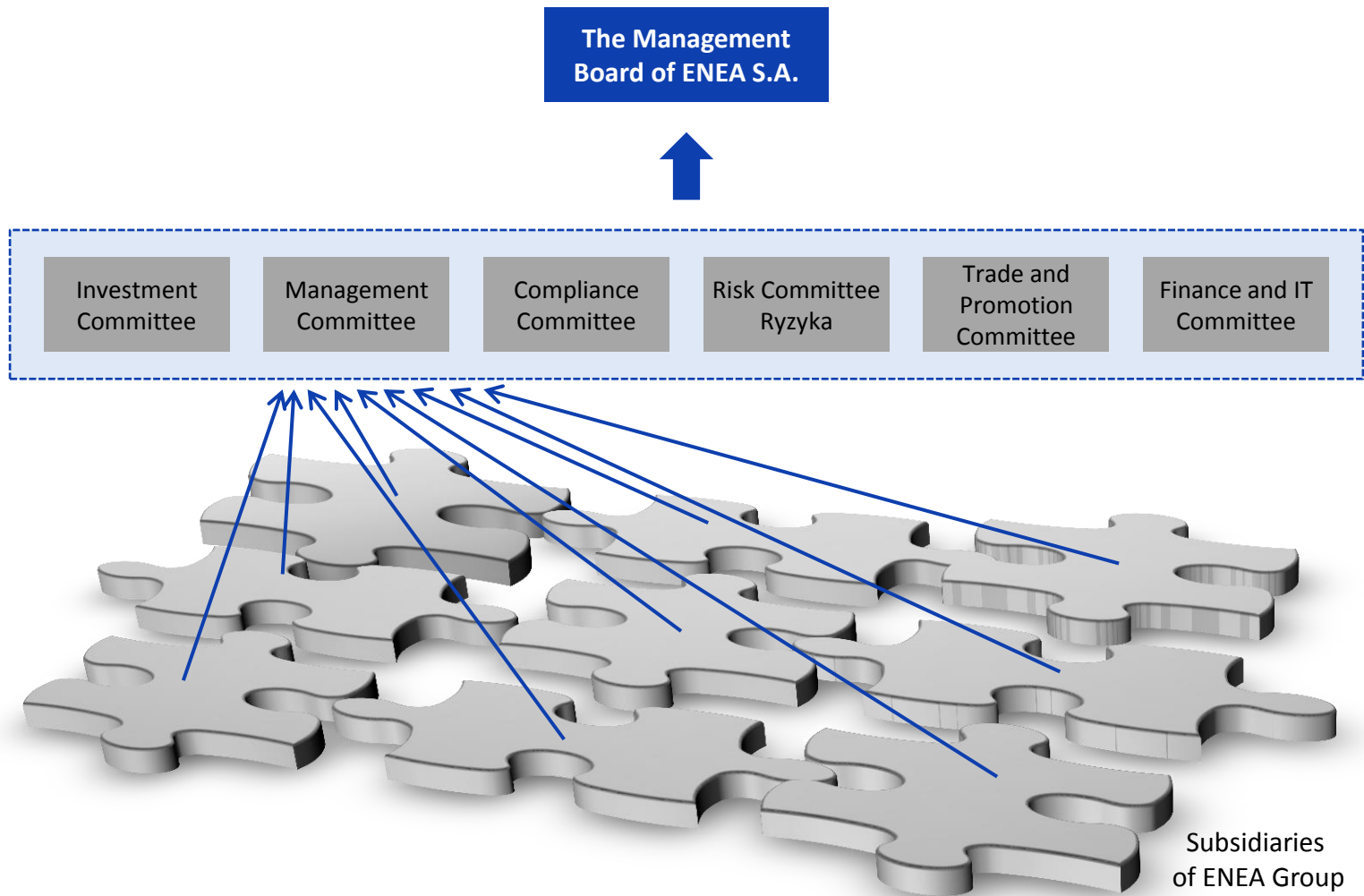
ENEA Group in the meaning of ENEA Group's Code



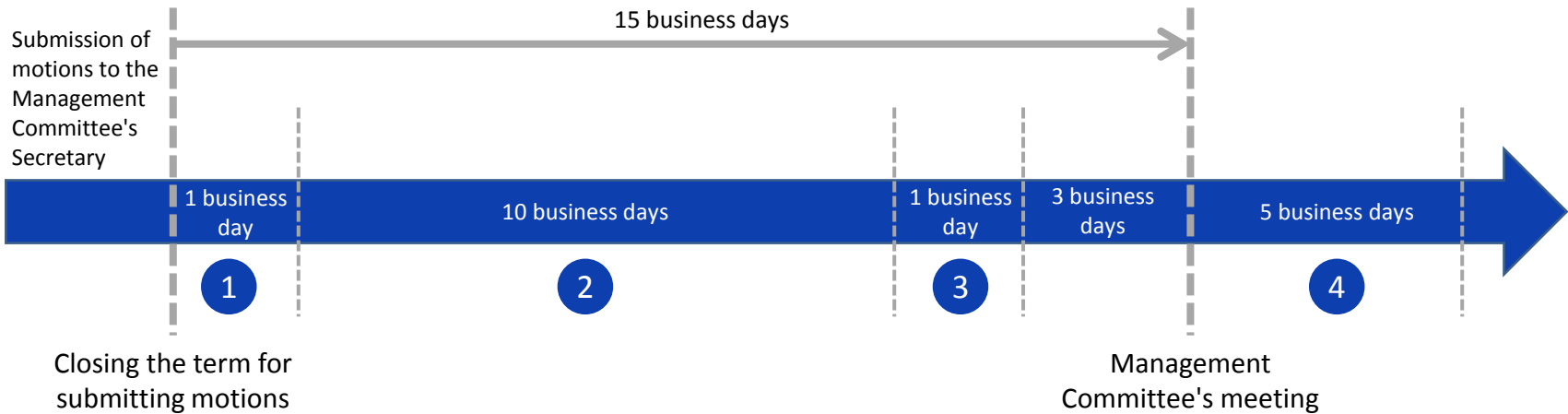
Corporate Governance implementation process



ENEA Group's Committees - state as at 1 October 2014



Procedure for submitting motions to Management Committee of ENEA Group



1

Verification of the motions' completeness and sending them to the Corporate Department in order to obtain all the recommendations

2

Analysis of motions and preparation of recommendations by the Corporate Department and obtaining a recommendation of other Organisational Units of ENEA / ENEA Group to filed motions

3

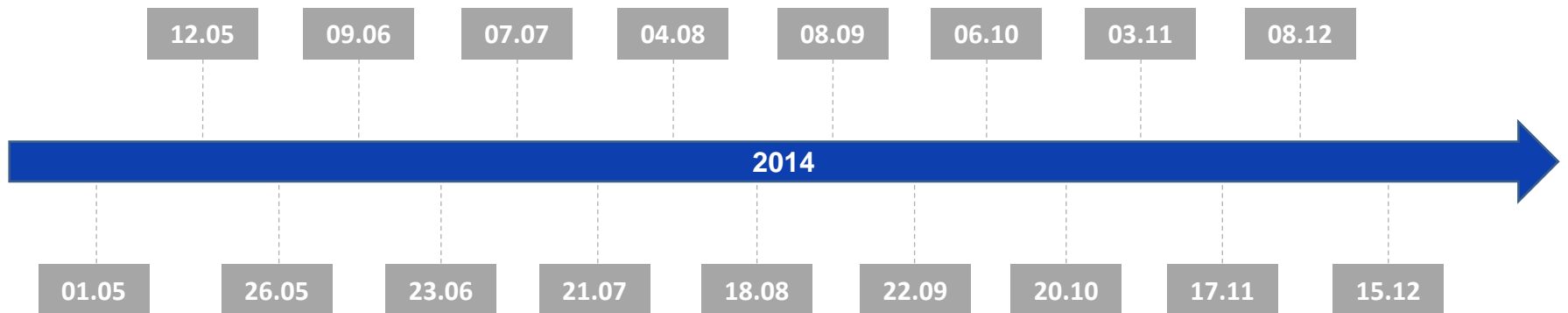
Obtaining the approval of the agenda by the Chairman of the Management Committee

4

Preparation of an excerpt of the minutes from the Committee's meeting relating to the adopted resolution and submission to the Applicant

Schedule of ENEA Group Management Committee's meetings

Schedule of meetings in 2014



Committees create a new decision making structure in key areas

Investment
Committee



Manages the key material investments and capital expenditures in ENEA Group.

Management
Committee



Guarantees support in governance management of subsidiaries.

Compliance
Committee



Takes care for the compliance of decisions made with ENEA Group's Code and corporate strategy.

Finance and IT
Committee



Supports the Board of ENEA S.A. in making decisions relating to finance management and IT.

Risk Committee



Minimises the business threats related to the realisation of strategic goals and everyday operations.

Trade and
Promotion
Committee



Manages the area of trade and relations with Customers.

Management Departments in ENEA Group - state as at 1 October 2014

The Management Board of ENEA S.A.



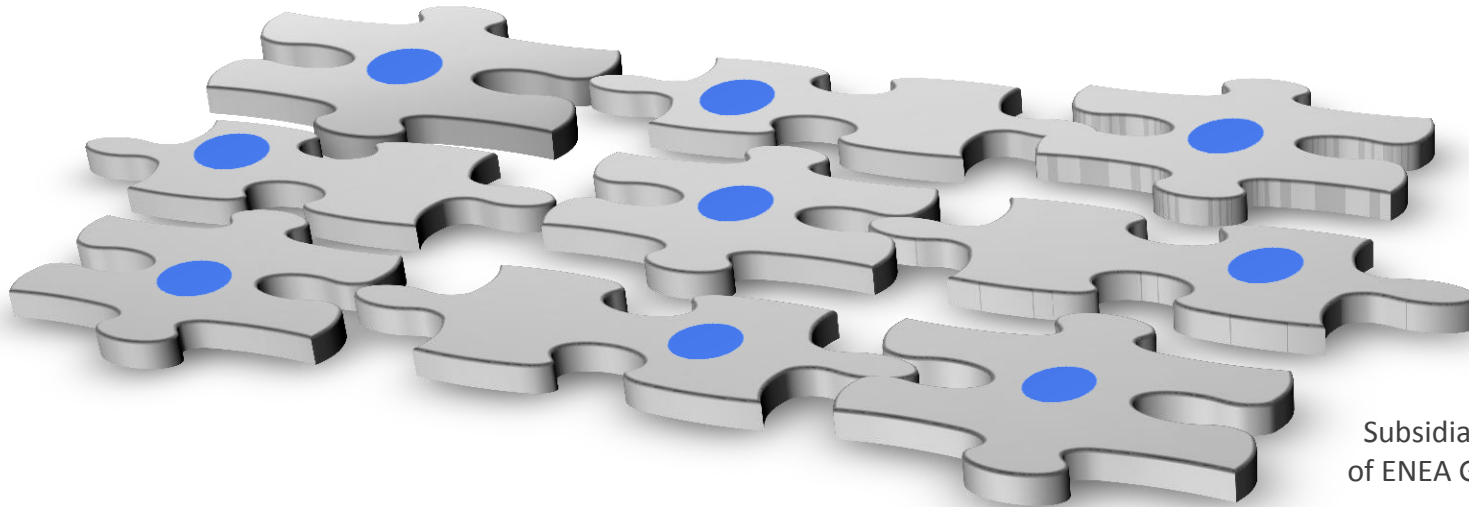
Audit Management Department

Purchases Management Department

HR Management Department

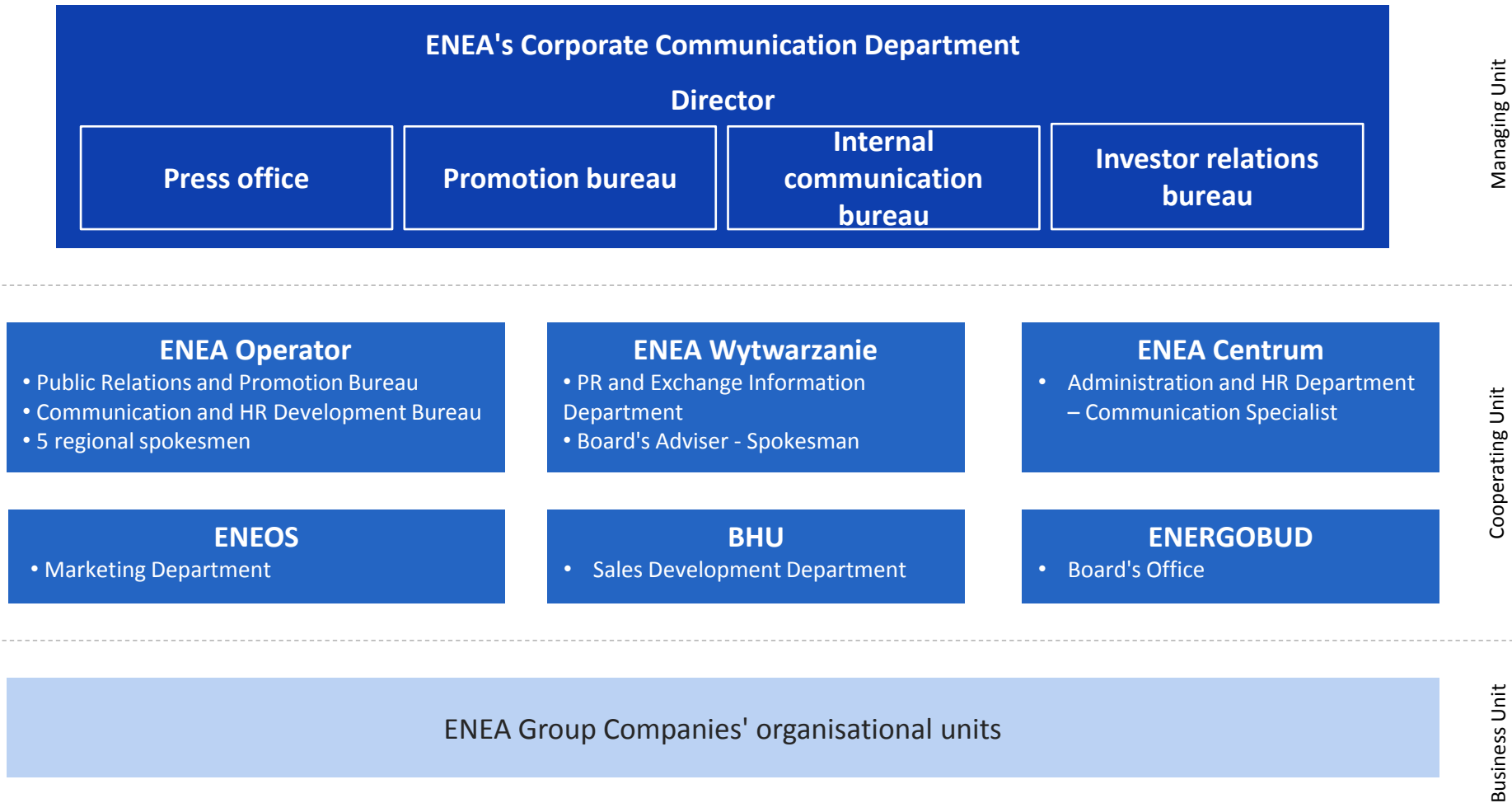
Communication Management Department

Security and Legal Service Management Department



Subsidiaries of ENEA Group

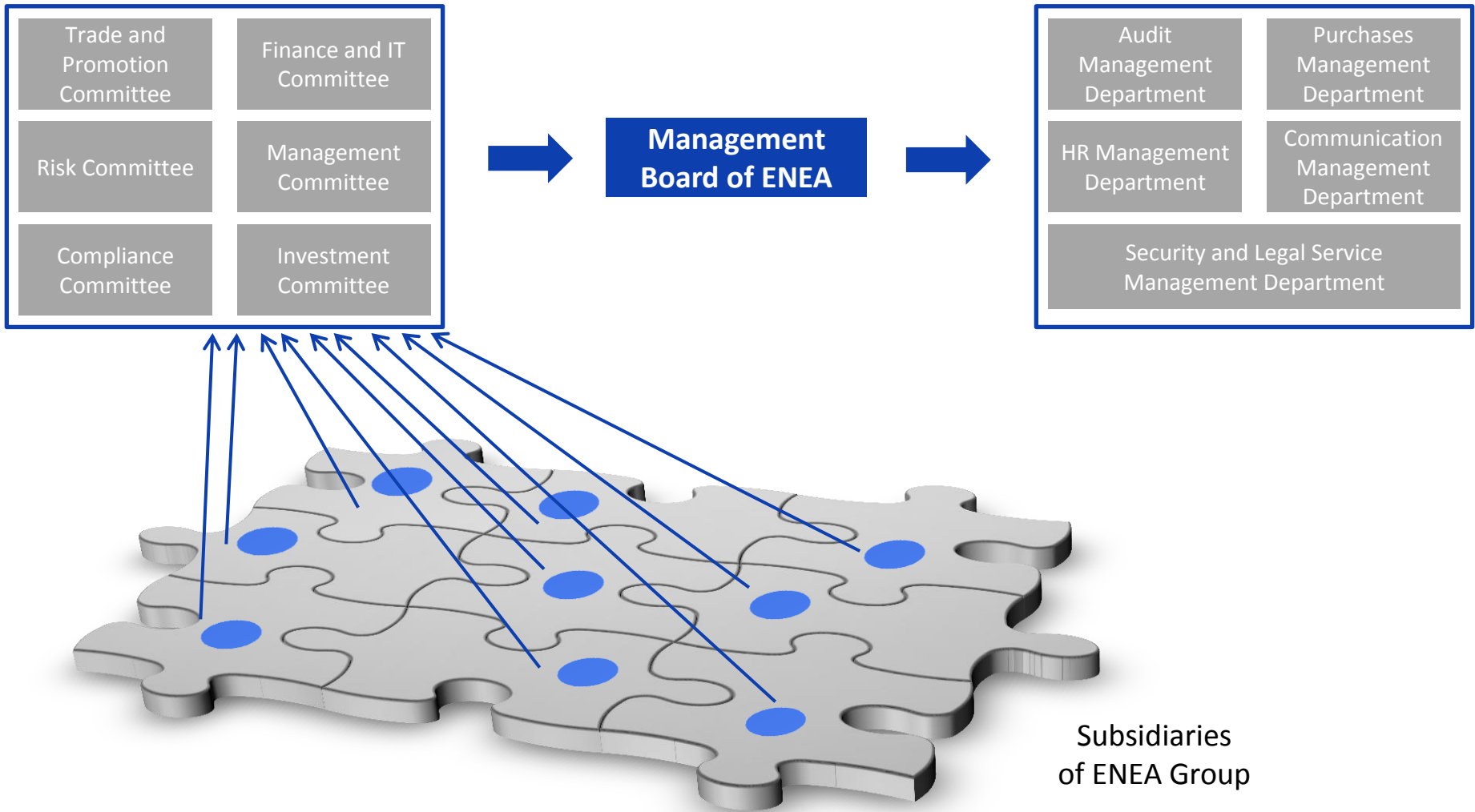
Communication Management Department's structure



Management Departments guarantee a more flexible management of particular functions in the Group companies and a more efficient realisation of undertaken decisions

Communication Management Department	➔	Runs the Group's common communication within the promotional, image and media activities, so that to coherently communicate and support sale activities.
Audit Management Department	➔	Assesses the internal processes as for their compliance with relevant standards, procedures and legal regulations.
Purchases Management Department	➔	Deals with the optimisation of purchase and logistic processes in the Group, so that using the effect of scale to gain better commercial terms.
HR Management Department	➔	Realises a coherent HR policy, taking into account the competences and professional development of employees in all the Capital Group's companies, so that to effectively use human capital.
Security and Legal Service Management Department	➔	Manages the security in ENEA Group and ensures legal service for the Group companies, in order to ensure the compliance of all the procedures and documents functioning within ENEA CG with the legal regulations being in force.

Facilitation of procedures leads to a more efficient management



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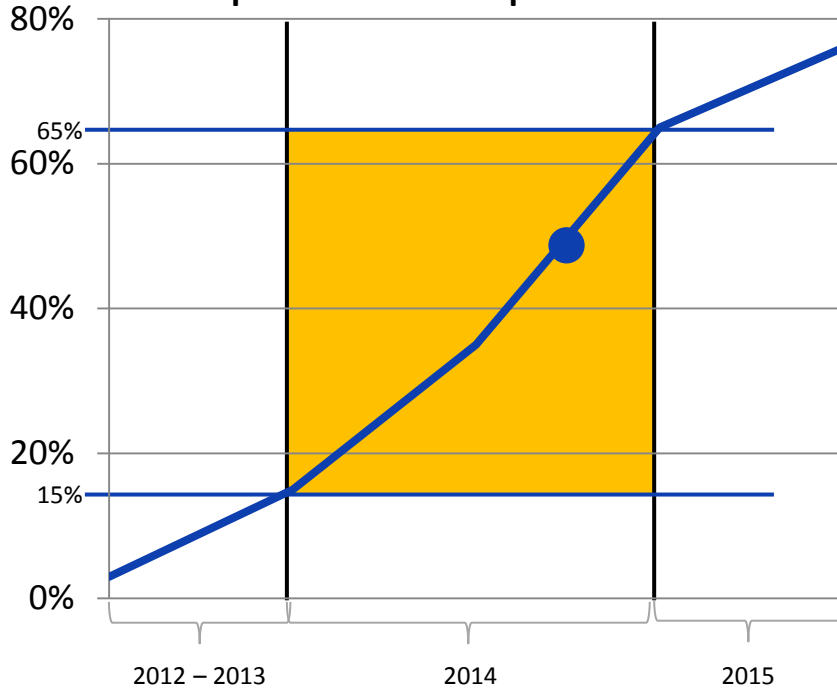
Vice-President of the Board for Corporate Affairs

**Unit No. 11 will satisfy the strictest European
criteria of environment protection**

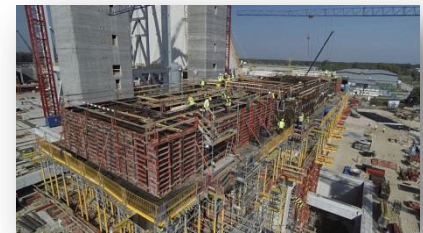
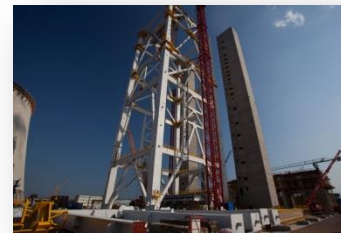


We perform plans for 2014 with a day to day accuracy

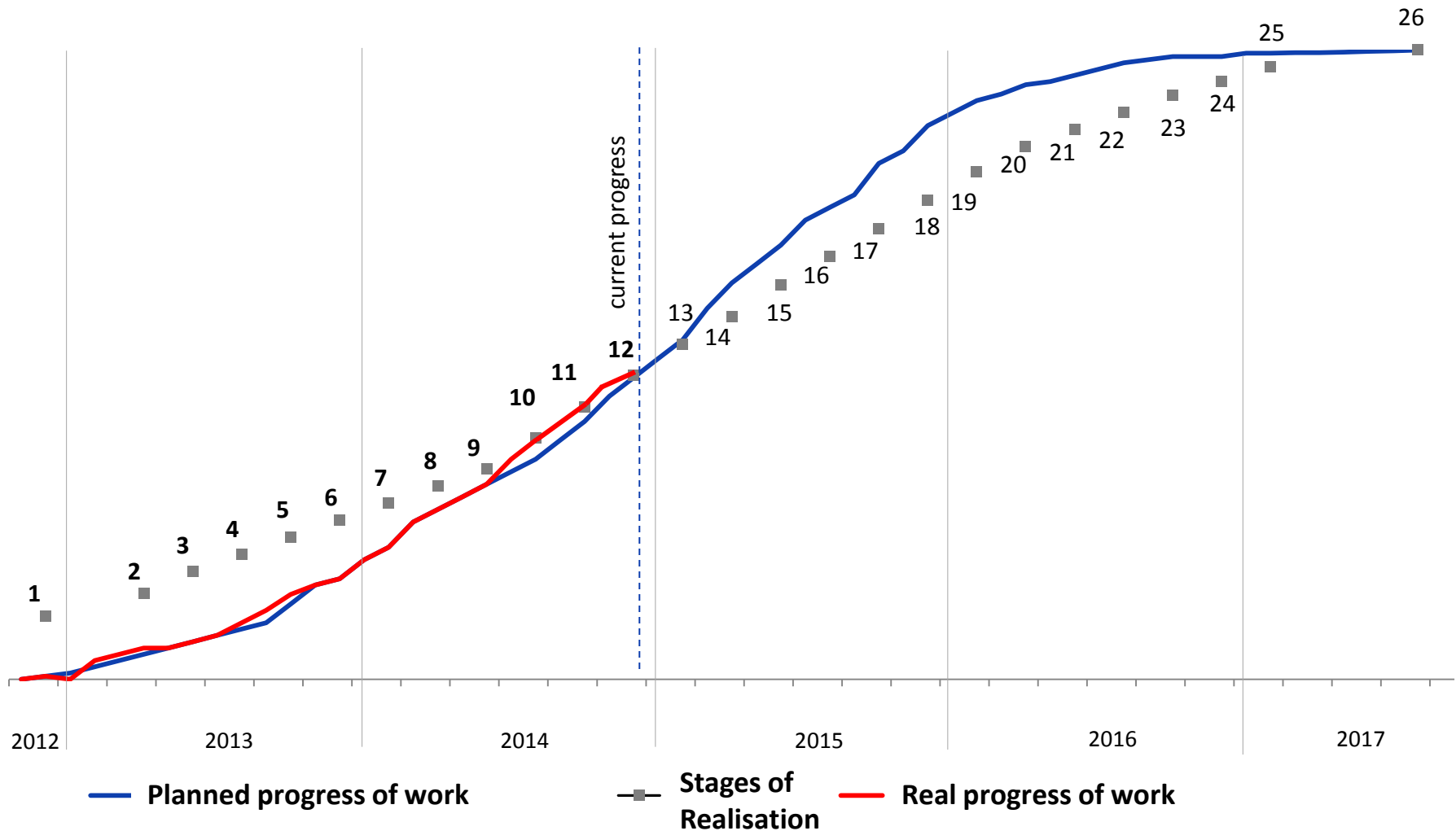
Scope of works to be performed in 2014



- Assembly of the load bearing structure of the boiler with grid was performed
- Turbine set's load bearing structure posts were performed
- Foundations under the engine room building's steel structure were performed
- Reinforced concrete structure of the cooling tower up to 120 m was performed
- IOS emergency blowdown tank's structure assembly was completed
- Cooling water pumping station building's concreting was completed



We have already realised 12 of 26 milestones in the project of new unit construction



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Q3, Q1-Q3 2014

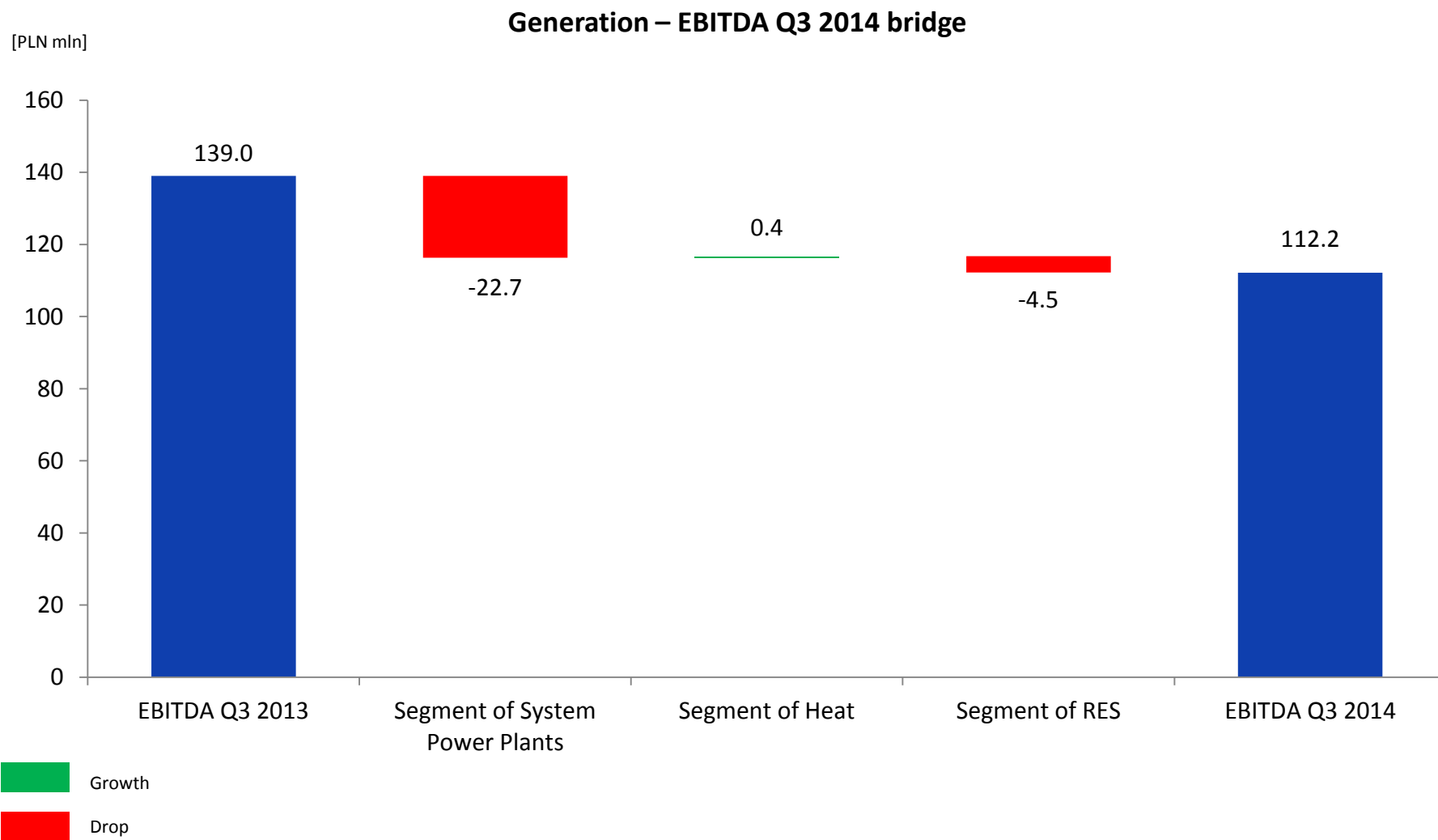
gielada@enea.pl



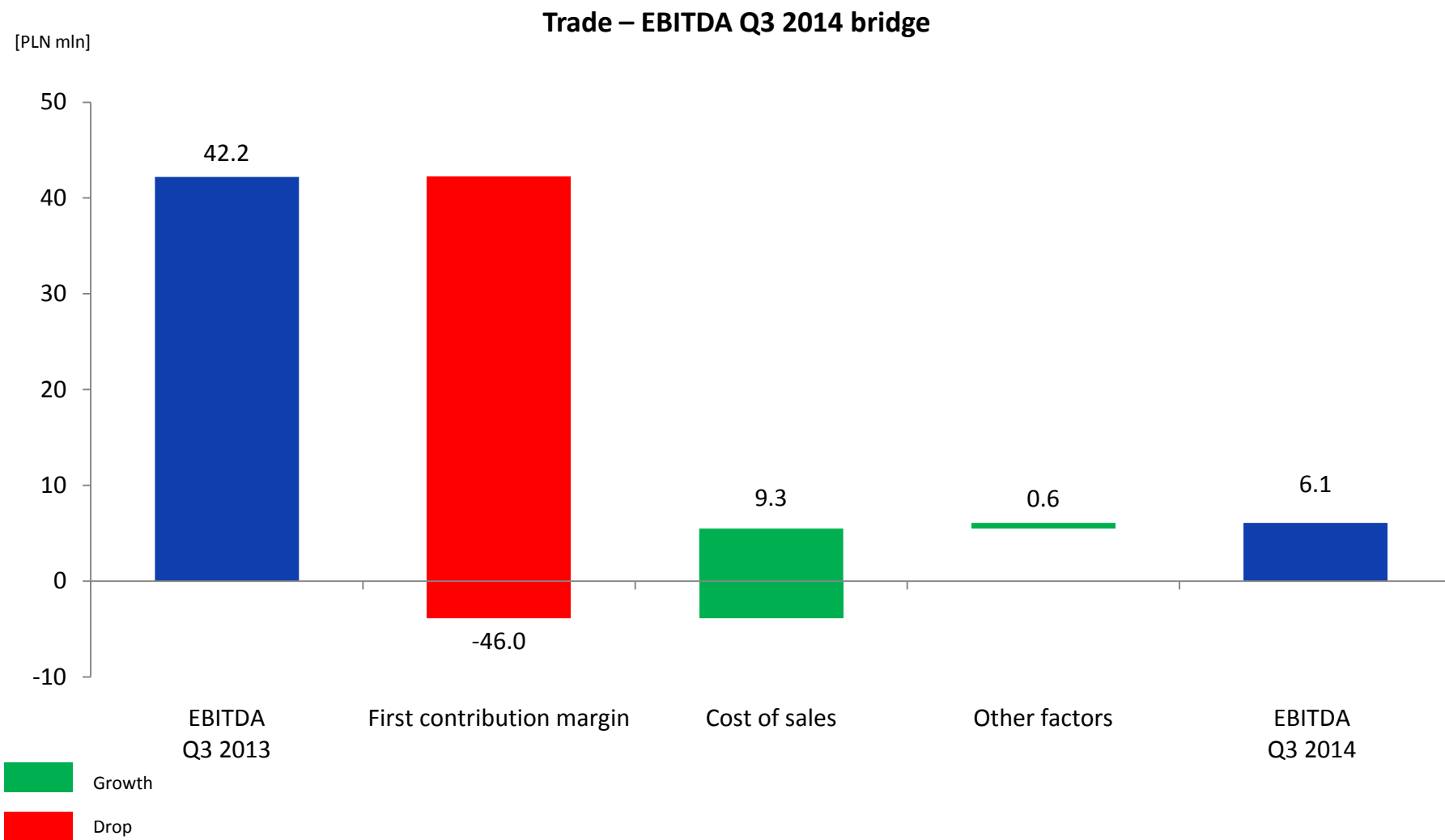
Additional information



Attachment No. 1 - Drop of EBITDA in the segment of generation stems from lower margins resulting mainly from lower market prices of energy

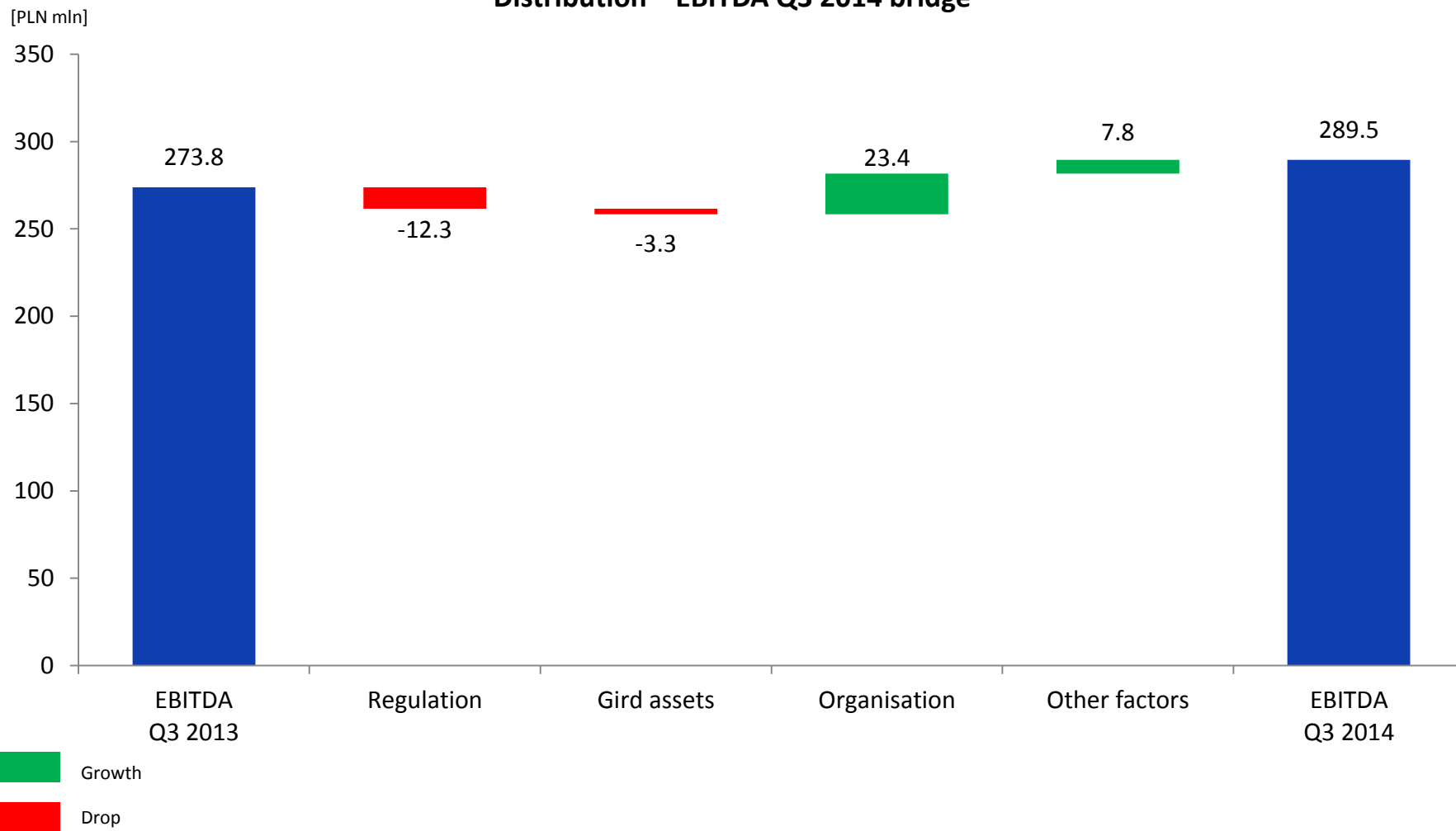


Attachment No. 2 - Despite a growth in the volume of sales by over 1 TWh, the first contribution margin's erosion was decisive for the trade segment's result in Q3 2014

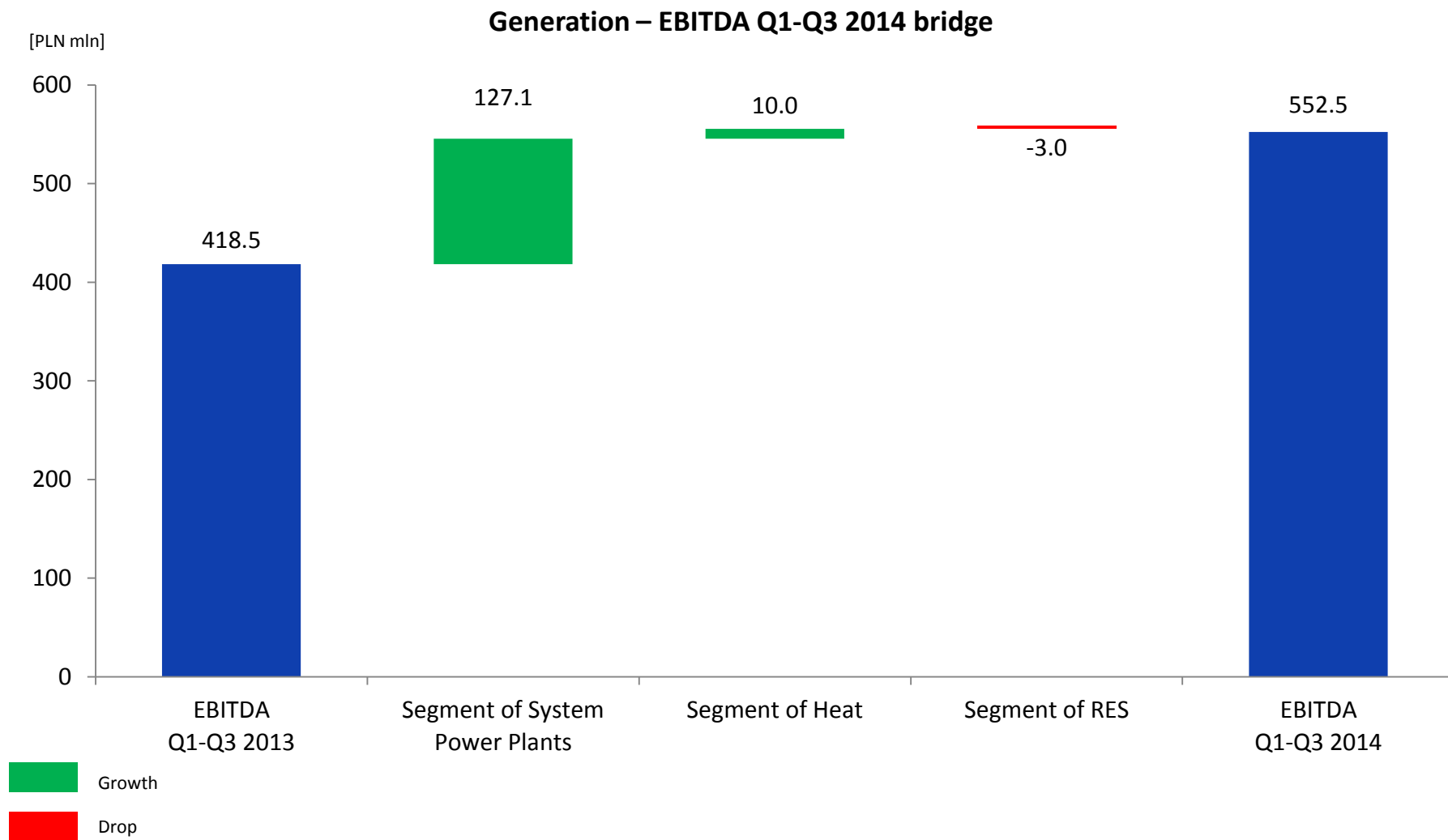


Attachment No. 3 - Despite higher purchase costs of transmission services, the segment of distribution's EBITDA grew by 5.7% yoy in Q3 2014

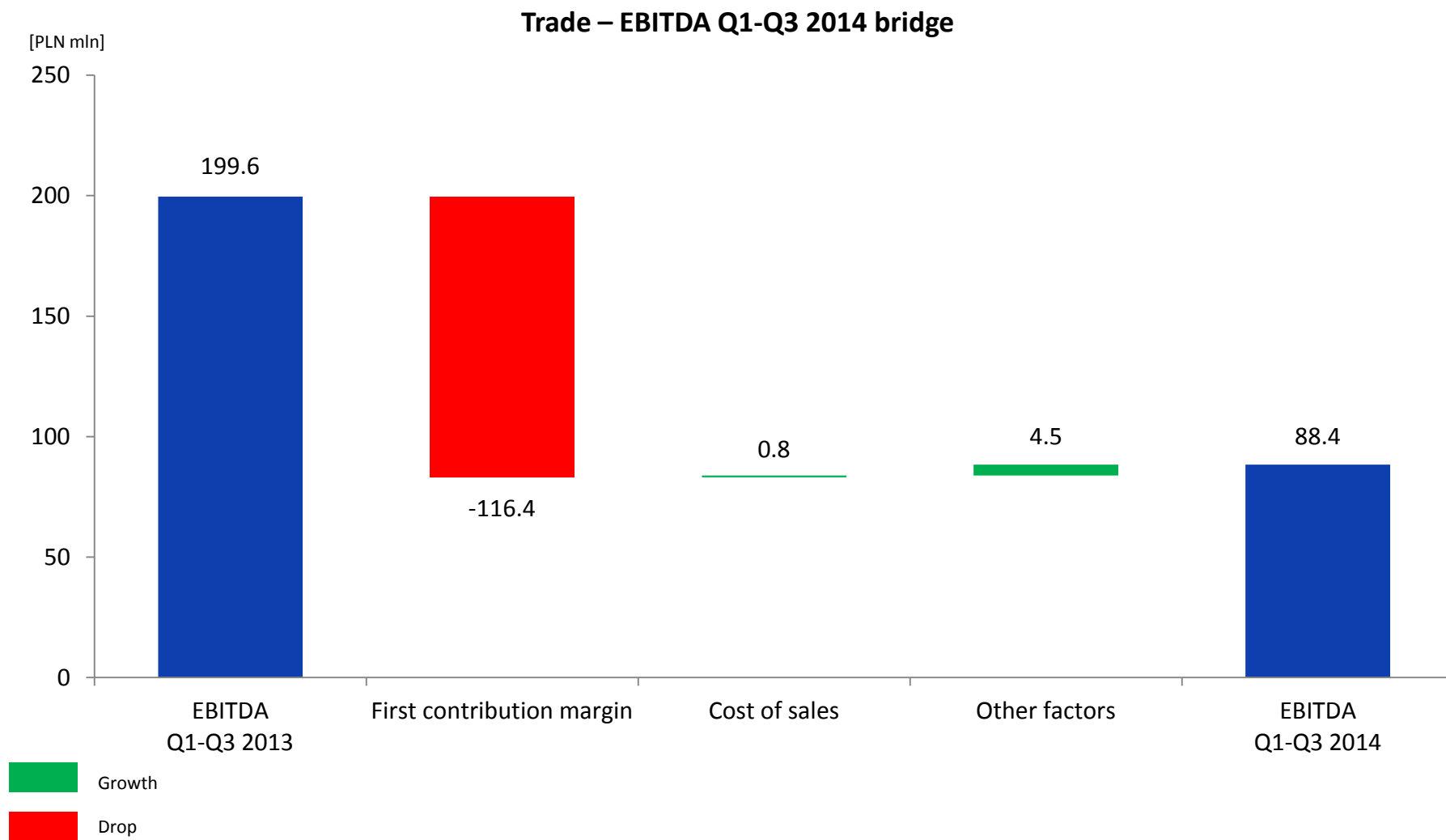
Distribution – EBITDA Q3 2014 bridge



Attachment No. 4 - In Q1-Q3 2014 the segment of generation's result was positively affected by recognition of revenue from recovery of stranded costs



Attachment No. 5 - Drop in selling prices as a result of growing competition on the retail market charged the result of the segment of trade in Q1-Q3 2014



Attachment No. 6 - Optimisation of employment and the grid asset use process supported the result of the segment of distribution in Q1-Q3 2014

