



## **Report of the Management Board on the operations of Enea SA and Enea Group in 2017**

Poznań, Date of approval: 22 March 2018

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## 1. Operating summary



RESOURCES



**6.2 GW**

Electrical power installed

**391m tonnes**

Potential of 3 licenced areas

**122.4k km**

of distribution lines including connections

**16.1k**

Employees

**2.5m**

Customers

FINANCIALS  
IN 2017



**PLN 11,406m**

Net sales revenue

**PLN 2,684m**

EBITDA

**PLN 1,165m**

Net profit

**PLN 4,187m**

CAPEX

TARGETS  
FOR 2025



**10.9m tonnes**

Own demand for bituminous coal

**5.8–6.3 GW**

Conventional electrical power installed

**20.1 TWh**

Sale of electricity

**38%**

EBITDA growth on 2015

**PLN 26.4bn**

Basic investment budget

## We reinforce our market position and the national energy safety



Dear Sirs and Madams,

In the forthcoming years, the Polish power sector will have to face many challenges, including those resulting from the requirements of the European Union climate policy. We know that the constant and sustainable growth and investments implemented in each link of the value chain of Enea Group are of key importance in this process. Being aware of this fact, in September 2016, we adopted the corporate development strategy of Enea Group for the period until 2030. Today, we can say with complete conviction that, thanks to the consistent achievement of the targets we have set, in 2017, we did strengthen our market position. At the same time, our Group increased the country's energy security by actively implementing the economic policy of Poland. This breakthrough – in many respects - year for the Group ended with good financial and operational results, which constitute a solid foundation for further development of the Group. In the coming years, we will direct the developed financial potential of the Enea Group to initiate investment projects that will respond to new trends, especially those in the field of low-emission, renewable energy and electromobility.

### We take advantage of market opportunities and optimize our operational efficiency

In March 2017, we closed the transaction of taking over Enea's Pofaniec Power Plant. We have consolidated power assets operated in the south-east part of the country and became the second largest energy group in Poland in terms of energy generation. By incorporating Pofaniec Power Plant into the Group, we achieved numerous benefits. Realisation of synergies in Koziencice-Bogdanka-Pofaniec extraction and generation area enabled us to increase operation efficiency and improve our financial results.

### We have completed our key investment project, increasing our share in electricity generation in Poland to 19%

On 19 December 2017, we signed the certificate of commissioning for operation our key investment project, thus officially completing the construction of the power unit No. 11 at Koziencice Power Plant – the largest ever investment in the history of Enea Group.

B11 is a high-performance power unit with a gross power capacity of 1,075 MW. With the employment of high-end technology solutions in the field of supercritical operation, the power unit reaches the net efficiency of 45.6%, far above the market average of ca. 34% for our country. This, in turn, enables to reduce carbon dioxide emissions by approx. 25% when compared to the emissions of the existing bituminous coal fired plants, which makes it the most environmentally friendly power unit of this kind in Poland.

With the power capacity of 1,075 MW, high generation efficiency, and high availability at the level of over 92% (with the national average of 86.7%), Unit 11 is a record-breaker in the history of domestic energy sector. It is one of the largest and most efficient plants of this type worldwide. Unit 11 causes a surge in the energy generation capacity of Enea Group and the national energy production sector, thus increasing the power safety of Poland.

### “Ostrów” deposit – ensuring a stable resource base for the Group

Obtaining by LW Bogdanka in November 2017 a licence for bituminous coal extraction from “Ostrów” deposit is a key step towards the implementation of the plan to double the Company's operative resources which was announced in the “Strategy of LW Bogdanka Extraction Area of Enea Group until 2025”. In addition, it is planned to expand the “Bogdanka” deposit by additional 33 million tonnes of operative resources will allow the Company to extend its life cycle to approx. 50 years (from approx. 25 years at present). Increasing the resource base means the ability to plan and secure long-term development of the mine and provide the Group with a stable resource base.

### Safety of energy deliveries to our Clients is our priority

The second half of 2017 was exceptional in terms of the scale and frequency of weather phenomena which affected the distribution area where we operate. The heavy storms in August and the hurricane-force winds Gregory and Xavier destroyed in aggregate approx. 3,600 transmission poles and nearly 450 km of power lines. In these extreme conditions, our emergency response teams managed to restore energy supplies to in total more than 1 million of our Clients, who were affected by the storms. It was a big challenge for us which we met thanks to proper logistics and organisational preparation but, first and foremost, owing to the commitment and the enormous effort of our teams.

### We diversify our offer and exceed Clients' expectations

We are constantly working on improving our offer. We are committed to ensuring that the products and services we provide meet the comprehensive needs of our Clients. We give priority to innovativeness, which enables us to keep ahead of the market trends.

The above approach may be illustrated by our new Enea Smart offer which has been available since December 2017. This is a combination of a comprehensive agreement with Smart Home technology solutions enabling to improve the comfort of life. The smart home system keeps our Clients' homes safe and warns them about fire, flooding or burglary. The equipment available in Enea Smart offer helps measure electricity consumption by home appliances, thus facilitating taking energy saving measures.

### Business must be socially responsible

Generating nearly PLN 11,406 million of annual revenue and employing approx. 16,000 people, the Group is among Poland's largest enterprises and employers. The purely business dimension of our operations is very important to us, but it is not the only area of our attention in ensuring the future of our Group. We wish to be socially responsible and prove that such a large organisation as ours is able to achieve good operating and financial results while supporting the development of the region and local communities at the same time.

Seeing the size of the damage caused by the storms, we made a decision to donate via our Enea Foundation PLN 1 million to help the municipalities affected. The funds we provided were intended for co-financing the repair and reconstruction of public infrastructure and public utility buildings and for support to local communities. Moreover, the funds from Enea Foundation were used to purchase the specialist equipment necessary for the Volunteer Fire Brigades to perform the recovery works.

## We reinforce our market position and the national energy safety

This approach is demonstrated, for instance, by the Enea Talent Academy scheme which was completed by Enea Foundation in January 2017.

The purpose of the scheme is to provide scholarships to support the development of outstanding pupils and students as well as to award state primary and lower-secondary schools which develop their talents and passions. This is also how we try to contribute to supporting the regions of the country where Enea Group companies operate. When doing our business, we strive to minimise its impact on the environment which surrounds us. Our new offer, Enea Eco, which is available from 31 January 2018 and supports fighting smog, is an example of the initiative reflecting this environment-friendly approach. This is the first stage of Enea's long-term activities aimed to increase Client awareness of natural environment and smog fighting issues.

### Stable financial situation supports the implementation of development plans

We build innovative resource and energy group capable of meeting the challenges of a difficult market on which we operate. We wish to be the leading supplier of integrated products and services, valued for quality, comprehensive offer, and reliability. We are implementing an ambitious development programme leading to the achievement of the objectives set out in our strategy.

We have been consistently developing Enea Group, with capital expenditures in 2017 reaching the level of PLN 4 billion – over 53% higher than in the previous year, while keeping a safe 2,07 net debt/EBITDA ratio. We attempt to consistently increase the value of Enea to its Shareholders through a sustainable growth in all business areas, which is reflected in the improvement of financial results generated in subsequent reporting periods. The year 2017 was a record year in this respect. In entire 2017, EBITDA (operating profit plus depreciation and amortisation) of our Group increased year-on-year by over 15% to PLN 2.684 billion, and the net profit attributable to shareholders of the parent company grew by 36.4% to PLN 1.07 billion. In 2017, the Enea Group generated 21 TWh of electricity, which is 54% more than in the previous year. Sales of distribution services to end customers rose to 19.3 TWh from 18.7 TWh in 2016 whereas the volume of electricity and gas sales to retail customers went up to 18.9 TWh.

Enea's stable financial standing and perspectives enabled the Company to pay in 2017 a dividend from profit earned in 2016 in the amount of PLN 0.25 per share along with the realisation of key investment projects. When considering a dividend payment in the following years, Enea Management Board is responsibly guided by the need to ensure for the entire Group the financial liquidity and capital necessary for development of our activity with a view to increasing its value and building our competitive advantage.

One of our priorities is to use synergies and further improve the operational efficiency in order to adapt best and quickly to dynamic market changes and technological trends both in Europe and in the world. We are responsible in our investment policy and commitment to innovative projects. Our partners include both the leading groups of the energy industry in Poland, global entities, but also new start-ups initiated by Polish entrepreneurs seeking capital and competence support of our Group.

These are the main foundations on which we want to base the activities of the Management Board of Enea S.A. and the cooperation with all stakeholders supporting development and building the value of Enea Group.

### We are a responsible employer, we are developing a knowledge-based organization

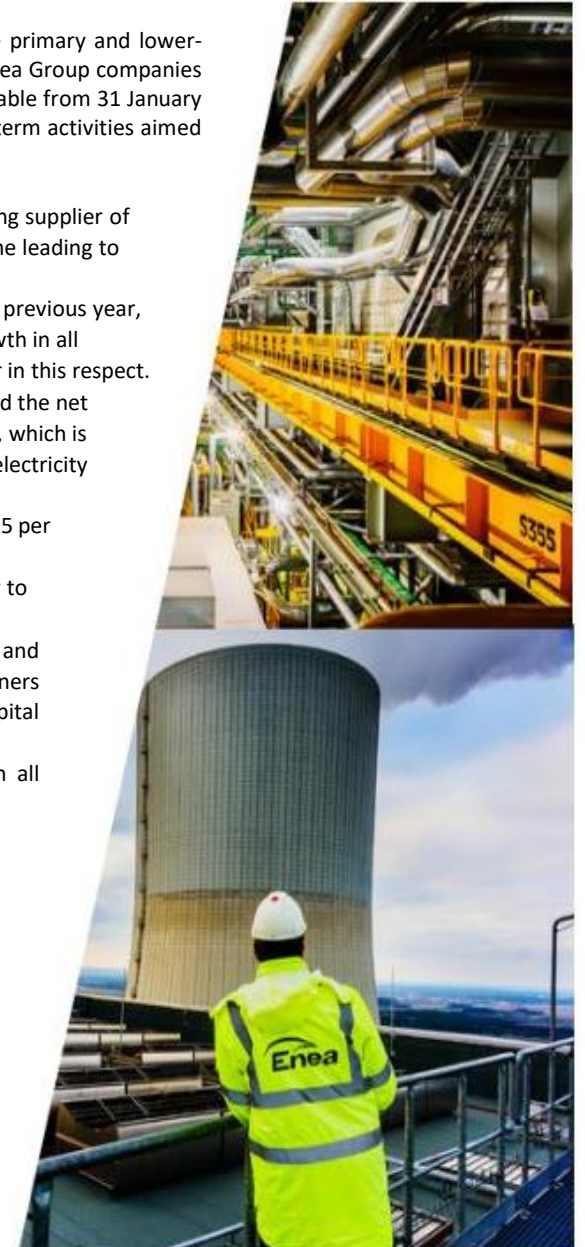
We are among the largest Polish enterprises and employers. Enea Group consists of over 16 thousand specialists performing tasks in various parts of the country. Employment issues are a vital and important matter for us throughout the Group. We want to be an attractive employer that provides a sense of stability and offers development opportunities. Therefore, we undertake active pro-employee measures for instance aimed at a friendly work atmosphere, improvement of skills and competences and continuous development.

The operation of such a complex organism as our Group requires the Social Side to play an engaged and significant role. We hold a regular dialogue and we are open to matters raised by representatives of the Social Side. We build an internal organizational culture that is friendly both for the external and internal Client. In the development of our Group, we follow the needs and expectations of our employees.

We want to build an organization based on knowledge and competences.

Yours faithfully,

Mirosław Kowalik  
President of the Management Board, Enea SA



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Detailed overview of all issues covered in this report can be found on page 148

In 2017, Enea Group generated:

- **PLN 11,406m** of net sales revenue – increase by 1.3% year-on-year
- **PLN 2,684m** of EBITDA – increase by 15.3% year-on-year
- **PLN 1,165m** net profit – up by 37.2 % year-on-year

In the analysed period, the highest EBITDA of PLN 1,073 million was generated in the Distribution Area. The highest EBITDA increase, amounting to PLN 218 million was generated in the Generation Area which closed 2017 with EBITDA of PLN 735 million. The main factor behind the EBITDA change in this area was the increase in generation capacity due to the acquisition of Połaniec Power Plant. The EBITDA in the Trading Area, after an increase of PLN 23.8 milion, amounted to PLN 178 million, while the Mining Area generated in this period PLN 709 million of EBITDA.

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- Higher volumes of sold energy
- Higher sales of distribution services
- Higher revenue from sale of CO<sub>2</sub> emission allowances
- Higher sale of heat energy
- Increase in result on other operating activities
- Lower costs of purchasing energy and property rights

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- Lower revenue from sale of coal
- Lower revenue from sale of natural gas
- Higher costs of materials and raw materials used and the value of goods sold
- Increase in costs of transmission services
- Increase in cost of third party services

In the fourth quarter of 2017 alone, the Group generated :

- **PLN 3,043m** of net sales revenue – increase by 3.1% y/y
- **PLN 736m** EBITDA – increase by 47.5 % y/y
- **PLN 327m** of net profit – increase by 154.9 % y/y

Last year, the Enea Group spent PLN 4,187 million on investment, 52.7% more than in the corresponding period of the previous year.

The net debt / EBITDA ratio at the end of 2017 was at a safe level of 2.1.

In 2017, the production and sales of commercial coal were at a comparable level y/y and amounted to 9 million tonnes.

In 2017, the Group generated 21 TWh of electricity of which 19.1 TWh came from conventional sources. There was also an increase in the generation of energy from renewable sources by 1.3 TWh.

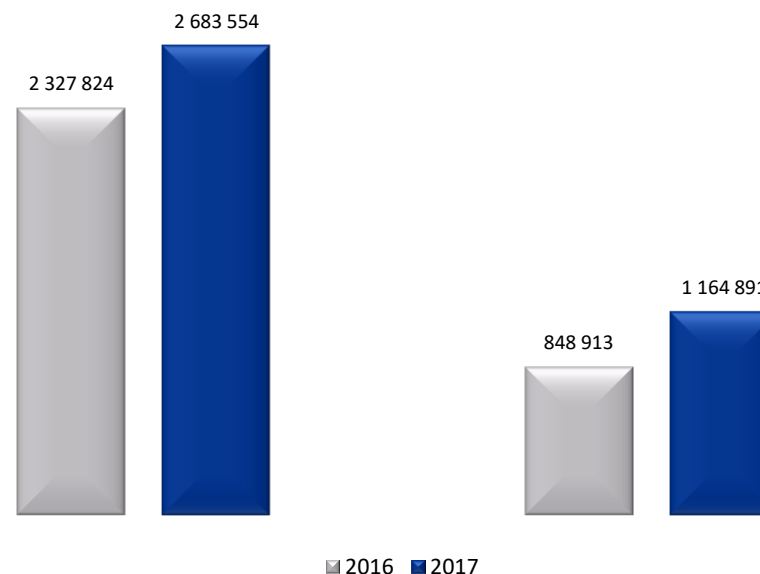
The sales of distribution services to end users amounted to 19.3 TWh, which is 2.8% more than in the corresponding period of the previous year.

In 2017, Enea SA increased the volume of sales of electricity to retail customers by 1,219 GWh, or 7.3% y/y.

[PLN '000]	2016	2017	Change	% change
Net sales revenue	11,255,678	11,405,689	150,011	1.3%
Operating profit	1,119,314	1,487,730	368,416	32.9%
Profit before tax	1,068,802	1,466,567	397,765	37.2%
Net profit for the reporting period	848,913	1,164,891	315,978	37.2%
<b>EBITDA</b>	<b>2,327,824</b>	<b>2,683,554</b>	<b>355,730</b>	<b>15.3%</b>
Net cash flows from:				
Operating activities	2,424,445	2,579,644	155,199	6.4%
Investing activities	-2,490,580	-3,482,925	-992,345	-39.8%
Financial activities	584,258	1,250,190	665,932	114.0%
Balance of cash	2,340,217	2,687,126	346,909	14.8%
Net profit attributable to shareholders of the Parent	784,393	1,070,168	285,775	36.4%
Weighted average number of shares [pcs.]	441,442,578	441,442,578	-	-
Net profit per share [PLN]	1.78	2.42	0.64	36.0%
Diluted profit per share [PLN]	1.78	2.42	0.64	36.0%

[PLN '000]	31 Dec 2016	31 Dec 2017	Change	% change
Total assets	24,536,519	28,312,994	3,776,475	15.4%
Total liabilities	11,524,790	14,313,325	2,788,535	24.2%
Non-current liabilities	8,606,757	10,063,012	1,456,255	16.9%
Current liabilities	2,918,033	4,250,313	1,332,280	45.7%
Equity	13,011,729	13,999,669	987,940	7.6%
Share capital	588,018	588,018	-	-
Book value per share [PLN]	29.48	31.71	2.23	7.6%
Diluted book value per share [PLN]	29.48	31.71	2.23	7.6%

PLN '000



[PLN '000]	Q4 2016	Q4 2017	Change	% change
Net sales revenue <sup>1</sup>	2,951,734	3,043,492 <sup>1</sup>	91,758	3.1%
Operating profit	170,172	417,875	247,703	145.6%
Profit before tax	171,217	430,537	259,320	151.5%
Net profit for the reporting period	128,258	326,942	198,684	154.9%
<b>EBITDA</b>	<b>499,245</b>	<b>736,299</b>	<b>237,054</b>	<b>47.5%</b>
Net profit attributable to shareholders of the Parent	108,505	284,636	176,131	162.3%
Weighted average number of shares [pcs.]	441,442,578	441,442,578	-	-
Net profit per share [PLN]	0.25	0.64	0.39	156.0%
Diluted profit per share [PLN]	0.25	0.64	0.39	156.0%

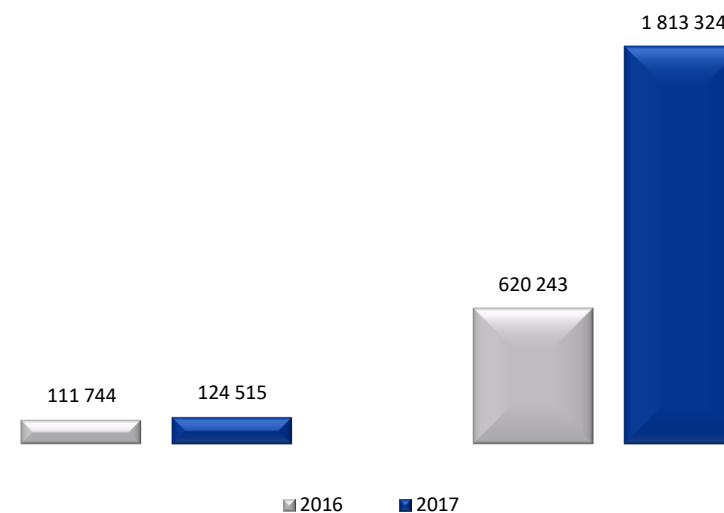
<sup>1</sup>Presentation change in the valuation and cost of own sale of property rights

[PLN '000]	2016	2017	Change	% change
Net sales revenue	5,421,352	5,639,580	218,228	4.0%
Operating profit	108,285	121,880	13,595	12.6%
Profit before tax	647,087	1,834,604	1,187,517	183.5%
Net profit for the reporting period	620,243	1,813,324	1,193,081	192.4%
<b>EBITDA</b>	<b>111,744</b>	<b>124,515</b>	<b>12,771</b>	<b>11.4%</b>
Net cash flows from:				
Operating activities	83,403	591,748	508,345	609.5%
Investing activities	-561,847	-2,009,136	-1,447,289	-257.6%
Financial activities	695,634	1,548,992	853,358	122.7%
Balance of cash	1,614,822	1,746,426	131,604	8.1%
Weighted average number of shares [pcs.]	441,442,578	441,442,578	-	-
Net profit per share [PLN]	1.41	4.11	2.70	191.5%
Diluted profit per share[PLN]	1.41	4.11	2.70	191.5%

[PLN '000]	31 Dec 2016	31 Dec 2017	Change	% change
Total assets	18,217,925	22,452,921	4,234,996	23.2%
Total liabilities	7,277,446	9,820,944	2,543,498	35.0%
Non-current liabilities	5,972,038	7,695,443	1,723,405	28.9%
Current liabilities	1,305,408	2,125,501	820,093	62.8%
Equity	10,940,479	12,631,977	1,691,498	15.5%
Share capital	588,018	588,018	-	-
Book value per share[PLN]	24.78	28.62	3.84	15.5%
Diluted book value per share [PLN]	24.78	28.62	3.84	15.5%

PLN '000

[PLN '000]	Q4 2016	Q4 2017	Change	% change
Net sales revenue	1,396,023	1,464,729	68,706	4.9%
Operating profit	33,315	36,628	3,313	9.9%
Profit before tax	41,088	904,293	863,205	2,100.9%
Net profit for the reporting period	34,708	902,704	867,996	2,500.9%
<b>EBITDA</b>	<b>34,114</b>	<b>37,190</b>	<b>3,076</b>	<b>9.0%</b>
Weigthed average number of shares [pcs.]	441,442,578	441,442,578	-	-
Net profit per share [PLN]	0.08	2.04	1.96	2,450.0%
Diluted profit per share [PLN]	0.08	2.04	1.96	2,450.0%





## KEY OPERATING FIGURES AND RATIOS



	Unit	2016	2017	Change	% change	Q4 2016	Q4 2017	Change	% change
Net sales revenue	PLN '000	11,255,678	11,405,689	150,011	1.3%	2,951,734	3,043,492	91,758	3.1%
EBITDA	PLN '000	2,327,824	2,683,554	355,730	15.3%	499,245	736,299	237,054	47.5%
EBIT	PLN '000	1,119,314	1,487,730	368,416	32.9%	170,172	417,875	247,703	145.6%
Net profit	PLN '000	848,913	1,164,891	315,978	37.2%	128,258	326,942	198,684	154.9%
Net profit attributable to shareholders of the Parent	PLN '000	784,393	1,070,168	285,775	36.4%	108,505	284,636	176,131	162.3%
Net cash flows from operating activities	PLN '000	2,424,445	2,579,644	155,199	6.4%	602,050	344,651	-257,399	-42.8%
CAPEX	PLN '000	2,742,013	4,186,860	1,444,847	52.7%	887,934	1,063,990	176,056	19.8%
Net debt/ EBITDA <sup>1)</sup>	-	1.9	2.1	0.2	10.5%	1.9	2.1	0.2	10.5%
Return on assets (ROA) <sup>1)</sup>	%	3.5%	4.1%	0.6 pp	-	2.1%	4.6%	2.5 pp	-
Return on equity (ROE) <sup>1)</sup>	%	6.5%	8.3%	1.8 pp	-	3.9%	9.3%	5.4 pp	-
<b>Trade</b>									
Sales of electricity and gaseous fuel to retail customers	GWh	17,989	18,916	927	5.2%	4,693	4,877	184	3.9%
Number of customers (Power Delivery Points)	'000	2,405	2,422	17	0.7%	2,405	2,422	17	0.7%
<b>Distribution</b>									
Sale of distribution services to end users	GWh	18,741	19,259	518	2.8%	4,817	4,937	120	2.5%
Number of customers (closing balance)	'000	2,520	2,553	33	1.3%	2,520	2,553	33	1.3%
<b>Generation</b>									
Total generation of electricity, including:	GWh	13,567	20,973	7,406	54.6%	3,401	5,795	2,394	70.4%
<i>from conventional sources</i>	GWh	13,028	19,147	6,119	47.0%	3,255	5,313	2,058	63.2%
<i>from renewable sources of energy</i>	GWh	539	1,826	1,287	238.8%	146	482	336	230.1%
Gross heat generation	TJ	5,299	7,070	1,771	33.4%	1,804	2,280	476	26.4%
Sale of electricity, including:	GWh	16,802	24,526	7,724	46.0%	4,207	6,850	2,643	62.8%
<i>from conventional sources</i>	GWh	16,263	21,406	5,143	31.6%	4,061	5,886	1,825	44.9%
<i>from renewable sources of energy</i>	GWh	539	1,487	948	175.9%	146	414	268	183.6%
<i>from purchase</i>	GWh	-	1,633	1,633	100.0%	-	550	550	100.0%
Sales of heat	TJ	4,527	6,392	1,865	41.2%	1,614	2,066	452	28.0%
<b>Mining</b>									
Net production	'000 tonnes	9,038	9,050	12	0.1%	2,356	2,338	-18	-0.8%
Coal sales	'000 tonnes	9,141	9,151	10	0.1%	2,402	2,453	51	2.1%
Closing stocks	'000 tonnes	125	24	-101	-80.8%	125	24	-101	-80.8%
Excavation works	km	25.5	30.7	5.2	20.4%	7.1	8.3	1.2	16.9%

2017 / 2016:

**Increase in EBITDA by PLN 356 million**

**Increase in sales of electricity and gaseous fuel to retail customers by 927 GWh**

**Increase in volume of electricity generated by 7,406 GWh**

Q4 2017/ Q4 2016:

**Increase in EBITDA by PLN 237 million**

**Increase in sales of electricity and gaseous fuel to retail customers by 184 GWh**

**Increase in volume of electricity generated by 2,394 GWh**

**2017:**

- Increase in EBITDA of 15.3% (by PLN 356 million)
- Consistent development of Enea Group: CAPEX of PLN 4,187 million with a safe net debt/EBITDA ratio
- Increase in sales of electricity and gaseous fuel to retail customers of 5.2% (by 927 GWh)
- Increase in total electricity generated by 7.4 TWh

**Q4 2017:**

- Increase in EBITDA of 47.5% (by PLN 237 million)
- Consistent development of Enea Group; CAPEX of PLN 1,064 million with a safe net debt/EBITDA ratio
- Increase in sales of electricity and gaseous fuel to retail customers of 3.9% (by 184 GWh)
- Increase in total electricity generated by 2.4 TWh

<sup>1)</sup> Ratio definitions to be found on page 145

## Q1

**Implementing the investment agreement on construction of the power unit in Ostrołęka Power Plant**

Enea SA and Energa SA exercise joint control over Elektrownia Ostrołęka SA, a special purpose vehicle (SPV) which will implement the project of preparation, construction, and operation of the 1,000 MW<sub>e</sub> bituminous coal fired power unit (Ostrołęka C). At present, Enea holds a 23.8% share in the company's share capital. Ultimately, each of the parties will hold 50% of shares in Elektrownia Ostrołęka SA and the same number of votes at the General Meeting.

**Taking up shares in Polimex-Mostostal**

Presently, Enea holds 39,000,024 shares in Polimex representing a 16.48% share in the company's share capital. In aggregate, Enea, Energa, PGE Polska Grupa Energetyczna and PGNiG Technologie hold 156,000,097 of shares representing a 65.9% share in the share capital of Polimex. Polimex-Mostostal has the largest (over 23%) share in the implementation of the key projects in the conventional energy segment. As a result, the Company is present in the contracting consortia implementing the largest power investment projects in Poland whose total budget is approx. 30 bnPLN.

**Upgrade of turbines in two power units at Koźienice Power Plant**

In January, Enea Wytwarzanie signed a contract with EthosEnergy for upgrade of turbines in power units No. 3 and 8 at Koźienice Power Plant. The upgrade improved the dynamic condition of the turbine generator set. The contract net value was nearly PLN 4.9m and the works were completed in July 2017.

**Extending the banking service agreements with PKO BP and Bank Pekao SA**

On 25 January, the member companies of Enea Group signed the Amendments to the current comprehensive banking service agreements with PKO BP and Pekao SA. The signing of the Amendments extending the current agreements for another term offers the assurance to Enea's Clients that bank account numbers will remain unchanged. The key member companies of the Group will still have access to all necessary banking products and services as part of the comprehensive banking service offered on most advantageous terms and conditions.

**Doubling the resource base and innovation in Enea Group's Mining Area**

On 9 February, LW Bogdanka published its development strategy for Enea Group's Mining Area until 2025, in the time perspective until 2030, which assumes two development scenarios: the base one, assuming average production at the level of approx. 8.5 million tonnes in the years 2017-2025, and the flexible one, assuming average production at the level of approx. 9.2 million tonnes in the same period. Considering the current and foreseeable market situation, the Company intends to implement the flexible development scenario. CAPEX forecast for the period 2016-2025 (in nominal value) is 3.7 bnPLN for the base scenario and approx. 4 bnPLN for the flexible development scenario.

**Ensuring safety of electricity delivery**

In March, Enea Operator started the newest and most modern Power Dispatch Centre which will manage the high-voltage grid in the north-west Poland. Such organisation of traffic will enable a flexible, quick and comprehensive response to the events occurring on the whole length of 110 kV grid owned by Enea Operator.

**Enea becomes the owner of Połaniec Power Plant**

On 14 March, the transaction of purchase by Enea Group from ENGIE International Holdings B.V. of 100% of shares in ENGIE Energia Polska, a company which owns Połaniec Power Plant, was successfully closed. For approx. PLN 1.26bn, Enea acquired an important systemic power plant which has undergone an intensive upgrade programme worth approx. 1.5 bnPLN in the recent years. The acquired company has no debts and has been reinforcing Enea's market position since the day of its purchase.

## Q2

**Enea joins the electromobility development cluster**

In April, Enea Group became a member of the "Polish Electric Bus – electromobility supply chain" cluster. The goal of the cluster is cooperation for electromobility development, in particular e-buses and components used for their construction, which will be based on technical solutions developed in Poland.

**Recapitalisation of Polska Grupa Górnicza**

Under PGG recapitalisation, Enea agreed to take up new shares in PGG of the total nominal value of PLN 300m in exchange for a cash contribution in the amount of PLN 300m in three stages. The first recapitalisation of PGG by Enea in the amount of PLN 150m took place in April 2017. In the second stage of recapitalisation which took place in June 2017, Enea took up new shares in PGG of the value PLN 60m carrying the right to a 5.81% share in the mining company's share capital. Another recapitalisation for PLN 90m took place in Q1 2018. The investments fits into Enea Capital Group Development Strategy among whose components is securing the resource base for conventional power sector. In addition, the investors signed an agreement on exercising joint control over PGG.

**Resignation from participation in the purchase of EDF assets**

On 11 May, the Management Board of Enea SA passed a resolution on resignation from the Company's participation in the transaction of acquisition of Polish assets held by EDF International SAS and EDF Investment II B.V.

**Enea Operator with one complete IT system**

In June, Enea Operator signed a contract of delivery and implementation of the Central Application of the Metering Information Acquisition System. Ultimately, the application will be the only IT system used in the distribution company for receiving, processing, and storing any data related to the widely understood metering information. The contract value is PLN 22m and the application is planned to be implemented during 2 years.

**Collaboration with PGG in development of technologies for the new blendstock**

In June, Enea Trading and Polska Grupa Górnicza (PGG) established cooperation in the field of experience and expertise exchange with a view to developing a new blendstock with the use of coal slime which could be commercially used in the power industry.

**Fitch Ratings maintain Enea's rating**

On 30 June, Fitch Ratings agency confirmed Enea's long-term rating in domestic and foreign currency at the level of "BBB" as well as confirmed but at the same time withdrew, for contractual reasons, its domestic long-term rating at the level of "A+(pol)" with a stable perspective.

## Q3-Q4

**EU funds driving investments in the area of Distribution**

When implementing the investment projects planned, Enea Operator actively takes advantage of the EU funds. In 2017, Enea Operator signed 17 co-funding agreements for infrastructural projects. The total value of the projects is PLN 273.2m net, including the subsidy granted of approx. PLN 180m. The funds obtained will be used for the development of the distribution network in the scope of increasing the security of electricity supply, increasing the potential of connecting renewable energy sources to the grid and implementing the functionality of the smart power grid. Moreover, in 2017 Enea Operator concluded 2 co-funding agreements for research and development projects, the total value of which amounts to PLN 7.9m, including the subsidies of PLN 3.9m.

**Obtaining a licence for coal extraction from “Ostrów” deposit**

In July 2017, LW Bogdanka filed a request with the Minister of Environment for a licence for bituminous coal extraction from “Ostrów” deposit in “Ludwin” mining area whose extractable resources are estimated at the level of approx. 186 million tonnes of coal. On 20 November, the Management Board of LW Bogdanka was informed that such licence was granted to the Company.

The “Ostrów” deposit operation may be commenced on the basis of the current infrastructure, without capital-consuming construction of new shafts. In the period after 2025, it is planned to provide access to a vertical deposit and to construct the necessary technical facilities and infrastructure in “Ludwin” area. The total initial estimated real value of outlays related to the construction of such infrastructure is PLN 1.2-1.3bn.

Obtaining a licence is the key item of the plan to double the Company’s extractable resources as stipulated in “Strategy of LW Bogdanka, Enea Group’s Mining Area until 2025”. Expanding the resource base means the ability of long-term planning, securing the development of mines, and ensuring a stable raw material resources for Bogdanka.

**Enea to share profits with Shareholders**

On 10 August, Enea paid its Shareholders a dividend from profit for 2016 in the amount of PLN 110,360,644.50, which translates into PLN 0.25 of profit per share.

**Changes to the Management Board of Enea SA**

On 24 August 2017, the Supervisory Board of Enea passed resolutions on recalling from Enea SA Management Board Wiesław Piosik, i.e., Corporate Vice-President, and Mikołaj Franzkowiak, i.e., Financial Vice-President of the Management Board. At the same time, the Supervisory Board appointed, with effect from the same date, the Supervisory Board Member, Rafał Szymański, to temporarily perform the operations of the Corporate Vice-President of Enea SA for a period no longer than three months, until the appointment of the new Corporate Management Board Member.

On 22 September, the Company’s Supervisory Board passed a resolution on appointing Piotr Olejniczak the Financial Management Board Member with effect from 1 October 2017. On 29 September 2017, Rafał Szymański who was appointed the Company’s Supervisory Board to temporarily perform the operations of the Corporate Management Board Member at Enea S.A. submitted to the Company his resignation from the appointment to perform the abovementioned operations, with effect from 1 October 2017. On 5 October, the Supervisory Board passed a resolution on appointing Zbigniew Piętka the Corporate Management Board Member with effect from 10 October 2017.

**New 1,075 MW power unit**

On 1 September, Enea Wytwarzanie conducted the first synchronisation of the 1,075 MW power unit with the National Power System. The synchronisation was completed in line with the schedule. On 19 December, Enea Group opened a new chapter in the history of the Polish power industry, commissioning for operation the Poland’s top power unit in terms of cutting-edge technology – the supercritical power unit of 1,075 MW gross power capacity at Koźnice Power Plant.

The so-called B11 [Unit 11], as referred to by its abbreviation, is the largest investment project of Enea Group. With the employment of high-end technology solutions in the field of supercritical operation, the power unit reaches the efficiency of 45.6%, which enables to reduce carbon dioxide emissions by approx. 25% when compared to the emissions of the existing bituminous coal fired plants. Thanks to the leading-edge technological solutions applied, the new power unit is able to achieve best environmental parameters and optimise energy production costs.

With the power capacity of 1,075 MW, high generation efficiency, and high availability at the level of over 92%, B11 causes a surge in the energy production capacity of Enea Group and the national energy production sector, thus increasing the power safety of Poland. Being one of the largest and most efficient plants of this type worldwide, B11 meets the requirements resulting from BAT Directive guidelines which are to come into effect only in 2021..

**Aid for municipalities affected by violent storms**

In Q4 2017, Enea Foundation donated nearly one million PLN to the municipalities affected by violent storms. The funds were allocated on the purposes specified by the local governments, including repair and reconstruction of infrastructure and public utility buildings and on supporting local Volunteer Fire Brigades.

**Winning the tender for electrical vehicle chargers**

In October, Enea Serwis won the tender announced by the Road and City Transport Office in Szczecin for the delivery and commissioning of first city electric vehicle chargers in the city of Szczecin. Fast charging stations will be installed in Szczecin in Q1 2018.

**Greater power safety for Poznań urban area**

On 25 October, Enea Operator signed an agreement for the implementation of new grid investments in Poznań urban area of the value of more than PLN 44.5m. This amount will be spent on the construction of two new 110 kV high voltage power lines and the switching station, including power take off, in the Poznań district of Garaszewo. The project was granted the co-funding from the European Union in the amount of PLN 22.5m.

**Three bids in the tender for Ostrołęka C Power Plant construction**

On 28 December, Elektrownia Ostrołęka SA whose shares are held by Enea and Energa opened the envelopes with the bids submitted by three potential contractors in the tender for the public contract award for the construction of the power unit in Ostrołęka C Power Plant. The bids were submitted by China Power Engineering Consulting Group Co., Ltd. (gross lump sum price PLN 4.85bn), the consortium of GE Power Sp. z o. o. and ALSTOM Power Systems S.A.S. (gross lump sum price: PLN 6.02bn) and the consortium of Polimex-Mostostal SA and RAFAKO SA (gross lump sum price: PLN 9.59bn).

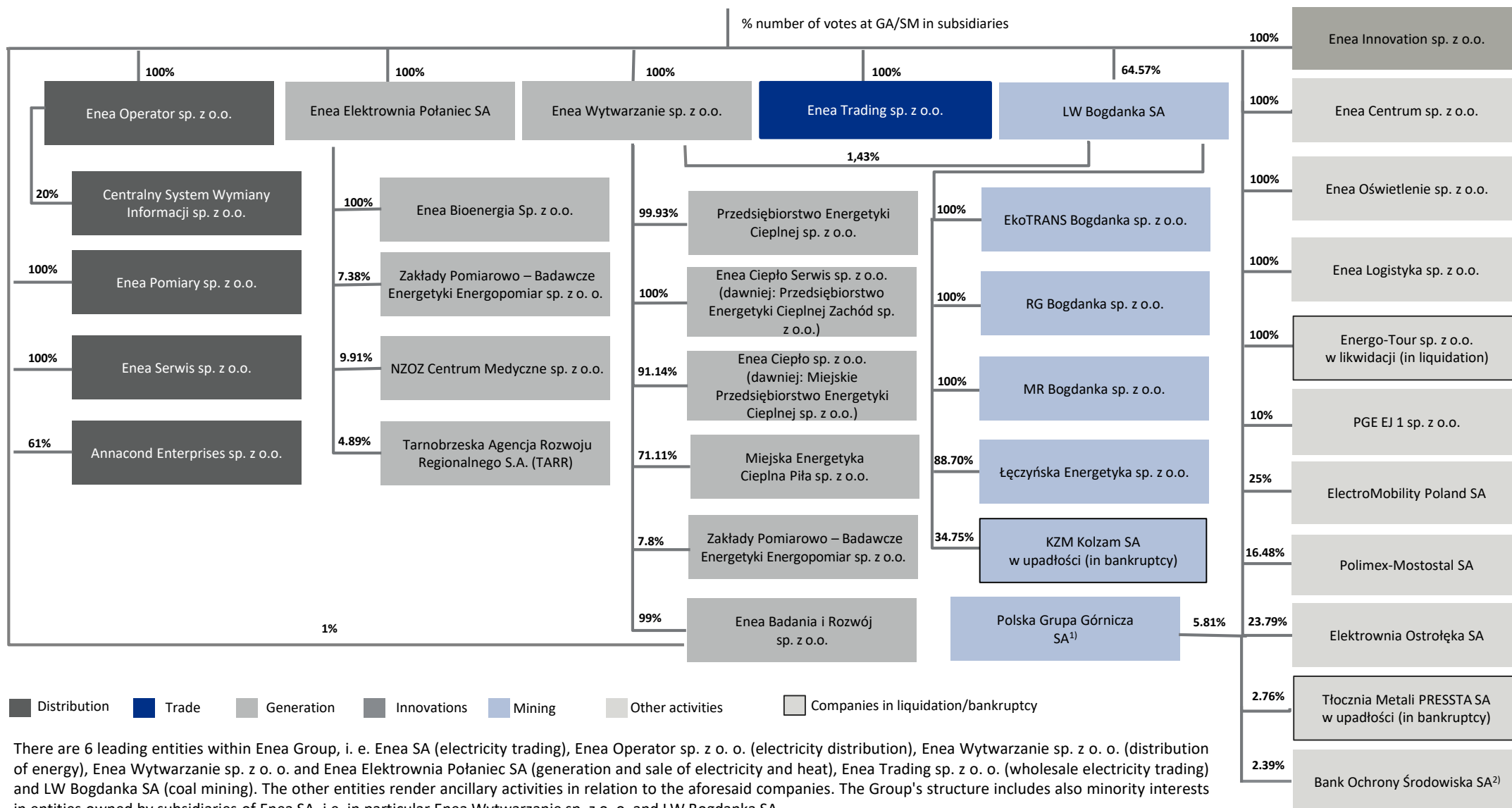
A highly-efficient supercritical power unit of the power capacity of approx. 1000 MWe will be fired with bituminous coal with the use of high-end environment-friendly technological solutions. This is an investment of key significance to the Polish power safety.



## 2. Enea Group organisation and operations



## Enea SA



### Asset restructuring

After performing key organisational changes in previous years, Enea Group, apart from the initiatives related to the planned changes, did not conduct any significant activities within assets restructuring in 2017.

### Equity disinvestments

In 2017, no significant activities were performed as regards equity disinvestments.

### Changes in the Group's organisation

In 2017, Enea Group continued activities focused on the implementation of the Group's Corporate Strategy.

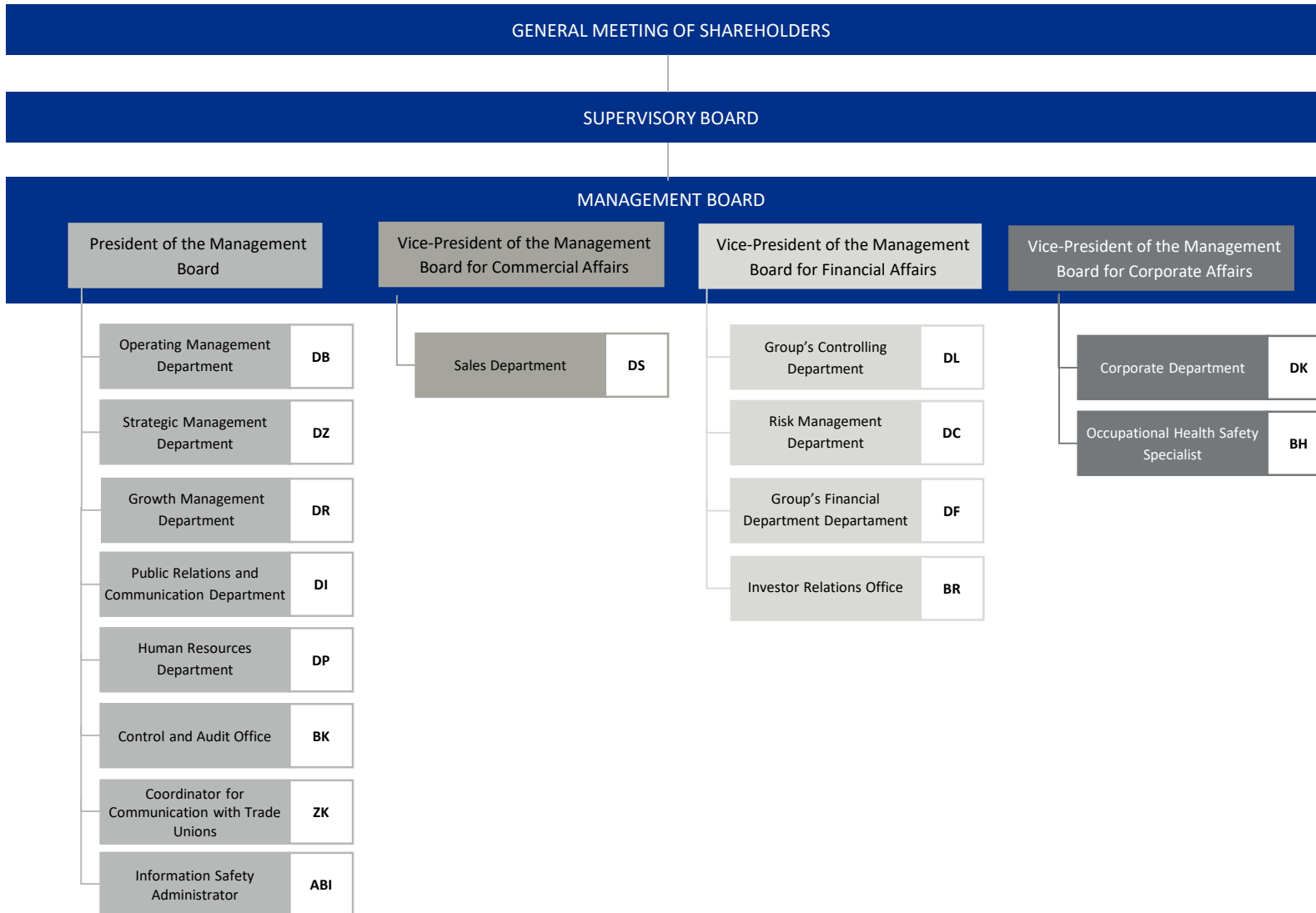
### Equity investments

The description of methods of financing equity investments is included in the Section "Sources of financing the investment programme".

Area	Date	Company	Event
2017			
Other activity	20 January 2017	Polimex-Mostostal SA	Enea SA accepted the offer made by Polimex to take up, as a private subscription, 37.5m shares and acquired 1.5m shares of Polimex from its existing shareholder, taking up a total of 16.48% in the Company's share capital.
Other activity	1 February 2017	Elektrownia Ostrołęka SA	Acquisition by Enea SA from Energa SA of 24,980,926 shares in Elektrownia Ostrołęka SA - Enea SA took up 11.89% in the Company's share capital.
Generation	14 March 2017	Enea Elektrownia Połaniec SA	Enea SA acquired 100% shares from ENGIE International Holdings B.V.
Other activity	3 April 2017	Polska Grupa Górnicza sp. z o.o. (presently: Polska Grupa Górnicza SA)	Enea SA took up 1,500,000 new shares of the nominal value of PLN 100 each and the total value of PLN 150,000,000 in Polska Grupa Górnicza sp. z o.o., thus becoming the minority shareholder of the Company with 4.39% shareholding in its share capital. Entry in KRS (National Court Register) - 8 June 2017.
Generation	21 April 2017	Enea Ciepło sp. z o.o. (formerly: MPEC sp. z o.o.)	Increasing the share in the total number of votes in relations to the performance of agreements between authorised employees of MPEC sp. z o.o. and Enea Wytwarzanie sp. z o.o.
Other activity	28 April 2017	Polimex-Mostostal SA	As a result of the tender offer Enea SA purchased 24 shares in Polimex constituting 0.00001% share in the Company's share capital.
Other activity	28 April 2017	Elektrownia Ostrołęka SA	Enea SA accepted an offer made by Elektrownia Ostrołęka SA of taking up as a private subscription of 9.5m new shares in Elektrownia Ostrołęka SA.
Other activity	14 June 2017	Polska Grupa Górnicza sp. z o.o. (presently: Polska Grupa Górnicza SA)	Enea SA took up 600,000 shares in the raised share capital of PGG, of the total nominal value of PLN 60,000,000, thus increasing its shareholding in the Company's share capital from 4.39% to 5.81%. Entry in KRS (National Court Register) – 7 July 2017.
Other activity	27 June 2017	Elektrownia Ostrołęka SA	Acquisition by Enea SA from Energa SA of 20,017,269 shares in Elektrownia Ostrołęka SA – Enea SA holds a total of 23.79% in the Company's share capital.
Other activity	30 June 2017	Centralny System Wymiany Informacji sp. z o.o.	Transfer of ownership of 16 shares to 4 distribution companies (Innogy Stoen Operator sp. z o.o. (formerly: RWE Stoen Operator sp. z o.o.), Energa Operator SA, PGE Dystrybucja SA, Tauron Dystrybucja SA). Enea Operator sp. z o.o. presently holds 4 shares in CSWI sp. z o.o., which represents a 20% share in the Company's share capital.

## Equity investments

Area	Date	Company	Event
2017			
Innovations	2 August 2017	Enea Innovation sp. z o.o.	The Extraordinary General Meeting of Shareholders of Enea Innovation sp. z o.o. seated in Warsaw, share capital PLN 5,000, decided to raise the share capital by PLN 300,000, i.e. from PLN 5,000 to PLN 305,000, through the issue of 3,000 new shares of the nominal value PLN 100 each. Pending the entry in KRS.
Generation	28 September 2017	Enea Badania i Rozwój sp. z o.o.	On 4 August 2017, Enea Wytwarzanie sp. o.o. and Enea S.A. established a company, Enea S.A. holds 1 share in the company. On 28 September 2017, the Company was entered on the National Court Register. On 17 November 2017, the Extraordinary General Meeting of Shareholders of Enea Badania i Rozwój sp. z o.o. adopted a resolution to increase the Company's share capital from PLN 5,000 to PLN 2,005,000.
Distribution	30 October 2017	Enea Operator sp. z o.o.	The Extraordinary General Meeting of Shareholders of Enea Operator sp. z o.o. adopted a resolution regarding the increase in the share capital by PLN 5,023,700.00 (in-kind contribution of an ownership and perpetual usufruct right to Enea SA's real estate), that is from PLN 4,678,050,000.00 to PLN 4,683,073,700.00 by creating 50,237 new shares with the par value of PLN 100 each. The share capital increase was registered on the National Court Register on 30 January 2018.
Equity investments following the end of the reporting period			
Other activity	3 January 2018	ElectroMobility Poland SA	The Extraordinary General Meeting of ElectroMobility Poland S.A. adopted a resolution on increasing the company's share capital by PLN 20,000,000, i.e. from PLN 10,000,000 to PLN 30,000,000, by increasing the par value of existing shares from PLN 1,000 to PLN 3,000. The share capital increase is awaiting registration on the National Court Register.
Innovations	31 January 2018	Enea Innovation sp. z o.o.	The Extraordinary General Meeting of Shareholders of Enea Innovation sp. z o.o. adopted a resolution on increasing the share capital by PLN 3,500,000.00, i.e. from the amount of PLN 305,000.00 – taking into account the previous increase of the Company's share capital pursuant to Resolution No. 1 of the Extraordinary General Meeting of Shareholders dated 2 August 2017 up to PLN 3,805,000 through the creation of 35,000 new shares with the par value of PLN 100 each. The capital increase is awaiting registration on the National Court Register.
Other activity	31 January 2018	Polska Grupa Górnicza SA	The Extraordinary General Meeting of Polska Grupa Górnicza SA adopted a resolution on increasing the share capital by PLN 300,000,000, i.e. from PLN 3,616,718,200 to PLN 3,916,718,200. Enea S.A. has entered into an agreement to subscribe for PGG shares, accepting an offer to subscribe for 900,000 new shares through a private subscription with the par value of a share at PLN 100 each and the total par value of PLN 90,000,000 for a cash contribution of PLN 90,000,000. The capital increase is awaiting registration on the National Court Register.
Other activity	27 February 2018	Elektrownia Ostrołęka sp. z o.o.	On 27 February 2018, the transformation of the Ostrołęka S.A. into a limited liability company (sp. z o.o.) was registered on the National Court Register.
Other activity	28 February 2018	Annacond Enterprises sp. z o.o.	The Extraordinary General Meeting of Annacond Enterprises sp. z o.o. adopted a resolution on putting the company into liquidation



In 2017, work was continued to adapt the organizational structure to the directions set in the "Enea Group's Development Strategy until 2030". The organizational structure of the Company's enterprise was updated, the tasks, competences and rights of individual units / entities of the Enterprise were also updated. In addition, the tasks of individual organizational units were described in detail so as to make them compliant with the currently applicable internal regulations (including policies, procedures, and regulations) governing given areas of the Company's operations. In 2017, there were no significant changes in the management rules of the Issuer and the Enea Group.

The relationships established in the Company (including the structure of the Company's organizational structure) and the division of tasks, responsibilities and rights are formally reflected in the organizational regulations: the Organizational Regulations of the Company's Enterprise and the Regulations of the Organizational Units of Enea SA.

The organizational structure of the Company as at 31 December 2017 is presented beside.



**GENERATION**

- Electricity generation based on bituminous coal, biomass, gas, wind, water and biogas
- Heat generation
- Heat supply and distribution
- Electricity trading

**MINING**

- Bituminous coal production
- Bituminous coal sale
- Securing of raw material base for the Group



**BUSINESS  
AREAS  
OF ENEA GROUP**

**DISTRIBUTION**

- Supply of electricity
- Planning and ensuring of distribution network development
- Operation, maintenance and repairs of the distribution network
- Measurement data management

**TRADING**

Retail trading:

- Trading in electricity and fuel gas on the retail market
- Product and service offer
- Comprehensive Customer Service

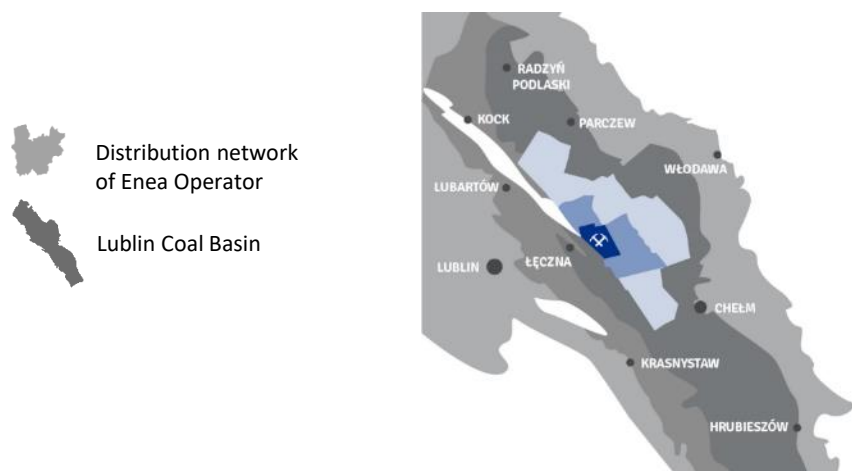
Wholesale trading :

- Optimisation of wholesale contracts portfolio for electricity and fuel gas
- Operations on product markets
- Ensuring access to wholesale markets

Mining

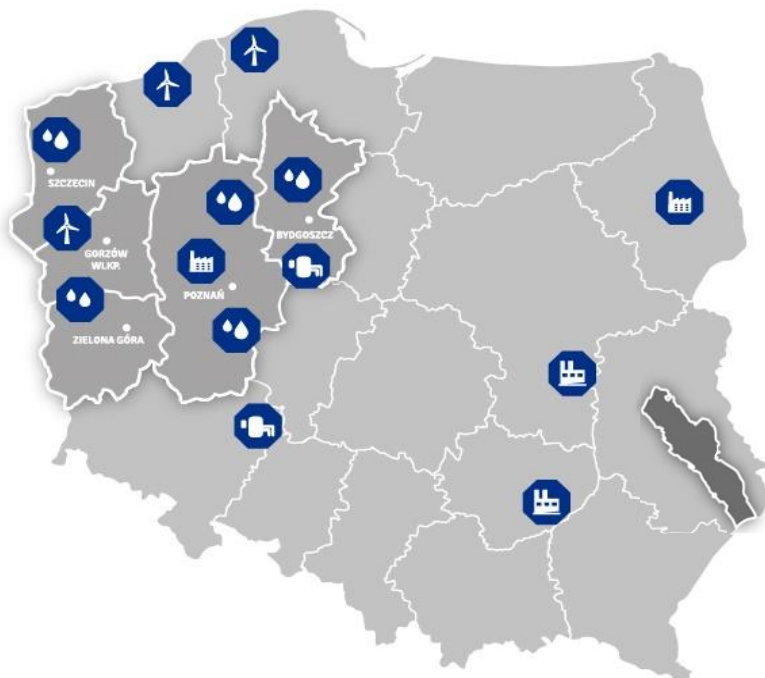


LW Bogdanka is one of the leaders on the market of producers of bituminous coal in Poland, distinguishable within the industry in terms of the generated financial results, coal extraction efficiency and investment plans providing for the access to new deposits. The bituminous coal sold by the Company is used primarily for the generation of electricity and heat and the production of cement. The Company's clients include mainly industrial companies, primarily entities operating in the power industry located in eastern and north-eastern Poland.



Description	2016	2017	Change	Q4 2016	Q4 2017	Change
Net production ['000 tonnes]	9,038	9,050	0.1%	2,356	2,338	-0.8%
Coal sale ['000 tonnes]	9,141	9,151	0.1%	2,402	2,453	2.1%
Closing stocks ['000 tonnes]	125	24	-80.8%	125	24	-80.8%
Excavation works [km]	25.5	30.7	20.4%	7.1	8.3	16.9%

Generation



- Power Plants:  
Kozienice, Połaniec
- Białystok Heat and Power Plant,  
MEC Piła, PEC Oborniki,  
Enea Ciepło Serwis, Enea Ciepło
- Wind farms:  
Bardy, Darżyno, Baczyna
- 21 hydroelectric plants
- Biogas plants:  
Gorzesław, Liszkowo
- Distribution network  
Of Enea Operator



Enea Group's generation assets

Description	Installed electrical capacity [MW <sub>e</sub> ]	Attainable electrical capacity [MW <sub>e</sub> ]	Installed heating capacity [MW <sub>t</sub> ]
Kozienice Power Plant	4,071.8	4,016.0	105.0
Połaniec Power Plant	1,837.0	1,882.0	130.0
Białystok Heat and Power Plant	203.5	156.6	383.7
Wind farms Bardy, Darżyno and Baczyna ( Lubno I, Lubno II )	70.1	70.1	-
Biogas plants Liszkowo i Gorzesław	3.8	3.8	3.1
Hydroelectric plants	60.4	57.6	-
MEC Piła	10.0	10.0	150.4
PEC Oborniki	-	-	30.4
Enea Ciepło	-	-	185.0
<b>Total</b>	<b>6,256.6</b>	<b>6,196.1</b>	<b>987.6</b>



Generation

Generation of electricity and heat

Data of Enea Wytwarzanie excluding unit No. 11 in Kozenice Power Plant

Description	2016	2017	Change	Q4 2016	Q4 2017	Change
<b>Total generation of heat (net) [GWh], including:</b>	<b>13,567</b>	<b>12,715</b>	<b>-6.3%</b>	<b>3,401</b>	<b>2,788</b>	<b>-18.0%</b>
<b>Net production from conventional sources [GWh], including:</b>	<b>13,028</b>	<b>12,273</b>	<b>-5.8%</b>	<b>3,255</b>	<b>2,636</b>	<b>-19.0%</b>
Enea Wytwarzanie (excluding biomass co-combustion)	12,727	11,865	-6.8%	3,149	2,529	-19.7%
Enea Wytwarzanie – Heat Segment (Białystok Heat and Power Plant – excluding biomass combustion)	238	341	43.3%	88	87	-1.1%
MEC Piła	63	67	6.3%	18	20	11.1%
<b>Production from renewable energy sources [GWh], including:</b>	<b>539</b>	<b>442</b>	<b>-18.0%</b>	<b>146</b>	<b>152</b>	<b>4.1%</b>
Combustion of biomass	256	69	-73.0%	55	29	-47.3%
Enea Wytwarzanie – RES Segment (hydroelectric plants)	113	173	53.1%	34	56	64.7%
Enea Wytwarzanie – RES Segment (wind farms)	160	190	18.8%	53	64	20.8%
Enea Wytwarzanie – RES Segment (biogas plants)	10	10	0.0%	4	3	-25.0%
<b>Gross generation of heat [TJ]</b>	<b>5,299</b>	<b>5,156</b>	<b>-2.7%</b>	<b>1,804</b>	<b>1,642</b>	<b>-9.0%</b>

Data of unit No. 11 in Kozenice Power Plant, currently under start-up

Description	2016	2017	Q4 2016	Q4 2017
<b>Total generation of electricity (net) [GWh], including:</b>	<b>0</b>	<b>884</b>	<b>0</b>	<b>810</b>
Net production from conventional sources [GWh]	0	884	0	810

Połaniec Power Plant

Description	2016	2017	14 March – 31 December 2017 (in Enea Group)	Q4 2016	Q4 2017
<b>Total generation of electricity (net) [GWh], including:</b>	<b>10,252</b>	<b>9,129</b>	<b>7,374</b>	<b>2,696</b>	<b>2,197</b>
Enea Elektrownia Połaniec – net production from conventional sources	8,145	7,308	5,990	2,131	1,867
Enea Elektrownia Połaniec – production from renewable energy sources (combustion of biomass – green unit)	1,528	1,292	1,045	432	262
Enea Elektrownia Połaniec – production from renewable energy sources (co-combustion of biomass)	579	529	339	133	68
<b>Gross generation of heat [TJ]</b>	<b>2,382</b>	<b>2,459</b>	<b>1,914</b>	<b>618</b>	<b>638</b>

Gross capacity

Enea Wytwarzanie

Number of unit	1	2	3	4	5	6	7	8	9	10	11
Attainable capacity [MW]	228	228	225	228	228	228	228	228	560	560	1,075

Enea Elektrownia Połaniec

Number of unit	1	2	3	4	5	6	7	GU
Attainable capacity [MW]	225	242	242	242	225	242	239	225



## Generation

### Allowances for CO<sub>2</sub> emissions

#### Enea Wytwarzanie ['000 tonnes]

Description	As at 31 December 2016 <sup>1)</sup>	As at 31 December 2017 <sup>2)</sup>	w tym blok 11
Volume of free allowance for CO <sub>2</sub> emissions (KPRU – National Allocation Plan)	3,369	2,426	0
Volume of allowances for CO <sub>2</sub> emissions purchased on the secondary market	9,003	10,237	945
<b>Total allowances for CO<sub>2</sub> emissions</b>	<b>12,372</b>	<b>12,663</b>	<b>945</b>
Emission coverage with free allowances <sup>3)</sup>	27.23%	19.16%	0.00%

#### Enea Elektrownia Połaniec ['000 tonnes]

Description	As at 31 December 2016	As at 31 December 2017
Volume of free allowances for CO <sub>2</sub> emissions (KPRU – National Allocation Plan)	2,302	337
Volume of allowances for CO <sub>2</sub> emissions purchased on the secondary market	8,159	8,225
<b>Total allowances for CO<sub>2</sub> emissions</b>	<b>10,461</b>	<b>8,562</b>
Emission coverage with free allowances <sup>3)</sup>	22.01%	3.94%

### Cost of CO<sub>2</sub> emissions

#### Enea Wytwarzanie [PLN '000]

Description	2016	2017	including unit No. 11
<b>Generation Area, including:</b>	<b>277,100</b>	<b>290,829</b>	
Enea Wytwarzanie sp. z o.o. Segment of System Power Plants (Kozienice Power Plant)	275,551	273,854	24,750
Enea Wytwarzanie sp. z o.o. Heat Segment (Białystok Heat and Power Plant)	0	15,054	-
MEC Piła	1,443	1,569	-
PEC Oborniki	-	-	-
MPEC Białystok	106	352	-

#### Enea Elektrownia Połaniec [PLN '000]

Description	2016	2017
Połaniec Power Plant	246,828	201,351

<sup>1)</sup> It constitutes the actual redemption of 2016 in 2017

<sup>2)</sup> Book recognition has been presented

<sup>3)</sup> For 2017, emission is not audited

## Generation

### Purchase of electricity on the wholesale market by Enea Wytwarzanie

In 2017, the volume of electricity purchases at Koźienice Power Station amounted to 1,920.7 GWh. The purchase of electricity was basically conducted as part of trading in electricity. The initially sold energy was bought back on the market in order to reduce generation costs (in the case of such possibilities) and to guarantee the supply of energy sold, with the loss of one's own availability of the power of generation units. The volume of this sale is 1,066 GWh in the entire 2017..

In addition, as part of the operations of the Balancing Market, energy purchases of 854.7 GWh were made. In the Heat Segment, the volume of purchases for 2017 amounted to 22.2 GWh – the purchase on the Balancing Market amounted to 19 GWh, the purchase on the market amounted to 3.2 GWh. As a rule, energy trading (sale = purchase) is carried out within the market opportunities guaranteeing achievement of the assumed financial effect and in order to limit the failure effects. The purchase of electricity as part of 2017 trading mainly concerned Koźienice Power Plant and accounted for 55% of the entire energy purchase. The purchase of electricity within the Balancing Market accounted for 45%. The purchase as part of trading in the Heat Segment resulted from measures limiting the costs of failure of generation units and the lack of available capacity vs. concluded contracts.

### Purchase of electricity on the wholesale market by Enea Elektrownia Połaniec

In 2017, the volume of electricity purchases at Enea Elektrownia Połaniec amounted to 2,284 GWh. Purchases were made for the purpose of energy trading activities in the amount of 915 GWh. Additionally, under the Balancing Market mechanisms, 1,369 GWh of energy was purchased.

### Sales of electricity by Enea Wytwarzanie

The volume of electricity sales in Enea Wytwarzanie in 2017 amounted to 15,423 GWh. The sales were carried out by individual segments depending on the statutory obligations and the concluded contracts.

### Sales of electricity as part of one's own sales at the Koźienice Power Plant

The sales of electricity as part of one's own sales at Koźienice Power Plant in 2017 amounted to 14,600 GWh. During this period, Enea Wytwarzanie was statutorily obliged to sell electricity generated on the commodity exchange (Article 49a of the Act on the Energy Law), which accounted for 16.5%. Other sales include sales within the Enea Group, 77.5% and to the Balancing Market (PSE SA), 6%.

### Sales of electricity within the Heat Segment

In the Heat Segment, the sales of electricity in 2017 amounted to 450 GWh – the sales within the Enea Group accounted for 94.3%, the sales in the Balancing Market (PSE SA) were at 3.2%, and the sales to end recipients amounted to 2.5%.

### Sales of electricity within the RES Segment

In the RES Segment, the sales of electricity in 2017 amounted to 373 GWh (outside the Enea Group – 42%, within the Enea Group – 58%).

### Sales of electricity within the Wind Area

Description	2016	2017
Fixed price['000 PLN]	26,881	31,525
Weighted average price [PLN/MWh]	167.86	165.77

### Sales of electricity within the Subsidiaries

In 2017, sales of electricity within the Subsidiaries amounted to 67 GWh.

### Sales of electricity by Enea Elektrownia Połaniec

In 2017, the volume-related electricity sales in Enea Elektrownia Połaniec amounted to 11,396 GWh, of which 1,821 GWh was energy from RES.

### Fuel supply – Enea Wytwarzanie

#### Data of Enea Wytwarzanie excluding unit No. 11 in Koźienice Power Plant

Fuel type	2016		2017	
	Volume ['000 tonnes]	Cost <sup>1)</sup> [mPLN]	Volume ['000 tonnes]	Cost <sup>1)</sup> [mPLN]
Bituminous coal	5,426	1,137	5,652	1,183
Biomass	427	79	174	24
Fuel oil (heavy) <sup>2)</sup>	8	7	8	9
Gas ['000 m <sup>3</sup> ] <sup>3)</sup>	16,198	23	16,831	19
<b>TOTAL</b>	<b>22,059</b>	<b>1,246</b>	<b>22,665</b>	<b>1,235</b>

#### Data of unit No. 11 in Koźienice Power Plant, under start-up

Fuel type	2016		2017	
	Volume ['000 tonnes]	Cost <sup>1)</sup> [mPLN]	Volume ['000 tonnes]	Cost <sup>1)</sup> [mPLN]
Bituminous coal	0	0	614	125
Fuel oil (light) <sup>2)</sup>	0	0	7	19
<b>TOTAL</b>			<b>621</b>	<b>144</b>

1) Including transport

2) Light-up fuel in Koźienice Power Plant

3) Used for the production of electricity and heat energy in MEC Piła and heat energy in PEC Oborniki

### Enea Wytwarzanie – Koźienice Power Plant

The basic fuel used to produce electricity is bituminous coal (fuel dust). In 2017, the main supplier of coal to Enea Wytwarzanie – Koźienice Power Plant was LW Bogdanka SA (around 84.3% of supplies). Additionally, coal supplies were performed by Polska Grupa Górnicza SA (approx.. 14.6% of supplies), Jastrzębska Spółka Węglowa SA (approx. 0.4% of supplies) and Węgllokoks SA (approx. 0.8% of supplies).

In 2017, biomass was not co-combusted in Koźienice Power Plant.

**Generation**

**Enea Wytwarzanie – Heat Segment**

The basic fuels used in Enea Wytwarzanie in the Heat Segment (Białystok Heat and Power Plant) include: coal and biomass – mainly as wood chips, energetic willow chips and agricultural production left-overs and sunflower husk pellet. In 2017, the volume of supplied biomass amounted to over 173 thousand tonnes, and the supplies were performed by 12 entities. They were significantly smaller than in the same periods of previous years due to e.g. a complete renovation of the turbine set on the biomass unit. Approx. 10% of biomass was delivered to the area of Enea Wytwarzanie – Heat Segment, using rail transport.

In 2017, the coal supplies to Enea Wytwarzanie – Heat Segment were performed by Polska Grupa Górnicza sp. z o.o. and LW Bogdanka SA (approx. 36%).

**Coal supply – Enea Eekrownia Połaniec**

Fuel type	2016		2017	
	Volume ['000 tonnes]	Cost <sup>1)</sup> [mPLN]	Volume ['000 tonnes]	Cost <sup>1)</sup> [mPLN]
Bituminous coal	3,543	723	3,673	730.6
Biomass	1,737	334	1,450	253.6
Fuel oil	6	8.7	7	11.4
<b>TOTAL</b>	<b>5,286</b>	<b>1,065.7</b>	<b>5,130</b>	<b>995.6</b>

1) Including transport

In 2017, the main supplier of coal to Połaniec Power Plant was LW Bogdanka SA.

**Coal transport – Enea Wytwarzanie**

**Enea Wytwarzanie – Kozienice Power Plant**

The only means of transport used to deliver bituminous coal to Kozienice Power Plant was rail transport.

PKP Cargo SA shipper performed approx. 90% of supplies and CD Cargo Poland sp. z o.o. (formerly: Koleje Czeskie sp. z o.o.) approx. 10% of supplies.

**Enea Wytwarzanie – Heat Segment**

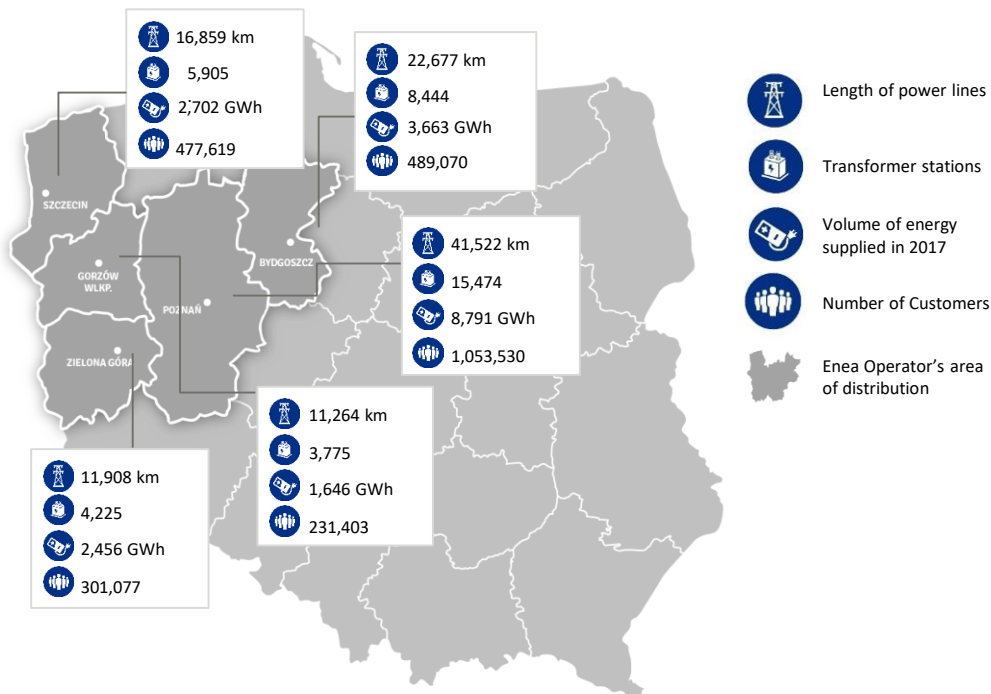
Coal supplies to Enea Wytwarzanie – Heat Segment in 2017 were performed with rail transport by PKP Cargo SA. Prices of fuels included the cost of delivery to Białystok Heat and Power Plant generating source.

**Coal transport – Enea Elektrownia Połaniec**

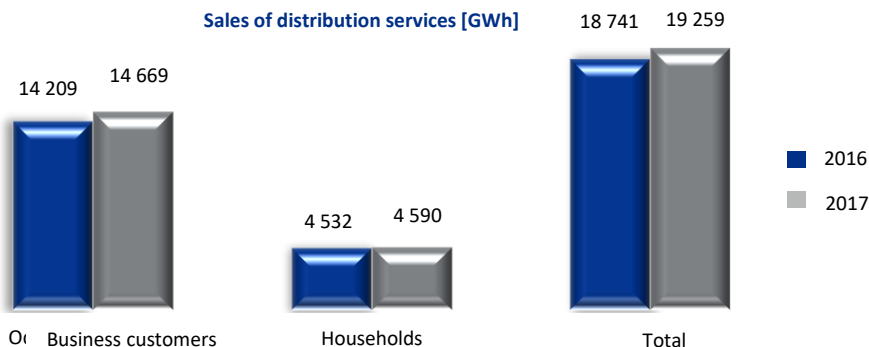
In 2017, coal transport in Enea Elektrownia Połaniec was performed mainly by PKP Cargo SA and CTL Logistics sp. z o.o. Some supplies were performed by EPCT Silesia, PGG and JSW.



Distribution



Sales of distribution services [GWh]



<b>104.23</b> Length of power lines [‘000 km]	<b>37.82</b> Number of transformer stations [‘000]	<b>840.05</b> Number of connections [‘000]	<b>18.14</b> Length of power lines [‘000 km]
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Technical indicators

Description:	2016 <sup>1</sup>	2017	Change	Q4 2016	Q4 2017	Change
SAIDI planned interruptions and unplanned interruptions, including catastrophic ones (HV, MV) [min]	241.76	618.71	155.92 %	46.35	312.18	573.53%
SAIFI planned interruptions and unplanned interruptions, including catastrophic ones (HV, MV) [pcs.]	3.72	4.31	15.86 %	0.82	1.55	89.02%

In 2017, in the operation area of Enea Operator several extensive failures of the power network took place. They were caused by extremely unfavourable weather conditions. These events resulted in a significant deterioration of reliability of electricity supply (SAIDI and SAIFI) in relation to 2016. Taking into account 2017, despite ensuring proper exploitation of the network assets, it was not possible to avoid failures caused by extremely unfavourable weather conditions and other emergency situations. There is a risk that similar situations will occur in subsequent years.

Description:	2016 <sup>1</sup>	2017	Change
Contracts performed in the reference term of 18 months - group IV [%]	88.90	98.04	9.14 pp
Contracts performed in the reference term of 18 months - group V [%]	95.98	98.27	2.29 pp

Other technical indicators

Description:	2016	2017	Change
Grid distribution losses index [%]	6.28	5.83	-0.45 p.p

The grid distribution losses ratio depends on seasonal fluctuations occurring during the year. For this reason, it is presented in a moving perspective - in the last 12 months.

Sales of distribution services

Description:	2016	2017	Change	Q4 2016	Q4 2017	Change
Sales of distribution services[GWh]	18,741	19,259	2.8 %	4,817	4,937	2.5 %
Number of recipients at the end of the period [pcs.]	2,520,175	2,552,699	1.3 %	2,520,175	2,552,699	1.3 %

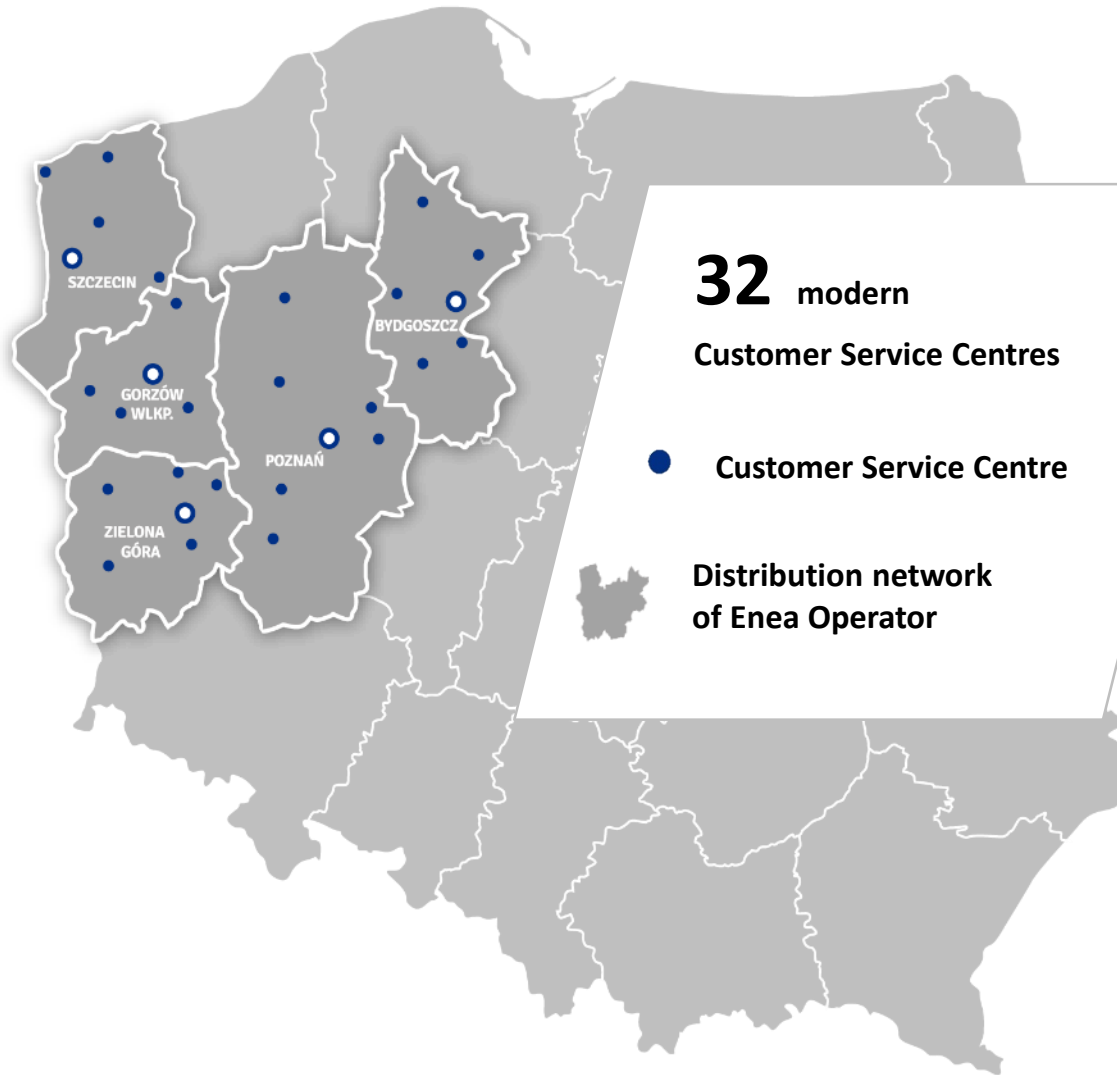
<sup>1</sup>) The change in the SAIDI and SAIFI indices presented in the reporting documents for 2016 results from the verification by the President of the Energy Regulatory Office of the algorithm for aggregation of interruptions in the power supply to SN/nn substations located in the IT tool for calculating reliability indices in Enea Operator Sp. z o. o.

WRA

Description:	2016	2017	2018
WRA [‘000 PLN]	7,252,486	7,519,498	7,984,121



Trading

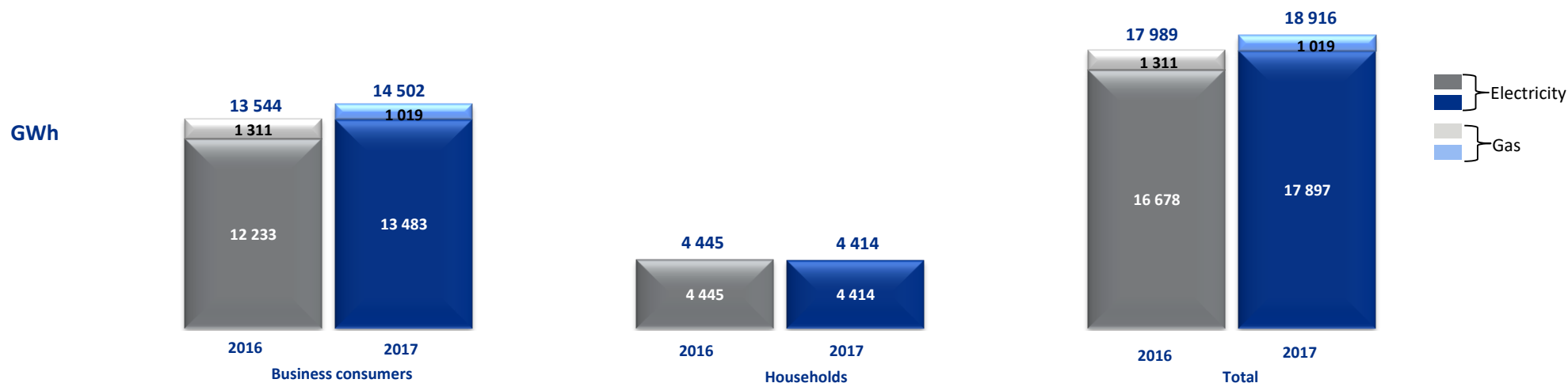


Trading

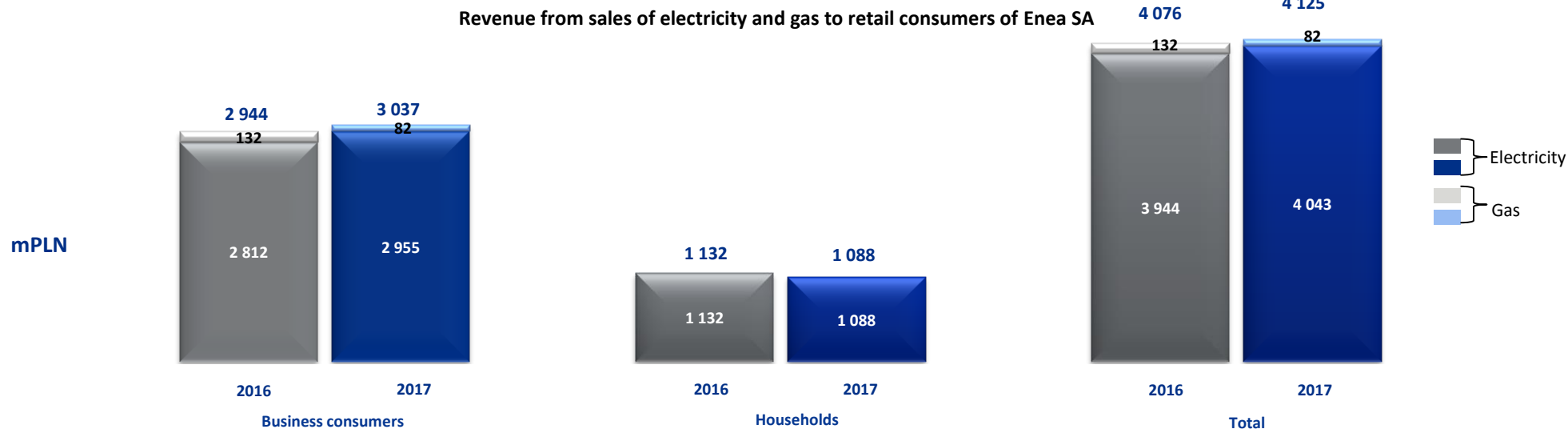
Sales of electricity and gas to retail customers realised by Enea SA

In 2017, compared to 2016, the total sales volume increased significantly by 927 GWh, i.e. by over 5%. The increase in sales volume was generated from the sale of electricity to business customers - an increase of 1,250 GWh, i.e. by over 10%. The volume of electricity sold in the household segment remained at a similar level as compared to the previous year (99.3% dynamics). On the other hand, the volume of gas sales decreased. In 2017, total sales revenue increased by nearly PLN 50 million. It resulted from a 3% increase in sales revenues to business customers, i.e. PLN 93 million. Revenues from sales to household customers decreased as a result of the adjustment of regulated tariff prices.

Sales of electricity and gas to retail customers of Enea SA



Revenue from sales of electricity and gas to retail consumers of Enea SA



Enea Group’s Development Strategy until 2030

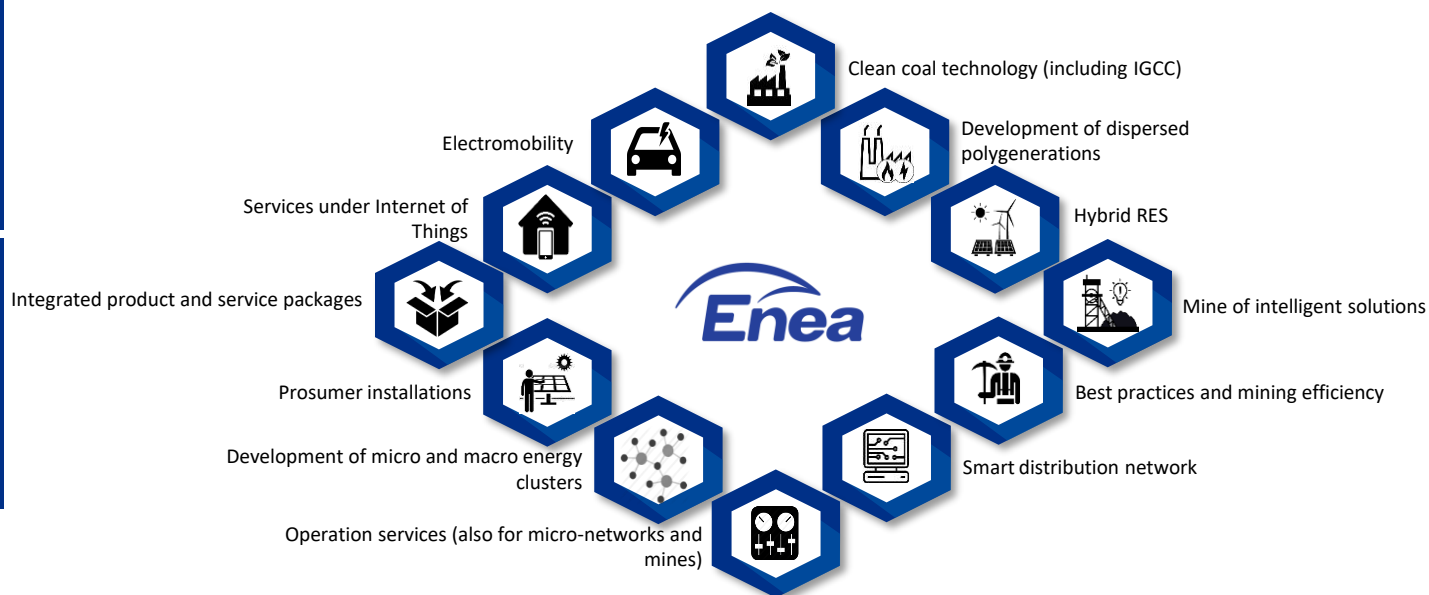
Mission

Enea supplies constantly improved products and services, anticipating expectations of the Customers thanks to motivated teams working in a friendly, safe and innovative organisation.

Vision

Enea is a leading supplier of integrated raw material and energy products and services and of other innovative services for a wide range of Customers, and it is valued for its quality, comprehensiveness, and reliability.

Enea has defined 60 strategic initiatives, of which over 50% are of innovative nature. The implementation of potential-enhancing initiatives will support e.g. the development of innovative products, services and business lines of Enea Group.



Basic investment fund in the amount of PLN 26.4bn

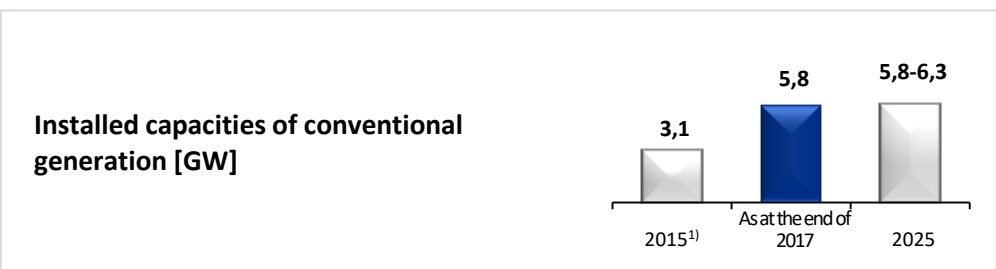
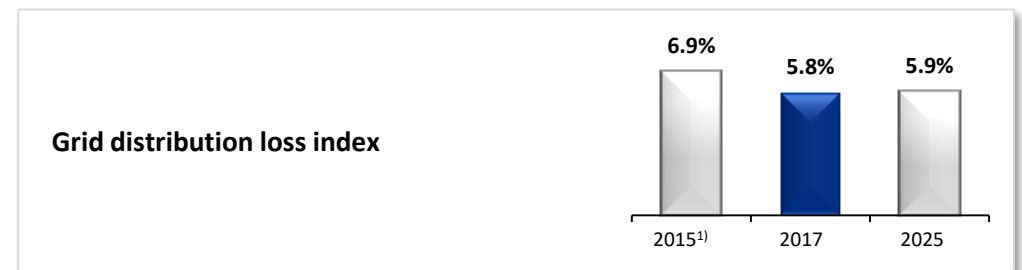
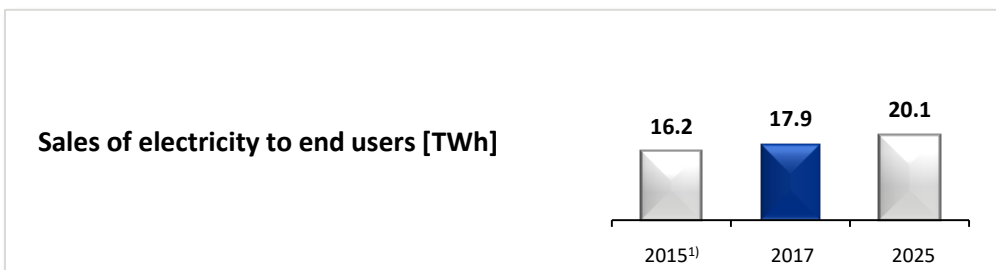
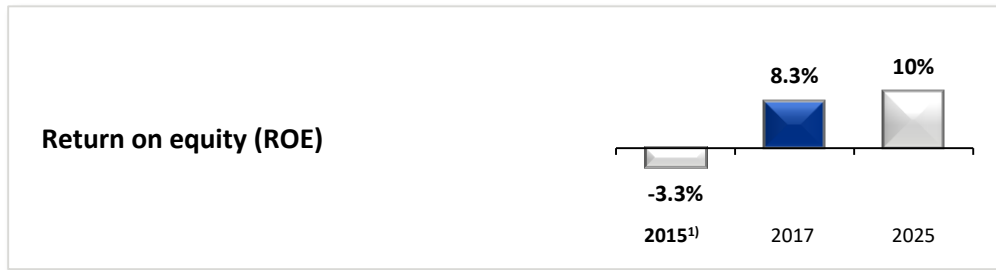
Estimated capital expenditures of Enea Group in the years 2016-2030 [mPLN, current prices]

Area	2016-2025	2026-2030
Mining	3,712	2,080
Distribution	9,501	5,193
Generation	4,808	504
Other	403	153
<b>Total basic investment fund of Enea Group</b>	<b>18,424</b>	<b>7,930</b>
CAPEX potential <sup>1)</sup>	6,176	5,320
Increasing the investment potential <sup>2)</sup>	3,200	2,500
<b>Enea Group Total</b>	<b>27,800</b>	<b>15,750</b>

<sup>1)</sup> CAPEX potential maintaining the net/EBITDA ratio on a safe level

<sup>2)</sup> Increasing the investment potential by PLN 5.7bn as a result of the implementation of innovative strategic initiatives (growth in EBITDA)

Enea Group's Development Strategy until 2030 – status of implementation



<sup>1)</sup> Reference year

<sup>2)</sup> Higher ratios as a result of weather phenomena of an unprecedented strength

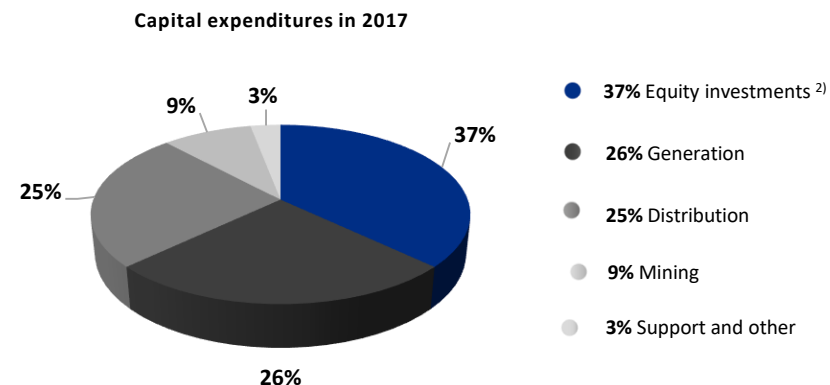
## IMPLEMENTED MEASURES AND INVESTMENTS

### Capital expenditures in 2017

Capital expenditure [mPLN]	2016	2017	Status of Plan Implementation	2018 Plan
Generation	1,390.2	1,094.7	89.2%	596.0
Distribution	920.4	1,022.3	105.3%	966.6
Mining	307.7	373.4 <sup>1)</sup>	96.8%	496.0
Support and other	118.7	139.7	81.0%	360.8
<b>TOTAL Plan implementation</b>	<b>2,737.0</b>	<b>2,630.1</b>	<b>95.5%</b>	<b>2,419.4</b>
Equity investments <sup>2)</sup>	5.0	1,556.8	-	-
<b>TOTAL Enea Group's expenditures</b>	<b>2,742.0</b>	<b>4,186.9</b>	-	-

1) The amount excludes PLN 0.4m expenditures incurred in Q1-Q3 2017 by subsidiaries of LW Bogdanka SA

2) Not included in Enea Group's material and financial plan



### Investments implemented in 2017



- Obtaining new licences:
- Application for new mining licences in Ostrów and K-6 and K-7 areas
- Maintaining the machinery - purchase and assembly of machines and equipment and periodic repairs, purchase and assembly of a belt-conveyor and other ready equipment
- Other development and replacement investments:
  - execution of 30.7 km of new excavations
  - extension of the plant for mining waste neutralisation
  - replacement investments in Zakład Przeróbki Mechanicznej Węgla, i.a. upgrades of steel structures and stone loading station
  - tower crane installation

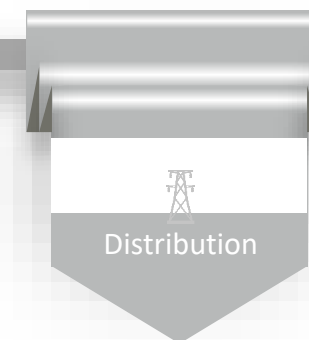


#### Enea Wytwarzanie:

- commissioning of the power unit with supercritical parameters fuelled with bituminous coal with the capacity of 1,075 MW<sub>e</sub>
- launching unit No. 3 after an upgrade
- launching unit No. 8 after an upgrade
- commissioning of SCR installation for units No. 4-8
- continued development of the SCR installation along with modernization of electrostatic dust precipitators for units No. 9 and 10 as part of the programme involving the modernization of 2 x 500 MW units

#### Enea Elektrownia Połaniec:

- Execution of connection between the SCR installation and boiler for units No. 2, 3 and 7



- Completion of a series of high and medium voltage investments related to the expansion, automation and modernization of stations and power grids:
  - redevelopment of main power supply stations: GPZ Pakość, GPZ Kostrzyn, GPZ Jachcice
  - construction of the overhead HV line Nowogród Bobrzański - Żary Zakładowa,,
  - redevelopment of overhead HV lines: Górzycza - Słubice, Zielomyśl - Międzyzród, Zielomyśl - Międzyrzecz, Glinki - Żelechowo, Dąbie - Morzyczyn, Krzęcin - Dolice, Śmigiel - Leszno Gronowo, Żukowice - Bytom Odrzański
- Improvement of connection processes and reduction of the negative impact of used electrical power equipment on the environment
- Development of IT tools supporting network management

## Investments planned for 2018 within the currently held assets

### Mining

<b>Development investments</b>	<p>Obtaining new licences:</p> <ul style="list-style-type: none"> <li>Continuation of the application process for obtaining licences in K-6, K-7 and Orzechów areas</li> </ul> <p>Maintaining the machinery:</p> <ul style="list-style-type: none"> <li>purchase and assembly of new machines and equipment</li> <li>upgrade and renovations of machines and equipment</li> </ul>
<b>Operating investments</b>	<p>New excavations and upgrade of existing ones:</p> <ul style="list-style-type: none"> <li>execution of excavations, mainly wall roadways, face lines and other technological and access excavations, enabling exploitation of walls</li> <li>upgrades of mining excavations</li> </ul>
<b>Other investments</b>	<p>Other development and replacement investments:</p> <ul style="list-style-type: none"> <li>extension of the plant for mining waste neutralisation in Bogdanka</li> <li>continuation of works related to the "Production management integrated system" and "Smart solutions mine" project</li> </ul>

### Generation

<b>Enea Wytwarzanie</b>	<b>New</b>	<ul style="list-style-type: none"> <li>Upgrade of unit No. 9</li> <li>Upgrade of unit No. 6</li> </ul>
	<b>Continued</b>	<ul style="list-style-type: none"> <li>Upgrade of unit No. 10</li> <li>Construction of the SCR installation for units No. 9-10 (completion in 2019)</li> <li>Upgrade of the slag and ash depot</li> </ul>
	<b>Segment of Heat</b>	<ul style="list-style-type: none"> <li>Construction of the FGD installation on K7 and K8 boilers (completion in 2017)</li> </ul>
	<b>Segment of RES</b>	<ul style="list-style-type: none"> <li>Searching for bargain investment and acquisition projects</li> </ul>
<b>Enea Elektrownia Połaniec</b>		<ul style="list-style-type: none"> <li>Construction of the SCR installation for unit No. 4 (completion in 2018)</li> <li>Phoenix project for unit No. 5 (completion in 2020)</li> </ul>

### Distribution

<b>New</b>	<p>Selected new tasks:</p> <ul style="list-style-type: none"> <li>Innovative system services for energy storage increasing the quality and efficiency of electricity use</li> <li>Implementation of EMS and DOL systems</li> <li>Development of GPZ Poznań Główna main power supply station</li> <li>Development of GPZ Suchy Las main power supply station</li> <li>Development of GPZ Kisielin main power supply station</li> <li>Development of GPZ Skwierzyna II main power supply station</li> <li>Redevelopment of GPZ Fordon main power supply station along with the development of the station's duplex power supply</li> <li>Redevelopment of GPZ Chodzież main power supply station</li> <li>Redevelopment of GPZ Oborniki main power supply station</li> <li>Redevelopment of GPZ Dąbie main power supply station</li> <li>Redevelopment of GPZ Zdroje main power supply station</li> <li>Development of 110 kV power cable line Dąbie – Zdroje</li> <li>Development of 110 kV power cable line Bydgoszcz Śródmieście – Bydgoszcz Północ</li> <li>Redevelopment of 110 kV power line Kościan – Śmigiel</li> </ul>
<b>Continued</b>	<p>Selected continued tasks:</p> <ul style="list-style-type: none"> <li>Implementation of high and medium voltage investments related to expansion, automation and modernization of stations and power grids aimed at improving the reliability of network operation</li> <li>Implementation of the Network Information System project</li> <li>Redevelopment of 110 kV power line Morzyczyn - Drawski Młyn</li> <li>Redevelopment of 110 kV power line Gryfino - Żydowce</li> <li>Development of GPZ Choszczno II and GPZ Recz main power supply stations</li> <li>Development of GPZ Garbary main power supply station and development of 110 kV power line: Garbary-Cytadela, Garbary-EC Karolin</li> <li>Development of Garaszewo switching station and development of 110 kV power line: Kromolice - Nagradowice, Kromolice - Gądkki, Kromolice - Swarzędz</li> <li>Development of 110 kV power line Piła Krzewina - Miasteczko Krajeńskie and redevelopment of GPZ Miasteczko Krajeńskie main power supply station</li> <li>Redevelopment of GPZ Wronki main power supply station</li> <li>Redevelopment of GPZ Piła Południe main power supply station</li> <li>Redevelopment of GPZ Żary main power supply station</li> </ul>

## Status of works on key investment projects

Investment	Project status	CAPEX 2017 [mPLN]	Total CAPEX [mPLN]	Work progress [%]	Anticipated date of completion
Construction of a 1,075 MW power unit No. 11	On 19 December 2017, the power unit with supercritical parameters fuelled with hard coal with the capacity of 1.075 MW was put into operation.	627.4	5,744.6	100%	2017
FGD IV installation	The following installations were commissioned: main unit of FGD IV, flue gas channels, auxiliary ventilators, chimney No.3, FGD IV power supply. All the devices and installations operate according to the technical parameters included in the agreements. What is still to be executed is the scope relating to the COD "chemical oxygen demand" in treated waste-water from FGD IV installation.	0	288.3	99%	2017
Upgrade of unit No. 3	On 28 March 2017, unit No.3 was commissioned.	10.6	10.6	100%	2017
Upgrade of unit No. 8	On 6 March 2017, unit No.8 was handed over for upgrade. Unit outage ended on 21 July 2017.	14.1	14.1	100%	2017
Upgrade of unit No. 9 as a part of 2 x 500 MW units upgrade programme	In 2018, the upgrade of unit No.9 is planned. Agreement for the turbine and boiler parts was concluded.	2.5	85.1	3%	2018
Upgrade of cooling water intake -stabilising check dam on the Vistula River	The project is at the stage of preparation for realisation. The environmental decision is pending.	0.5	33.0	2%	2017
Construction of the SCR installation and upgrade of electrostatic precipitators for AP - 1650 boilers of units No. 9 and 10 as a part of the 2 x 500 MW units upgrade programme	On 30 September 2016, an agreement was signed with Rafako for the performance of the SCR installation the with upgrade of electrostatic precipitators for AP - 1650 of units No. 9 and 10. An agreement was concluded for the Contract Engineer services. The installation of unit No. 10 is in progress.	95.0	314.2	20%	2019
Construction of the SCR installation for units No. 4-8	The construction of the SCR installation on units No. 4, 5, 6 and 7 as well as the common part for the SCR installation for units No. 4-8 was completed. On 15 September 2017, the SCR for unit No. 8 was put into operation. On 20 December 2017 the final commissioning of unit no. 8 took place.	35.2	203.7	100%	2017
Construction of the FGD installation on K7 and K8 boilers	An agreement was concluded with the NFOŚiGW for the co-financing of the investment as a loan. On 2 February 2016, the Contract Engineer was appointed. On 28 April 2016, the building permit for the FDG K7 and K8 became final and binding. On 29 September 2017, the installation was put into operation. After modifications and optimisation, repeated guarantee measurements were carried out, which confirmed that the installation fulfils its function and achieves the assumed technical and environmental parameters. On 15 March 2018, the Contractor reported the completion of the Agreement with a further extension of work on optimisation of the remaining guaranteed parameters by 30 September 2018.	44.9	105.5	99%	2018
Upgrade of unit No. 10 as a part of 2 x 500 MW units upgrade programme	On 21 July 2017, the unit was handed over for upgrade. The upgrade is scheduled to be completed on 4 April 2018	85.6	93.8	91%	2018
CRS installation – units No. 2, 3 and 7	Completion of connecting the external part on units No.2, 3 and 7. System regulation on units No. 2 and 3	14.5	157.5	96%	2018
Non-financial statement installations – unit No. 4	Execution works are in progress of the external part of the SCR installation on unit No. 4	9.2	34.4	70%	2018
Phoenix project in unit No. 5	Obtained approval of the Management Board of ENEA S. A. for execution of the investment project	0	127.4	1%	2020

Enea  
Wytwarzanie

Enea  
Elektrownia  
Polaniec

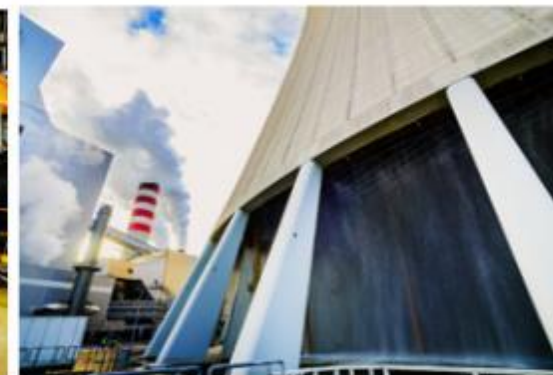
In 2017, Enea Group commissioned the most modern power unit in Poland and Europe

### A new 1,075 MWe unit in Kozenice Power Plant

- The largest power unit fired with bituminous coal in Europe
- Entirely independent entity with its own infrastructure
- The new unit means a 1/3 increase in the capacity of Kozenice Power Plant
- Unit No. 11 will allow to eliminate energy deficits on the market
- High efficiency of energy generation
- High availability and low failure rate of the new unit
- The unit meets the requirements of environmental protection regulations

### Works completed in 2017

- First steam feeding to the turbine
- Start-up of the whole power plant
- Synchronisation with the grid
- Commissioning of the unit
- Connecting 400 kV voltage
- Launching of the start-up boiler house
- Rinsing – etching of the boiler
- First coal feeding to the boiler





## Measures implemented in 2017

Retail Trade Area

- Implementing the sales support IT system (SSS) which supports purchase and sales portfolio forecasting and managing
- Implementing "ENERGY + Family" product
- Implementing ENEA Smart product line in the scope of packages: safety, protection, savings
- Developing the loyalty programme for Clients (Purchase Zone)
- Optimising the partnership model of sales
- Optimising full lighting service sale
- Conducting an education and information campaign warning about unfair energy sellers
- Promotional activities in the scope of product offer, e-Customer Service Centre, purchase zone (e.g. "You win with Enea", "Month of free energy")
- Conducting client satisfaction and service quality survey
- "New Impulses 2017" awarded for the successful implementation of Energia Plus idea – the new model of client relations and market operation

Client Service Area

- Increased customer satisfaction with the service through remote contact channels and a decrease in the unit costs of customer service conducted by the Contact Centre Division, generated, among other things, thanks to the implementation of a modern and secure Contact Centre platform based on the latest IT solutions that provides new functionalities and channels of contact with customers (website chat, customer satisfaction survey, soft debt recovery, welcome phone call, etc.)
- Customer Service Outlets have gained a modern look and respond to contemporary needs of customers. Thanks to the upgrade, regardless of location, customers enjoy the same level of service and contact with the Enea brand, and employees have gained a comfortable workplace. As part of the project, 21 Customer Service Outlets have been redeveloped and had a new queue-management system implemented as a result of which the service is provided in a faster and more efficient way. Customers also have the opportunity to charge their phones and use WIFI, which allows them to stay in constant contact with the virtual world. The launched surveillance and anti-robbery system has allowed customer service staff to enjoy the increased comfort of service and sense of security.
- In order to guarantee the continuity of the hotline service, a new location of the Contact Centre in Szczecin was opened with 60 consultant positions. Thanks to independence from third-party contractors, the level of data security and the quality of our clients' service has increased.
- The effectiveness of customer service has improved through the automation of service processes realized in electronic channels of contact with the customer, for instance through modernization and simplification of service pages of the www.enea.pl website and promoting the use of e-invoices
- By providing coherent and friendly communication with customers and the business environment and paying particular attention to the comfort of customer service employees, as part of the Simple Customer Service initiative, written correspondence standards and new templates of letters written in simple Polish have been implemented.
- In order to minimize the risk related to the incorrectness and incompleteness of customer settlements which in the case of ineffective control may translate into a loss of revenue, measures, the so-called Revenue Assurance, have been implemented to secure these processes thanks to which a significant improvement in results in the area of customer settlements has been noted

Wholesale Trade Area

- Integration of the business of Enea Elektrownia Połaniec in the Enea Group structures. Implementation of Enea Group's wholesale portfolio management standards in the area of electricity, CO2 emission allowances and property rights using the synergy stemming from the acquisition of a new source
- Taking into account the increase in installed capacity in the generation potential of Enea Wytwarzanie (B11)
- Active participation in impact analyses of the power market implementation as part of industry consultations
- Optimization of fuel (coal, biomass, fuel oil) deliveries using the Enea Capital Resources, taking into account geographical location in the field of transport services
- Agreement on the conditions of 2018 coal supplies for the demand of Enea Wytwarzanie and Enea Elektrownia Połaniec provided for in forward contracts
- Commenced cooperation with PGG and JSW in the area of management of sludges and flocculants
- Development of analytical models of long-term price paths for products listed on wholesale markets, taking into account the fundamental model for hard coal
- Expansion of the product range with specialized services for the RES segment for installations with installed capacities of 500kW and above after the obliged seller ceases to be obliged to purchase electricity, i.e. from 1 January 2018
- Developing regulatory support for Enea Group companies with regard to the wholesale market

## Measures to be implemented in 2018



- Developing ENEA Smart offer/product line
- Pilot implementation of ENEA ECO product (for clients in the power tariff groups ODS - G12as) and adding new products to the product line
- Implementing the new product of specialist technical services for individual client segment
- Implementing services in the field of metering information management and consumption optimisation
- Developing the DUAL FUEL offer and implementing new gas billing system
- Further development of the Purchase Zone client loyalty programme
- Adjusting sales processes and procedures to RODO requirements



- Completion of the visual upgrade project for all 32 Customer Service Centres
- By using the 2017 implementations and maximizing profits in the area of customer service, the development of remote customer service channels is planned by introducing a range of facilities, such as: new contact channels, the IVR self-service, the use of social media and the launch of new functionalities at the Electronic Customer Service Office and on the www.enea.pl website
- Undertaking activities aimed at building lasting relationships with customers and adapting contact channels to the customer preferences (Omnichannel), for instance by launching the Business Hotline and implementing the CRM platform
- To extend the portfolio of services for retail customers, a billing system will be implemented to support contracts and settle gas fuel sales;
- Introduction of automated service processes, using, among other things, Robotic process automation, which will translate into the timely implementation of key indicators as part of ongoing processes
- Implementation of the Central Customer Database in order to provide comprehensive, uniform information about clients and to implement the guidelines imposed by the new General Data Protection Regulation becoming effective in May 2018



- Changing the approach to valuing portfolio management activities on the wholesale market
- Execution of an interdisciplinary power market implementation project aimed at maximizing financial revenue and optimizing the cost management approach with regard to repairs and investments for generating units for the Enea Group
- Optimization and search for further synergies in the energy product portfolio management using the potential of the Enea Group and wholesale markets
- Development of tools supporting distributed generation as a result of changes in the support mechanism for renewable sources effective after 1 January 2018.
- Agreement on the conditions of 2019 coal supplies for the demand of Enea Wytwarzanie and Enea Elektrownia Połaniec provided for in forward contracts
- Optimization of fuel logistics
- Performing analytical and conceptual work for the purpose of changing the coal purchase model in order to use low-caloric coals in the process of mixing sludges and flotoconcentrates
- Development of tools and analytical database enabling effective prop-trading activities in the area of short-term cross-border operations in order to get prepared for the Community energy market

**Agreements of significance to Enea Group's operations**

In 2017, Enea Group companies did not conclude any significant agreements, i.e. agreements with the value exceeding 10% of Enea's equity; however, during the reporting period an annex was concluded to the Multiannual Agreement for supplies of fuel coal between Enea Wytwarzanie and LW Bogdanka. Pursuant to the annex, the volume of coal supplies to Kozenice Power Plant in 2017-2036 has been increased, whereby the value of the said Agreement rose by approx. 2.7 bnPLN.

**Execution of significant agreements**

Date of conclusion	Parties to the Agreement	Description
21 September 2012	Enea Wytwarzanie sp. z o.o. Hitachi Power Europe GmbH i Polimex-Mostostal SA	Agreement on the construction of a new power unit in Enea Wytwarzanie sp. z o.o. - the investment was completed in December 2017
23 July 2015	Enea SA PKO BP SA, Bank Pekao SA, Bank Zachodni WBK SA, Bank Handlowy w Warszawie SA	Annex to the Programme Agreement of 21 June 2012 amending the terms of financing in the amount up to PLN 3bn
3 December 2015	Enea SA Bank Gospodarstwa Krajowego	Programme Agreement in the amount up to PLN 700m with allocation to financing investment needs
30 September 2016	Enea Wytwarzanie sp. z o.o Rafako SA	Supply and assembly of the SCR installation for AP-1650 boilers No. 9 and 10, including the upgrade of electrostatic precipitators
28 June 2011	Enea Wytwarzanie sp. z o.o Rafako SA	Supply and assembly of the SCR installation for OP-650 boilers No. 4-8
29 May 2015	Enea SA Europejski Bank Inwestycyjny	Financial agreement in the amount up to PLN 946m

**Agreements on coal supplies and transportation**
**Agreements concluded by Enea Wytwarzanie sp. z o.o.**

Date of conclusion	Strona umowy	Opis
4 March 2010		Multiannual Agreement No. UW/LW/01/2010 – specifies the general terms for coal supplies in 2010 – 2017 - completed
15 December 2016	LW Bogdanka SA	Annual Agreement for supplies of fuel coal in 2017 – Appendix No. 8 to Agreement UW/LW/01/2010 - completed
23 January 2012		Multiannual Agreement No. UW/LW/01/2012 – specifies the general terms for coal supplies in 2017-2036
15 December 2016		Annual Agreement for supplies of fuel coal in 2017 – Appendix No. 2 to Agreement UW/LW/01/2012UW/LW/01/2010 - completed
17 November 2017	Węglkokoks SA	Coal sale agreement No. 14164/2017
3 December 2014	Katowicki Holding Węglowy SA	Multiannual Agreement – specifies the general terms for coal supplies in 2015 – 2017 - completed
20 September 2016		Annual Agreement for supplies of fuel coal in - completed
31 March 2015	Jastrzębska Spółka Węglowa SA	Coal supply agreement – specifies the terms for coal supplies in 2015 – 2017 - completed
28 April 2017	Polska Grupa Górnicza SA	Agreement No. 61/PGG/2017 - completed
28 April 2017		Agreement No. 64/PGG/2017 - completed
23 May 2017	PKP Cargo SA	Agreement for performance of fuel coal transportation services for Enea Wytwarzanie from LW Bogdanka SA in the period between 11 June 2017 and 10 August 2018 (or until the exhaustion of the volume of 5,300,000 t)
25 May 2017	CD Cargo Poland Sp. z o.o. (former name of Koleje Czeskie sp. z o.o.)	Agreement for performance of fuel coal transportation services for Enea Wytwarzanie from the mines of Polska Grupa Górnicza sp. z o.o. , Jastrzębska Spółka Węglowa SA, Spółka Restrukturyzacji Kopalń S.A., Węglkokoks Kraj Sp. z o.o. and PG Silesia Sp. z o.o. in the period from 11 June 2017 do 10 August 2018 (or until the exhaustion of the volume of 700,000 t)

### Agreements of significance to Enea Group's operations

#### Agreement concluded by Enea Elektrownia Połaniec S.A.

Date of conclusion	Party to the agreement	Description
12 July 2012	LW Bogdanka SA	Multiannual Agreement – specifies the terms of coal supplies in 2013 – 2021
24 August 2016	Katowicki Holding Węglowy (presently: PGG)	Agreement for supplies of fuel coal in 2016/2017
24 August 2016	Polska Grupa Górnicza (PGG)	Annual Agreement for supplies of fuel coal in 2017
21 January 2017	Polska Grupa Górnicza (PGG)	Annual Agreement for supplies of fuel coal in 2017
9 August 2017	Polska Grupa Górnicza (PGG)	Annual Agreement for supplies of fuel coal in 2017
18 July 2017	Polska Grupa Górnicza (PGG)	Annual Agreement for supplies of fuel coal in 2017
25 August 2017	Polska Grupa Górnicza (PGG)	Annual Agreement for supplies of fuel coal in 2017
24 August 2016	Przedsiębiorstwo Górnicze SILESIA	Agreement for supplies of fuel coal in 2016/2017
20 April 2016	Jastrzębska Spółka Węglowa SA	Annual Agreement for supplies of fuel coal in 2017
21 January 2013	PKP Cargo SA	Multiannual Agreement – specifies the terms of coal transportation in 2013 – 2017
20 December 2012	CTL Logistics Sp. z o.o.	Multiannual Agreement – specifies the terms of coal transportation in 2013 – 2017
31 January 2017	Mitsubishi Hitachi Power Systems Europe GmbH	Supply of 4 catalysers for Non-financial statement

#### Agreements concluded between LW Bogdanka S.A. and entities from outside Enea Group

Date of conclusion	Party to the agreement	Description
8 January 2009	Zakłady Azotowe Puławy SA	Multiannual Agreement – specifies the terms of coal supplies in 2010 – 2022
14 December 2010	Energa Elektrownie Ostrołęka SA	Multiannual Agreement – specifies the terms of coal supplies in 2011 – 2022

### Insurance agreements

Insurance agreements at Enea Group are contracted pursuant to the corporate Insurance Policy. With the single Policy, insurance standards within the Group have been made uniform and the insurance protection procurement has been consolidated for selected insurance segments, which has provided measurable benefits both in terms of insurance and in terms of insurance cost.

The member companies of Enea Group are members of Towarzystwo Ubezpieczeń Wzajemnych Polskiego Zakładu Ubezpieczeń Wzajemnych Mutual Insurance Company and transfer the risk of loss resulting from property damage or third party claims by signing insurance agreements. The measures taken in this area enable to achieve measurable financial and organisational benefits.

Due to the significant exposure of member companies of Enea Group to damage and potential claims, it cannot be excluded that the current insurance agreements will prove insufficient. The insurance protection level does not deviate from the standards applied in Polish power industry and is adjusted to the specific activity of each of the companies.

### Collaboration and cooperation agreements

#### Establishing ElectroMobility Poland SA

On 19 October 2016, PGE Polska Grupa Energetyczna, Energa, Enea and Tauron Polska Energia established ElectroMobility Poland SA. The purpose of activity of the new company is to contribute to the creation of the electromobility system in Poland. The new company has a share capital of 10 mPLN. Each of the companies setting up ElectroMobility Poland took up 25% of its share capital, thus obtaining 25% votes at the general meeting of shareholders.

#### Letter of Intent on cooperation on R&D project

By virtue of the letter of intent of 2014 between Enea, PGE Polska Grupa Energetyczna, Energa, and Tauron Polska Energia, its signatories continued in 2016 the activities under the leadership of Polish Electricity Association (PEA) with a view to establishing the Power Sector Research Programme (PSRP) at the National Centre for Research and Development (NCBiR). The first competition for financing R&D projects under PSRP was announced on 30 September 2016. Enea Operator together with the University of Zielona Góra took part in the competition and won the co-funding for implementation of the project entitled "Innovative power storage systemic services increasing the quality and efficiency of electricity use" in May 2017.

### Dependence on suppliers or recipients

The only means of transport used for bituminous coal deliveries to Enea Elektrownia Połaniec was rail transport. In 2017, coal transport at Enea Elektrownia Połaniec was provided mainly by PKP Cargo SA and CTL Logistics sp. z o.o. Some deliveries were performed by EPCT Silesia, PGG and JSW under CPT formula.

The only means of transport used for bituminous coal deliveries to Enea Wytwarzanie in Świerże Górne in 2017 was rail transport.

The carrier, PKP Cargo, implemented 90% of deliveries, whereas CD Cargo Poland Sp. z o.o. (formerly: Koleje Czeskie Sp. z o.o.) approx. 10% of deliveries.

### Agreements signed between the Parent's shareholders

The Company does not know of any agreements concluded between Enea SA shareholders.

### Other significant agreements and transactions

#### Acquisition of shares in ENGIE Energia Polska S.A. (presently: Enea Elektrownia Połaniec S.A.)

On 30 September 2016, Enea S.A. made an offer to purchase 100% of shares in ENGIE Energia Polska SA (EEP, presently: Enea Elektrownia Połaniec S.A.). The offer was made in the manner set out in the process initiated by ENGIE, the holder of 100% of shares in EEP. On 2 December 2016, the Company acquired the exclusive right to conduct further negotiations regarding the purchase of 100% of shares in EEP. On 23 December 2016, the Company and ENGIE International Holdings B.V. signed the conditional agreement of sale of 100% of shares in EEP and of indirect sale of 100% of shares in ENGIE Bioenergia Sp. z o.o.

The transaction closing was dependent on the fulfilment of the following essential conditions precedent:

- obtaining the consent from the Minister of Energy pursuant to the Act on control of certain investment projects
- obtaining the consent from the Office of Competition and Consumer Protection (OCCP) President for the concentration
- waiver of the priority right of purchase by the President of the Agricultural Real Property Agency
- conversion of EEP's debt owed to member companies of ENGIE group into equity in EEP

On 28 February 2017, the Company was notified that the last of the abovementioned conditions was fulfilled, which meant that all the abovementioned conditions precedent were fulfilled. On 2 March 2017, the Company received from ENGIE International Holdings B.V. the calculation of the initial selling price of 100% of shares in EEP at the level of PLN 1,264,159,355.

On 14 March 2017, the Issuer acquired 100% of shares in EEP, i.e., 7,135,000 of shares carrying the right to the same number of votes, at the initial price of PLN 1,264,159,355. The estimated expenses related to the acquisition of shares amounted to PLN 3.9m. The transaction fits into Enea Group Development Strategy for the period until 2030 approved in September 2016. With this transaction, the Group will increase its share in the national electricity production and become the second largest player on the electricity production market. The consolidated financial statements disclose the acquisition price allocation to identifiable acquired net assets.

In the period from 14 March to 31 December 2017, EEP Group earned net revenue on sales in the amount of PLN 1,643,962k and net profit in the amount of PLN 190,727k. According to the estimates made by the Management Board, if the merger took place on 1 January 2017, the consolidated net revenue on sales for 2017 would reach PLN 11,732,854k, whereas the consolidated net profit would amount to PLN 1,176,582k.

EEP Group did not have any contingent liabilities which would have to be examined in the context of the merger settlement.

#### Implementation of the Investment Agreement with Energa S.A. and Elektrownia Ostrołęka S.A. on the construction and operation of the power unit at Elektrownia Ostrołęka S.A.

On 19 September 2016, Enea SA and Energa S.A. signed the Letter of Intent on commencing cooperation in the field of preparing, implementing, and operating a high-end coal fired 1,000 MW power unit at Elektrownia Ostrołęka (the Investment Project, Ostrołęka C).

The Parties' intention is to jointly develop an effective business model for Ostrołęka C, verify its design documentation, and optimise the technical and economic parameters of the new power unit. The cooperation will also involve conducting the tender procedure to choose the general contractor of the Investment Project.

In the unanimous opinion of the Parties, the Investment Project implementation will have a positive effect on the power safety of Poland, meet the highest environmental standards, and ensure another stable high-efficiency and low-emission source of energy in the National Power System.

On 8 December 2016, the Company signed the Investment Agreement on implementation of Ostrołęka C project. The subject matter of the Agreement is the preparation, construction, and operation of the abovementioned power unit. Pursuant to the Agreement, the cooperation will be generally organised in three stages: the Development Stage – until the issue of the notice to proceed for the general contractor, the Construction Stage – until the commissioning of Ostrołęka C for commercial operation, and the Operation Stage – the commercial operation of Ostrołęka C. Following the Development Stage completion, Enea SA is obliged to participate in the Construction Stage, on the assumption that the Project profitability condition is met and that the Project financing does not violate the Company's bank covenants.

It is estimated that the total investment outlays of Enea SA until the Development Stage completion will amount to approx. PLN 128m. Until the Investment Project implementation, Energa SA will transfer to Enea SA its shares in Elektrownia Ostrołęka SA accounting for 50% of the share capital of the value of approx. PLN 101m. The condition precedent for the coming into effect of the Investment Agreement was the obtaining of the consent from the OCCP President for the concentration through the acquisition of shares in SPV for the Project implementation. The conditions was met on 11 January 2017.

On 19 December 2016, SPV announced the tender procedure to choose the general contractor for the construction of Ostrołęka C supercritical power plant of the power capacity of approx. 1,000 MW and net efficiency of at least 45%. If relevant assumptions (including, without limitation, those related to the required participation of Enea SA, Energa SA and Financial Investors, if any) are met and if the power market or other support mechanism is introduced, Elektrownia Ostrołęka SA will be able to accept the order for the comprehensive implementation of this project.

On 1 February 2017, Enea SA and Energa SA signed the Agreement of acquisition of 24,980,926 shares in Elektrownia Ostrołęka SA of the total value of PLN 24m, thus taking up 11.89% of shares in the Company's share capital.

Under the abovementioned agreements, Energa S.A. and Enea S.A. took joint control over Elektrownia Ostrołęka SA with its registered office in Ostrołęka whose purpose of activity is the construction and operation of a new coal fired power unit. Each of the parties will hold 50% of shares in Elektrownia Ostrołęka SA and the same number of votes at the General Meeting.

Each of the investors will have the same number of representatives in the Management Board and the Supervisory Board. Decisions on key operations will require a unanimous consent of both shareholders holding the rights to net assets of Elektrownia Ostrołęka SA. In the light of the above, the investment was classified as a joint venture accounted for by equity method.

Elektrownia Ostrołęka SA is a non-public company, which is why there are no market price quotations for its shares. On 13 April 2017, the Extraordinary General Meeting of Shareholders of Elektrownia Ostrołęka S.A. passed a resolution on the company's share capital increase from PLN 210,100k to PLN 229,100k through new share issue. In the private subscription, Enea S.A. took up 9,500,000 shares in exchange for a cash contribution which was made on 28 April 2017. After taking up the new issue shares, Enea increased its share in the share capital of Elektrownia Ostrołęka S.A. to 15.1%. On 27 June 2017, Enea SA and Energa SA signed the Agreement of Acquisition of 20,017,269 shares in Elektrownia Ostrołęka SA of the total value of approx. PLN 19.2m, increasing their share in the share capital of Elektrownia Ostrołęka SA to 23.79%. In order to ensure sufficient funds for the company, ENERGA S.A. and Enea S.A., under the agreement of 23 November 2017, granted the company a loan in the amount of PLN 10m from each of the Shareholders. On 23 November 2017, the Extraordinary General Meeting of Shareholders of Elektrownia Ostrołęka S.A. passed a resolution on transformation of the company into a limited liability company. The transformation is in the process of registration with the National Court Register.

### Acquisition of shares in Polimex-Mostostal S.A.

On 18 January 2017, Enea S.A. concluded an investment agreement with Energa SA, PGE Polska Grupa Energetyczna SA, PGNiG Technologie SA (the Investors) and Polimex, whereby the Investors agreed to make investment in Polimex. The investment was to take the form of taking up by Investors of the total number of 150 million of shares issued by Polimex. The Company agreed to take up 37.5 million of new issue shares for the total issue price of PLN 75m. The agreement was concluded on the conditions precedent described in detailed in the current report 2/2017. Together with the abovementioned agreement, other agreements were signed, setting out detailed cooperation rules and the Investors' mutual rights and duties connected with the implementation of the abovementioned investment, as well as additional agreements on the investment implementation which were signed with the creditors and current shareholders of Polimex.

On 20 January 2017, in connection with the fulfilment of the conditions precedent stipulated in the abovementioned Investment Agreement, the Company accepted the offer from Polimex management board to take up in private subscription 37.5 million of shares for the issue price of PLN 2 per share, i.e., for the total issue price of PLN 75m. Moreover, as a result of performance of one of the abovementioned additional agreements, on 20 January 2017, the Company acquired 1.5 million of shares in Polimex from its current shareholder. The acquisition price for all shares was PLN 80.6m. Enea S.A. took a 16.48% share.

An investment agreement enables the Investors to have an influence on the financial and operating policy of Polimex. Such powers are exercised by the Supervisory Board. Also, the Investors signed the agreement on investments in Polimex ("Agreement"). The purpose of signing the Agreement was to ensure increased control over Polimex for the Investors holding in aggregate the majority share in votes at the General Meeting of Shareholders of Polimex. The Agreement stipulates, among other issues, that the parties will agree upon by voting their common position when making key decisions falling within the scope of powers of the General Meeting of Shareholders and the Supervisory Board of Polimex, including decision on the personal composition of Polimex Management Board. Due to the Investors' abovementioned powers which result in their significant impact, the participation in Polimex was classified as an associated entity accounted for by the equity method. Polimex is an engineering and construction company distinguished by a wide range of services provided on the general contractor basis. The company is quoted at the Warsaw Stock Exchange (WSE).

On 21 March 2017, the Investors published a call to subscribe for Polimex shares in connection with the fact that they exceeded (as the parties to the agreement) the 33% threshold of the total number of votes at the general meeting of Polimex. The call was a subsequent one, i.e., the Investors intended to acquire under the call the number of shares being the surplus over the number of shares held by them at that time (i.e., in aggregate, 65.93% of the total number of votes Polimex) and ensuring the achievement of no more than 66% of the total number of votes at the general meeting of Polimex.

In connection with the call, each of the Investors (including Enea) intended to obtain no more than approx. 0.018% of the total number of votes at the general meeting of Polimex. The call was settled on 28 April 2017; as a result, each of the Investors acquired 24 shares in Polimex. Presently, the Company holds 39,000,024 shares in Polimex representing a 16.48% share in the share capital of Polimex. In aggregate, the Investors hold 156,000,097 of shares representing a 65.9% share in the share capital of Polimex. In line with the Investment Agreement, Polimex took measures in 2017 aimed to obtain admission to trading at WSE for T-series shares acquired by Investors. On 20 October 2017, the Polish Financial Supervision Authority approved Polimex issue prospectus prepared in connection with the issue of 150,000,000 ordinary bearer T-series shares.

On 31 October, the Management Board of GPW decided to admit T-series shares to exchange trading on the GPW basic market with effect from 3 November 2017 on condition that Krajowy Depozyt Papierów Wartościowych S.A. (KDPW, Central Securities Depository of Poland) registers these shares by 3 November 2017. On 2 November 2017, KDPW Operating Department made an announcement about the registration of 150,000,000 of T-series shares in the Company on 3 November 2017 under the code PLMSTSD00019.

### Recapitalisation of Polska Grupa Górnicza Sp. z o.o.

In the context of the process of finding capital investors by Katowicki Holding Węglowy S.A., in July 2016, Enea S.A. commenced discussions with potential investors about the possibility of making the investment and its potential parameters. On 28 October 2016, Enea S.A. signed a letter of intent with Węglokoks S.A. and Towarzystwo Finansowe Silesia Sp. z o.o. expressing the parties' initial interest in the financial commitment in Katowicki Holding Węglowy S.A. or its selected assets.

In connection with the interest of Polska Grupa Górnicza S.A. (PGG) in acquiring selected assets from Katowicki Holding Węglowy S.A. and beginning the process of PGG recapitalisation, Enea S.A. and the current PGG Shareholders conducted the necessary analyses of the Business Plan presented by PGG and expressed their interest in capital commitment in Polska Grupa Górnicza S.A.

On 30 March 2017, the Supervisory Board of Enea S.A. agreed for the Company to join Polska Grupa Górnicza S.A. and take up new shares in PGG capital of the nominal value of PLN 300m in exchange for a cash contribution in the amount of PLN 300m.

On 31 March 2017, the Company signed:

- the investment agreement setting out the terms and conditions of financial investment in PGG (Investment Agreement)
- the agreement on exercising joint control over PGG (Investor Agreement)

### Investment Agreement

The Parties to the Investment Agreement are: Enea S.A., ENERGA Kogeneracja Sp. z o.o., PGE Górnictwo and Energetyka Konwencjonalna S.A., PGNiG TERMIKA S.A., Węglokoks S.A., Towarzystwo Finansowe Silesia Sp. z o.o., Fundusz Inwestycji Polskich Przedsiębiorstw Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (the Investors) and PGG. Under the Investment Agreement, PGG was to acquire selected mining assets from Katowicki Holding Węglowy S.A. under the promised agreement which was concluded on 1 April 2017.

The Investment Agreement governs the procedure for conducting the investments and for the Company's joining PGG, the rules for operation of PGG and its bodies as well as the rules for the parties' exit from investments in PGG.

Under PGG recapitalisation, Enea S.A. agreed to take up new shares in PGG of the total nominal value of PLN 300m in exchange for a cash contribution in the amount of PLN 300m in the following three stages:

- in the first stage, the Company took up new shares in PGG of the nominal value of PLN 150m in exchange for a cash contribution in the amount of PLN 150m. After taking up these shares, the Company held a 4.39% share in the share capital of PGG. The first recapitalisation took place in April 2017;
- in the second stage, the Company took up new shares in PGG of the nominal value of PLN 60m in exchange for a cash contribution in the amount of PLN 60m. After taking up these shares, the Company holds a 5.81% share in the share capital of PGG. The second recapitalisation took place in June 2017;
- in the third stage, the Company will take up new shares in PGG of the nominal value of PLN 90m in exchange for a cash contribution in the amount of PLN 90m. After registration in the National Court Register, the Company will hold a 7.66% share in the share capital of PGG. The third recapitalisation took place in Q1 2018.

The Agreement sets out the rules for appointing the Supervisory Board members: each of the Investors and the State Treasury shall have the right to appoint one member of the Supervisory Board to be composed of no more than 8 members.

The investment fits into Enea Group Development Strategy whose components include securing the resource base for conventional power industry.

### Investor Agreement

On 31 March 2017, the Investors: ENERGA Kogeneracja Sp. z o.o., PGE Górnictwo, Energetyka Konwencjonalna S.A., PGNiG TERMIKA S.A., Fundusz Inwestycji Polskich Przedsiębiorstw Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych, and Enea S.A., made the Agreement governing the procedure for the parties to agree upon their common positions on decisions related to the Company and for exercising joint control over the Company. The Agreement for Enea S.A. was concluded upon the condition of obtaining a consent of the OCCP President for taking over joint control over the Company. The OCCP consent referred to in the preceding sentence was issued on 22 December 2017.

In addition, the letter of intent signed on 16 October 2016 between Enea S.A., Węglokoks S.A. and Towarzystwo Finansowe Silesia Sp. z o.o. on the previously analysed capital investment in Katowicki Holding Węglowy S.A. was terminated on 31 March 2017.

On 31 January 2018, by virtue of the resolution of the Extraordinary General Meeting of Shareholders of Polska Grupa Górnicza S.A., the share capital of Polska Grupa Górnicza S.A. (PGG) was increased in line with the provisions of the Investment Agreement of 31 March 2017 made between Węglokoks S.A., Fundusz Inwestycji Polskich Przedsiębiorstw Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych, Towarzystwo Finansowe Silesia sp. z o.o., PGE Górnictwo Energetyka Konwencjonalna S.A., Energa Kogeneracja sp. z o.o., PGNiG Termika S.A., Enea S.A. and PGG, whereby the Investors agreed to pay additional capital to PGG together with the remaining Investors in the total amount of PLN 1,000,000,000 (one billion Polish Zloty), with the participation of Enea S.A. in the amount of PLN 300,000,000 (three hundred million Polish Zloty), by a cash contribution, in three tranches. The first recapitalisation (1<sup>st</sup> tranche) took place on 3 April 2017 and the second one on 14 June 2017.

As a result of passing the abovementioned resolution, Enea S.A. signed an agreement on 31 January 2018 on the taking up of shares between ENEA and PGG, accepting the offer to take up in private subscription 900,000 (nine hundred thousand) new shares of the nominal value of PLN 100 each and of the total nominal value of PLN 90,000,000 (ninety million Polish Zloty) in exchange for a cash contribution in the amount of PLN 90,000,000 (ninety million Polish Zloty). B-series shares are ordinary registered shares and should be fully paid up in the form of a cash contribution before the share capital increase registration.

## Financing sources of the investment programme

Enea SA finances the investment programme using financial surpluses from its business activities and external debt. Enea Group implements the investment financing model, in which Enea SA acquires external sources of financing and distributes them to its subsidiaries. In further activities, Enea SA will focus on ensuring appropriate diversification of external sources of financing for the investments planned in the Strategy of the Enea Group in order to optimize the amount of costs and debt repayment dates.



### Programme Agreement on the bond issue programme up to the amount of PLN 3bn

Enea SA holds the programme agreement relating to the bond issue programme up to the amount of PLN 3bn with banks operating as Underwriters, i.e.: PKO BP SA, Bank Pekao SA, BZ WBK SA and Bank Handlowy w Warszawie SA. The financing is not hedged on Enea Group's assets. The funds obtained from the programme are allocated to the realisation of investment projects in Enea Group, including e.g. for the construction of the 1,075 Mw<sub>e</sub> gross supercritical bituminous coal fired power unit, which is being constructed as a part of Enea Wytwarzanie's operations. In the period of January-December 2017, Enea SA issued under the programme IX- and X-series bonds of the total value of PLN 1,049m. As at 31 December 2017, the value of the bonds issued within the aforementioned Programme totalled PLN 3,000m.



Financing source utilisation rate



### Programme Agreement on the bond issue programme up to the amount of PLN 5bn

On 30 June 2014, Enea SA concluded a programme agreement relating to the bond issue programme up to the amount of PLN 5bn with the following banks acting as dealers: ING Bank Śląski SA, PKO BP SA, Bank Pekao SA and mBank SA. Under the Programme, Enea may issue bonds with the maturity of up to 10 years, and Bank dealers have the duty of care when offering the sale of bonds to market investors. In the period of January-December 2017, Enea SA did not issue bonds under that programme. As at 31 December 2017, the value of the bonds issued within the Programme totalled PLN 1,500m.



Financing source utilisation rate



### Programme Agreements on the bond issue programme guaranteed by BGK

On 15 May 2014, Enea SA concluded a programme agreement relating to the bond issue programme up to the amount of PLN 1bn guaranteed by Bank Gospodarstwa Krajowego. The financing is not hedged on Enea Group's assets. The funds from that programme are allocated i.a. to the implementation of the investments by Enea SA and its subsidiaries. Under the Programme, Enea SA issued bonds of the full value of the Programme, i.e. PLN 1bn. The redemption period is max. 12.5 years from the date of their issue. The interest rate is based on floating WIBOR rate plus margin. On 3 December 2015, Enea SA concluded another programme agreement relating to the bond issue programme up to the amount of PLN 700m guaranteed by Bank Gospodarstwa Krajowego. The funds from the programme are allocated i.a. to the implementation of the investments and financing the current operations of Enea SA and its subsidiaries. As at 31 December 2017, the value of the bonds issued within the Programme amounted to PLN 1,150m.



Financing source utilisation rate



### Investment loans granted by the European Investment Bank

On 18 October 2012, Enea SA concluded a financial agreement with the European Investment Bank (EIB) based on which the Company was granted a loan in the amount of PLN 950m or its equivalent in EUR (tranche "A"). On 19 June 2013, another loan agreement (tranche "B") was concluded with EIB for the amount of PLN 475m. The funds in the total amount of PLN 1,425m obtained from the loan are designated for the financing of a multiannual investment plan regarding the upgrade and extension of the power grids of Enea Operator. The loan repayment period is up to 15 years from the planned disbursement of the facility. Within the "A" and "B" tranches, Enea SA drew funds from the loan in full, i.e. in the amount of PLN 1,425m in 4 separate amounts paid out from September 2013 to July 2015. The currency of the disbursed loan is Polish Zloty, floating rate, based on WIBOR rate for 6-month deposits, plus the Bank's margin. In the case of one disbursement the interest was based on the flat interest rate.

On 29 May 2015 another loan agreement was concluded based on which EIB provided the Company with new financing in the amount of PLN 946m or its equivalent in EUR (tranche "C"). The funds obtained from the loan will be allocated to the financing of a multiannual investment plan in order to modernise and extend the power infrastructure of Enea Operator. The financing is not hedged on Enea Group's assets. The loan interest rate is floating based on WIBOR rate for 6-month deposits plus the Bank's margin. The tranches will be paid in instalments, and the final repayment will be made in December 2031. In January 2017, a loan was drawn in the amount of PLN 250m and in December 2017 a loan was drawn in the amount of PLN 496m. As at the end of 2017, the amount of the loan drawn within tranche "C" was PLN 946m.



Financing source utilisation rate



### Financing source of LW Bogdanka investment programme – programme agreements on the bond issue programme of LW Bogdanka SA

During 2017, the Company had a Programme Agreement from 23 September 2013 on the bond issue programme up to the amount of 300 mPLN, which was concluded with Bank Polska Kasa Opieki SA. The value of the bonds issued under the Agreement totalled PLN 300m. The quarterly redemption date for bonds of the total value of PLN 300m are in 2018. Additionally, during H1 2017, a second Programme Agreement from 30 June 2014 was effective. On 10 March 2017, the Company signed an annex to the Programme Agreement from 30 June 2014, pursuant to which the effective period of the Programme for Tranche No. 1 was preponed from 31 June 2019 to 30 March 2017. Therefore, all bonds issued under Tranche No. 1 in the total amount of PLN 300m were redeemed on 30 March 2017, and thus the Program Agreement expired.



Financing source utilisation rate



### Issue of Enea SA's securities in 2017

In 2017, Enea issued bonds to the total value of PLN 1,199 m at the issue price. The nominal debt in respect of bonds issued by Enea SA totalled PLN 5,610 m as at 31 December 2017.

### Interest rate hedging transactions

Implementing the Interest Rate Risk Management Policy, in December 2017 Enea SA concluded transactions hedging the interest rate risk (Interest Rate Swap) to the total value of PLN 1,091,000 thousand.

### Related-party transactions

In 2017, Enea and its subsidiaries did not conclude related-party transactions which were not on arm's-length basis. Information on related-party transactions concluded by Enea or its subsidiary is included in note 42 to the 2017 consolidated financial statements of the Enea Group.

### Use of proceeds from the issue of securities

The funds obtained by Enea SA from the bond issue are applied to the implementation of real and capital investments conducted by Subsidiaries. In December 2017, Enea Wytwarzanie commissioned in Świerże Górze the most modern power unit in Poland. All the issues performed by Enea Wytwarzanie in 2017 were intended to finance the expenses associated with that project.

### Assessment of feasibility of investment plans' implementation

The Company's financial standing creates solid bases for executing investment plans. The balance sheet, equity and cash balance of Enea Group provide strong foundations for financing capital expenditures, both from own resources and from external sources. In order to use its resources efficiently, in their further investment activities (particularly in the area of acquisitions) the Company intends to make use of debt financing so as to attain leverage.

### Programme of subsidiaries' bond issues

#### PLN 3 bn – Bond Issue Programme of 8 September 2012 (Enea Wytwarzanie)

On 31 December 2017, Enea Wytwarzanie issues under the Programme bonds to the total value of PLN 2,650 m. The Programme's availability expired on 31 December 2017.

#### PLN 1,425 m – Bonds (Enea Operator)

The Programme was fully utilised by Enea Operator. The bonds, depending on the series, bear fixed or floating interest rate. The bonds are being redeemed in instalments from June 2017 and the final redemption date is June 2030.

#### PLN 1 bn – Programme Agreement of 17 February 2015 (Enea Wytwarzanie)

On 17 February 2015, Enea Wytwarzanie, Enea and PKO Banki Polski concluded a Bond Issue Programme for the amount of PLN 760m. On 3 June 2015, an annex to the Agreement was concluded, under which the parties increased the amount of the Programme to PLN 1bn. On 31 March 2017, Enea Wytwarzanie issued as part of the Programme bonds of the total value of PLN 1bn. The programme is fully utilised by Enea Wytwarzanie.

#### PLN 946m – Bond Issue Programme Agreement of 7 July 2015 (Enea Operator)

The Executive Bond Issue Programme Agreement for the amount of PLN 946m was concluded between Enea as guarantor, Enea Operator as issuer and PKO Bank Polski as agent. Within the agreement, on 28 March 2017 an annex was concluded to extend the availability of the Programme's funds until 29 December 2017. The bond redemption date – in instalments, however not later than within 15 years of the date of issue. The bonds may bear the fixed rate or floating rate interest based on WIBOR rate plus margin, with the interest rate revision after 4 or 5 years. In January 2017, Enea Operator issued bonds of the value of PLN 250m, and in December 2017 issued bonds of the value of PLN 496m, which means the full utilisation of the Programme by Enea Operator as at 31 December 2017.

#### PLN 740m - Bond Issue Programme Agreement of 17 November 2014 (Enea Wytwarzanie)

As at 31 December 2017, Enea Wytwarzanie issued within the Programme bonds of the value of PLN 350m. The bonds will be redeemed on one date in March 2020.

#### PLN 260m – Programme Agreement of 12 August 2014 (Enea Wytwarzanie)

The Programme is fully utilised by Enea Wytwarzanie. The bonds bear fixed interest rate. The bonds will be redeemed in instalments from September 2017 till December 2026.

#### PLN 360m – Bond Issue Programme Agreement of 18 July 2016 (Enea Operator)

The Executive Bond Issue Programme Agreement for the amount of PLN 360m was concluded between Enea as guarantor, Enea Operator as issuer and PKO Bank Polski as agent. Under the agreement, Enea Operator may perform a single bond issue. On 28 July 2016, Enea Operator issued bonds of the amount of PLN 360m bearing floating exchange rate WIBOR 3M rate plus margin. The bonds issued under the Programme were redeemed in December 2017.

#### PLN 350m – Bond Issue Programme Agreement of 20 September 2017 (Enea Operator)

The Executive Bond Issue Programme Agreement for the amount of PLN 350m was concluded between Enea as guarantor, Enea Operator as issuer and PKO Bank Polski as agent. Within the agreement, on 28 September Enea Operator issued bonds of the value of PLN 350m bearing floating interest rate WIBOR 3M plus margin. The bond redemption date is in December 2019.

#### Other agreements

In the previous years, Enea SA also concluded inter-group bond issue programme agreements with its subsidiaries, which are intended to finance investments in the segments of RES and Heat. The programmes are fully utilised and redeemed in instalments. The value of the bonds to be redeemed under these programmes totalled as at 31 December 2017 PLN76.65m.

### Credit and loan agreements concluded and completed

As at 31 December 2017, the nominal indebtedness amount resulting from credits taken by Enea SA was PLN 2,303,174 thousand and included credits and loans taken by Enea SA in 2017:

Starting date	Ending date	Lender	Agreement value	Amount of credit taken in 2017 [k PLN]	Interest rate	Credit debt as at 31 Dec 2017 [k PLN]	Repayment period
29 May 2015	31 March 2032.	(C) European Investment Bank	946,000	746,000	base rate + margin	946,000	principal instalments calculated upon credit tranche drawing
19 June 2013	31 December 2030.	(B) European Investment Bank	1,425,000	0	base rate + margin	1,357,174	principal instalments calculated upon credit tranche drawing
<b>TOTAL</b>						<b>2,303,174</b>	

### Credits and loans taken by the member companies of Enea Group

In December 2015, Enea Wytwarzanie sp. z o.o. signed the agreement of co-financing in the form of a loan from the National Environmental Protection and Water Management Fund (NEPWMF) for the amount of PLN 60,075 thousand for the project entitled "Construction of the FGD plant for boilers K7 and K8 at Białystok Combined Heat and Power Plant". The loan was granted for the period from April 2016 to December 2026 with the interest rate equal to WIBOR 3M and quarterly repayment instalments. The first drawings took place in June and December 2016 for the total amount of 19,161 kPLN, whereas subsequent drawings took place in April, June, and September 2017. The current debt under the loan is PLN 57,263 thousand. In 2017, Miejska Energetyka Ciepła Piła sp. z o.o. signed three agreements of co-funding in the form of a loan from the Provincial Environment Protection and Water Management Fund (WFOŚiGW) for the total amount of PLN 1,164,60 thousand, of which PLN 964,6 thousand was drawn in August and December. On 16 December 2016, LW Bogdanka SA and mBank SA signed the agreement of overdraft up to the maximum limit of PLN 100,000 thousand. The overdraft may be used until 29 November 2018. The final overdraft repayment day is 30 November 2018. The overdraft interest rate is WIBOR 1M plus bank margin. As at the balance sheet day, the limit has not been used. In 2017, the member companies of Enea Group did not terminate any credit or loan agreements. As at 31 December 2017, the total nominal amount of debt resulting from credits and loans taken by Enea SA and by the companies from Enea Capital Group was PLN 1,691,795 thousand.

#### Loans granted

In 2017, Enea S.A granted the loans of the total value of PLN 42,940 thousand to the member companies of Enea Group. The nominal indebtedness balance as at 31 December 2017 was PLN 183,046 thousand. Detailed information on the loan agreements signed by Enea SA in 2017 and on the degree of their utilisation is presented in the table below:

Starting date	Ending date	Company	Agreement value	Amount of credit taken in 2017 [k PLN]	Interest rate	Credit debt as at 31 Dec 2017 [k PLN]
21 May 2014	31 December 2022	Enea Centrum sp. z o.o.	61,000	0	None	45,750
22 December 2015	30 June 2025	Enea Centrum sp. z o.o.	165,000	30,000	None	120,000
19 January 2015	31 January 2020	Enea Oświetlenie sp. z o.o.	10,000	0	Variable	4,356
23 November 2017	31 January 2018	Elektrownia Ostrołęka SA	10,000	10,000	Fixed	10,000
8 November 2017	6 November 2020	PGE EJ 1 sp. z o.o.	2,940	2,940	Fixed	2,940
<b>TOTAL</b>			<b>248,940</b>	<b>42,940</b>		<b>183,046</b>

### Suretyships granted and received

In 2017, the companies from Enea Group did not grant any suretyships or guarantees of the value equivalent to at least 10% of Enea SA equity.

In 2017, Enea S.A. did not grant any new corporate suretyships or guarantees. As regards the agreements signed before, in several cases the effective dates and amounts of suretyships granted were modified by way of amendment agreements. As at 31 December 2017, the total value of the off-balance sheet items on account of suretyships granted was PLN 127,404.15 thousand.

### Guarantees granted and received

As at 31 December 2017, the total value of the off-balance sheet items on account of guarantees granted was PLN 117,706.82 thousand. In 2017, guarantees were issued upon the order of Enea SA for the total value of PLN 61,880.78 thousand. The table below presents the information on the largest guarantee amounts granted in 2017 (relevance threshold > PLN 1m):

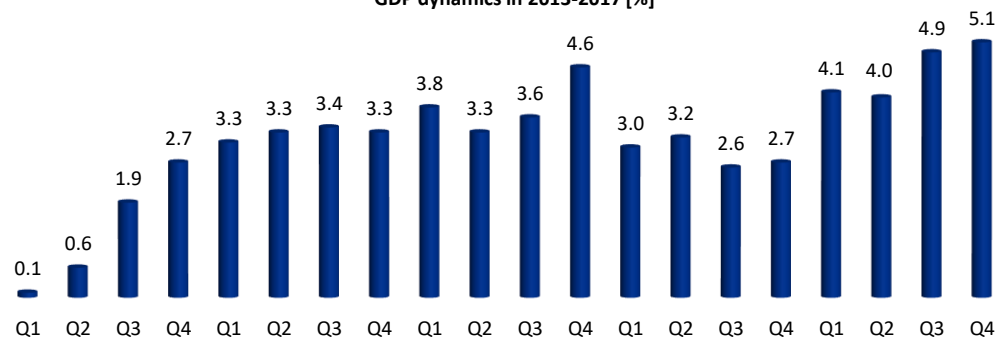
Security granting date	Security validity date	Secured entity	Purpose of the agreement	Security form	Security amount granted [k PLN]
7 July 2017	11 August 2018	Polskie Sieci Elektroenergetyczne SA	due contract performance	under the guarantee line in the amount of PLN 350,000,000	15,000.00
20 December 2017	11 August 2018	Izba Rozliczeniowa Gield Towarowych SA	deposit-making	under the guarantee line in the amount of PLN 350,000,000	30,000.00
12 December 2017	11 August 2018.	ENEA Operator Sp. z o.o.	due contract performance	under the guarantee line in the amount of PLN 350,000,000	1,079.94

Macroeconomic situation

Enea Group’s operations are focused on the territory of Poland. Therefore, core macroeconomic factor affecting both the results achieved and its financial situation is the development pace and the general condition of the Polish economy.

According to the preliminary estimates of the Central Statistical Office (GUS), in 2017 the GDP increased in real terms by 4.6% year-on-year, as compared to 2.9% in 2016. In Q4 2017 alone, the GDP growth was 5.1%, which means another, quarterly record GDP growth over the last months.

GDP dynamics in 2013-2017 [%]



According to GUS data, in 2017 in the main economic areas growth tendencies were observed, whereby in Q4 2017 slight drops were recorded as compared to the end of Q3.

According to GUS estimates, in 2017 the industrial production sold was higher than in the previous year by 6.6%. Sales in industrial processing increased the most; growth was also recorded in electricity, gas, steam and hot water generation and supply, as well as in water supply, sewage and waste management and reclamation. On the other hand, production in mining and quarrying continued to decline.

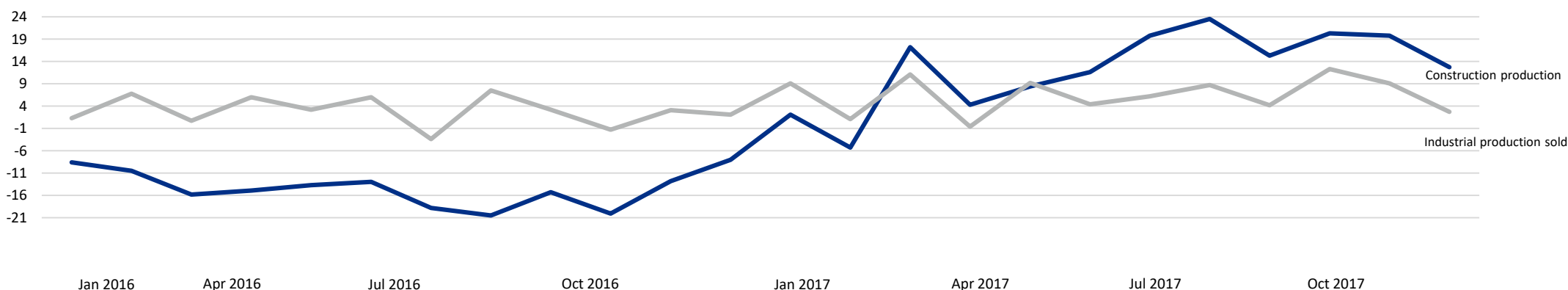
In the period from January to September 2017, the construction production in Poland was about 7% higher than in the previous year. Construction output was higher than in the previous year in all construction sectors, including the highest increase in units specialising in civil engineering structures.

After two years of decline, consumer prices increased by 2.0% annually in 2017. After a decrease in 2016, transport prices increased significantly, and housing prices, among other things, were higher than in the previous year. For the first time since 2012, producer prices in industry and construction increased annually, by 2.9% and by 0.6% respectively.

Below are some basic macroeconomic data for the years 2015-2017.

Description	unit	2015	2016	2017
GDP	% change	3.8	2.9	4.6
Industrial production sold	% change	6.0	3.6	6.6
Construction production	% change	3.7	-2.6	7.0
Inflation	%	-0.9	-0.6	2.0

Domestic production dynamics in 2016-2017 [%]



Source: <http://stat.gov.pl> and development by General Statistical Office (GUS) entitled. *Informacja o sytuacji społeczno-gospodarczej kraju w 2017 roku (Information on the domestic socio-economic situation in 2017)*

Areas of operation

In 1997, the process of the Polish electricity market demonopolisation started. The process led to the market division into the different areas: generation, transmission and distribution, and energy trading.

With time, in order to hedge the supply chain for the production area, the largest energy groups expanded their activity by the area of extraction.

Poland is the largest producer and selling market for bituminous coal among the European Union Member States. In the perspective of ten-odd forthcoming years, bituminous coal in Poland will be the primary raw material used for electric and heat energy production.

Bituminous coal for heating purposes in Poland jest extracted predominantly by the entities remaining under the control of the State Treasury. These include, without limitation, Jastrzębska Spółka Węglowa SA, Kompania Węglowa SA, Katowicki Holding Węglowy SA, Polska Grupa Górnicza sp. z o.o., and Tauron Wydobycie SA. In addition to the entities with the State Treasury shareholdings, the importance of private or privatised mines (e.g., LW Bogdanka) in the field of extraction has been rising in the recent years.

Most electricity on the Polish market is generated on the basis of conventional fuels, i.e., bituminous coal and lignite. However, in the recent years, Poland has seen a rising awareness of environmental damage caused by conventional energy, while its membership in the European Union provided an additional stimulus for restructuring the Polish power sector.

Renewable energy is received from natural recurring processes in the natural environment. Pursuant to the Power Law, renewable sources of energy are utilised in the process of transforming wind, solar, aerothermal, geothermal, hydrothermal, wave, sea current and tide, and river fall energy as well as energy from biomass, biogas from waste landfills, and biogas created in the processes of sewage discharge or treatment or the decaying of plant and animal residues stored.

The development of electricity generation from renewable sources results from the need to protect natural environment and reinforce power safety. The purpose of measures taken in this respect is to increase the volume of energy produced from renewable sources, support technological development and innovation, create the opportunities for regional development, and ensure higher degree of power supply safety, especially on a local scale.

As it follows from the obligations resulting, among others, from the 3 x 20 climate and energy package, Poland must achieve a 15% share of RES in energy consumption by 2020. Due to high investment costs, striving to increase the share of these energy sources in the overall national electricity production requires the employment of adequate support systems which warrant their systematic growth.

Electricity transmission means energy transport via transmission networks (to distribution networks or final recipients connected thereto). Electricity distribution means energy transport to final recipients with the use of distribution networks.

Pursuant to the Energy Law, carrying on the business activity in the field of electricity transmission or distribution requires a licence of the President of Energy Regulatory Office (ERO). The leading electricity distributors in Poland are: Enea Operator sp. z o.o., TAURON Dystrybucja SA, PGE Dystrybucja SA and Energa Operator SA.

Electricity trading is the business activity which requires obtaining a licence from the President of ERO and involves wholesale or retail energy trading. Electricity trading in Poland takes place in the following three main energy market segments: contract market, exchange market, and balancing market.

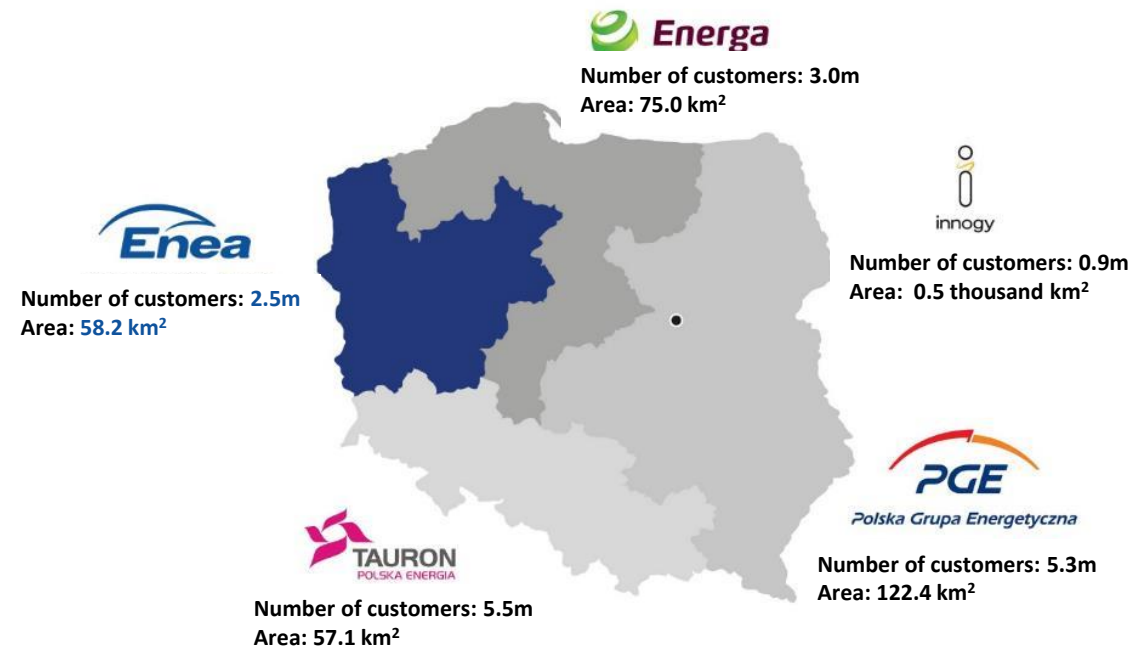
Electricity trading on the contract market takes place on the basis of bilateral contracts (agreements) signed between energy producers, companies trading in energy, and final Clients.

The exchange market includes trading at the Polish Power Exchange (PPE, Towarowa Giełda Energii SA). Power trading at PPE takes places mainly at the so-called Day-Ahead Market (DAM). DAM is run as at the day preceding the day during which the physical supply of electricity takes place.

The Balancing Market is a specific area of the power market where the differences between transactions concluded among individual market participants and the actual demand for electricity are balanced.

The power market in Poland is predominantly taken by four power groups: Enea, PGE, Tauron, and Energa.

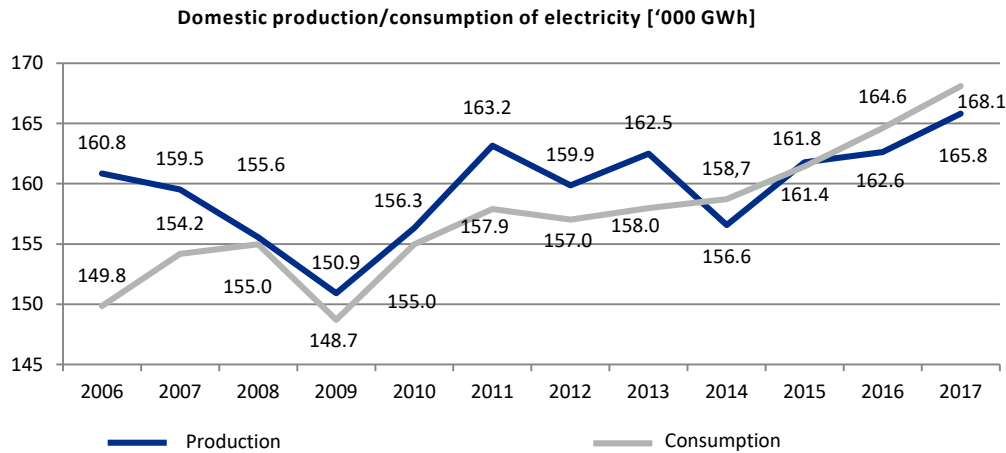
Main energy groups



Situation on the electricity market

Production of electricity

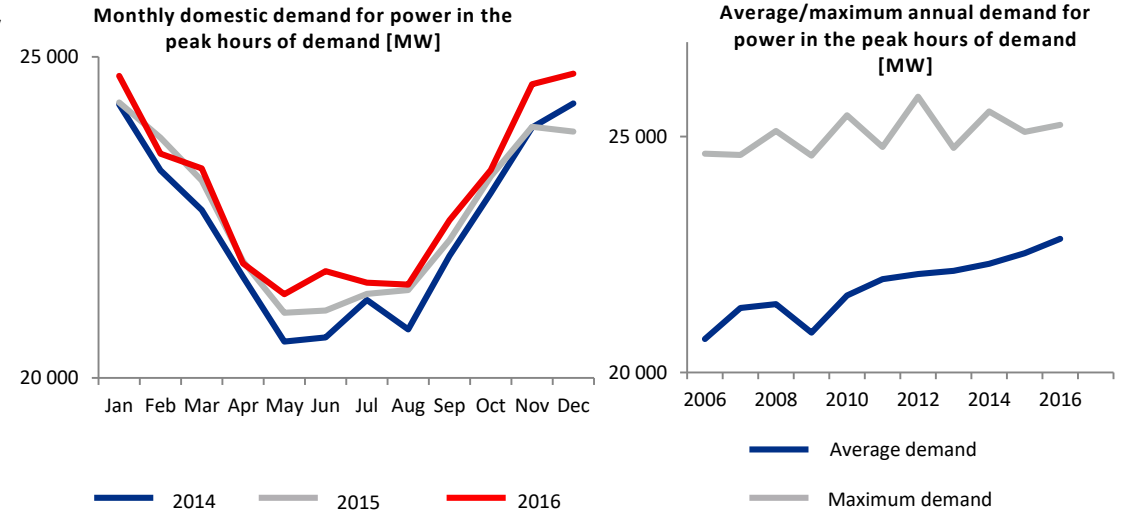
According to the data published by Polskie Sieci Energetyczne, the domestic production of electricity in 2017 was 165,852 thousand GWh.



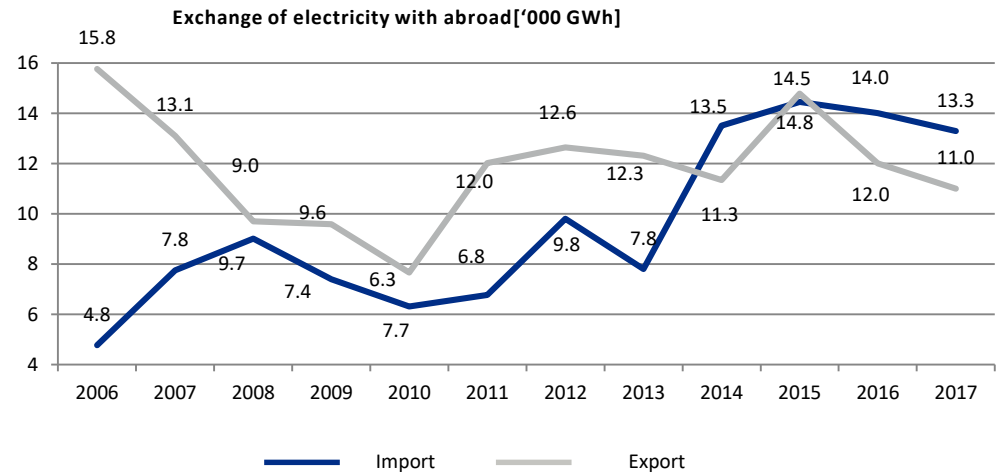
Electricity generation structure [GWh]

Types of power plants	2014	2015	2016	2017
Commercial on bituminous coal	80,284	81,883	81,348	79,868
Commercial on lignite	54,212	53,564	51,204	51,983
Industrial	9,020	9,757	10,130	10,057
Commercial on gas	3,274	4,193	5,776	7,172
Commercial hydroelectric	2,520	2,261	2,399	2,767
Wind and other renewable	7,256	10,114	11,769	14,005

Source: <https://www.pse.pl/mapa-raportow>



Intersystemic exchange



**Market prices of coal in 2017**

In 2017 global prices of coal continued to grow and were reached high quotation levels – in the average range of 80-100 USD/t. A clear market slowdown in April or November resulted from one-off events such as Herbie hurricane in Australia or typical market mechanisms, such as saturation of the market.

The factors influencing the global dynamics of the spot price quotations included low supply with increased demand from Asia-Pacific countries, which due to the need for cheap electricity in the South-East Asia region will remain the main driving force behind the global coal demand till 2040, according to the IEA . The demand for coal will remain high at least until RES energy production becomes competitive or the ability to store energy increases.

The inverse and strongly anti-coal trend, in turn, dominates in the Atlantic area. In European coal terminals, however, the price of spot coal followed the growths from the Asian market, although the promotion of low-emission energy production and RES sources means that the correlation of global indices is weakening.

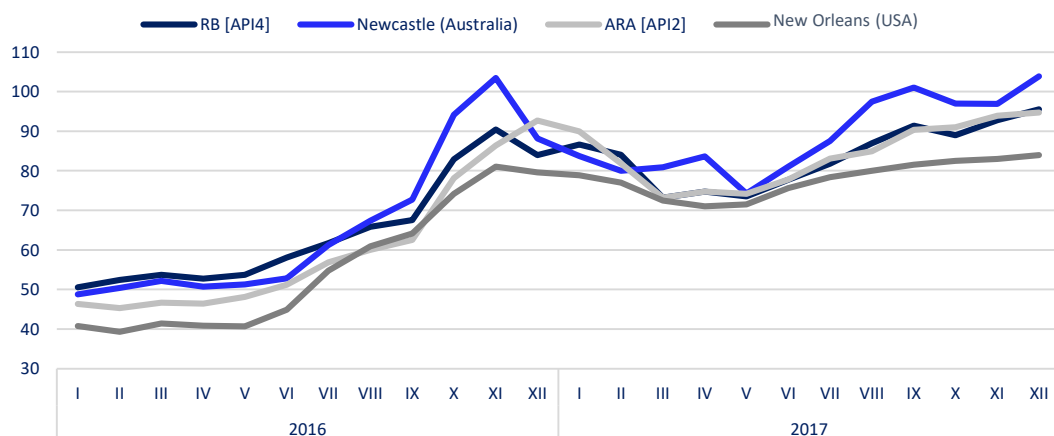
In 2017, the average spot price of coal from Newcastle, which is a determinant for energy coal prices on the Asian market, increased by 34.5% y/y and amounted to 88.95 USD/t.

On average, 30% more was paid for 1 ton of South African coal, i.e. 83.95 USD.

At coal terminals in the ARA area, the average annual coal price increased by about 40.1% and amounted to 84.14 USD/t. Despite advanced efforts of the EU and legislative restrictions on the limitation of coal production, in many countries it is not possible to immediately abandon this energy carrier on an overnight basis.

High prices at the end of 2017 on the global coal market are described as unstable.

In 2018, a downward trend to USD 86-75 is expected, sources say.

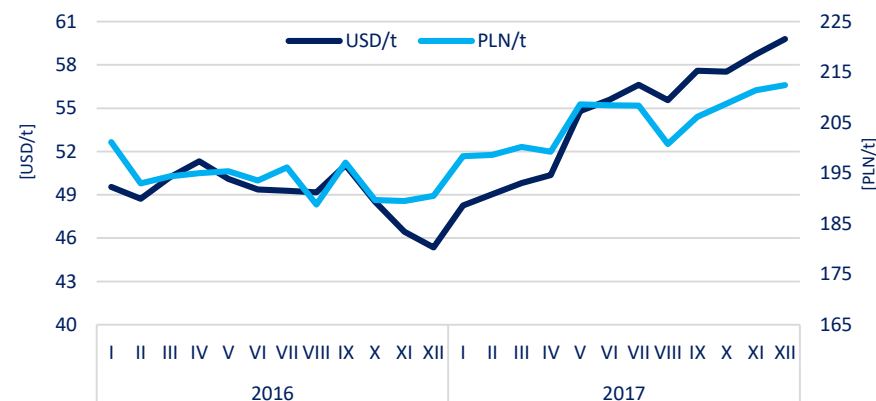


Source: Own development based on data from www.globalcoal.com and the paper of the Mineral and Energy Economy Research Institute of the Polish Academy of Sciences.

The structural problems of the Polish coal market in 2017 resulted, among other things, in the occurrence of a supply gap necessitating the increased imports of energy coal by 59.8% y/y to the level of 9.729 million tonnes. Russia (82%) and Colombia (11%) remained the dominant directions of import of raw material. Lower extraction of energy coal by 7.3% y/y at 53 million tonnes translated into a regular increase in its prices visible from the beginning of 2017. In addition, problems occurring on the rail transport market involving untimely deliveries and numerous repairs of the railway infrastructure resulted in a significant increase in the risk of defaults on minimum levels of coal reserves by generation units across the country.

In 2017, there was an upward trend in prices of coal on the Polish market. The average annual index of PSCMI1 increased by 5.4% y/y and amounted to PLN 9.22 / GJ, which is about 54.3 USD per 1 tonne of coal at the average annual exchange rate of 3.78 USD/PLN. In 2017, the price of fine coal for the professional power industry also increased, on average 3% more for 1 ton of the raw material, i.e. PLN 9.12 / GJ.

**Polish Steam Coal Market Index - PSCMI1 [9M/17]**



Source: Own development based on the databases of the National Bank of Poland and ARP.



### Wholesale electricity prices

The average price on the SPOT market in 2017 was lower by 1.0% in comparison with the same period of 2016. In particular, the prices fell in the period between April and June. The prices were affected by the following factors:

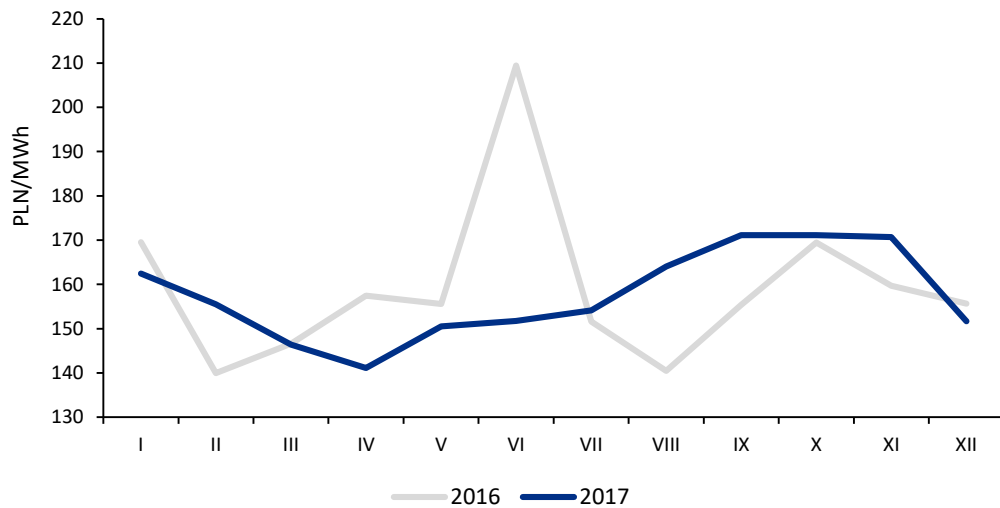
- high capacity available in PPE system
- high use of wind generation
- relatively mild weather
- growth in imports of electricity

Table 1. Average prices on SPOT market (PPE Day Ahead Market)

Period	Average Price[PLN/MWh]	Change [%]
2016	159.20	-
2017	157.57	↓ -1.0%

Source: Own development based on PPE data.

Average electricity prices on Day Ahead Market



Source: Own development based on PPE data.

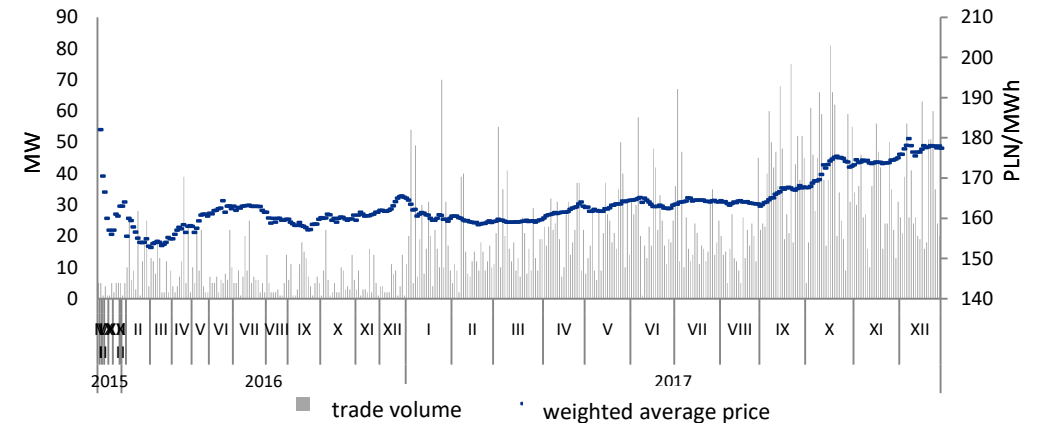
Increases in electricity prices on the forward market were observed. During the reporting period, the price of BASE Y-18 rose from 164.50 PLN/MWh at the beginning of January to 177.65 PLN/MWh at the end of 2017.

Table 2. Prices on the forward market

Product	Price at the end of quotations	Change y-o-y	Average price from quotations	Change y-o-y
	[PLN/MWh]	[%]	[PLN/MWh]	[%]
BASE Y-15	177.00	-	168.13	-
BASE Y-16	167.50	↓ -5.4%	166.49	↓ -1.0%
BASE Y-17	162.00	↓ -3.3%	159.31	↓ -4.3%
BASE Y-18	177.65	↑ 9.7%	167.00	↑ 4.8%

Source: Own development based on PPE and TFS data.

Transaction prices and volumes - BASE Y-18



Source: Own development based on PPE and TFS data.

On the PPE forward market in 2017, comparable liquidity as in the preceding year could be observed (increase by 1.0% compared to 2016). When the trading for 2015, 2016 and 2017 is compared, then the decrease in the volume of trading e.g. for a BASE\_Y product is approx. 50%. This may result mainly from the extinction of the so-called 100% exchange obligation related to contracts under to the KDT Act.



As in the case of BASE Y-18, the prices of PEAK Y-18 also changed. At the beginning of January, the market valuation of this product was PLN 214.00/ MWh, and at the end of 2017 at PLN 227.50/ MWh.

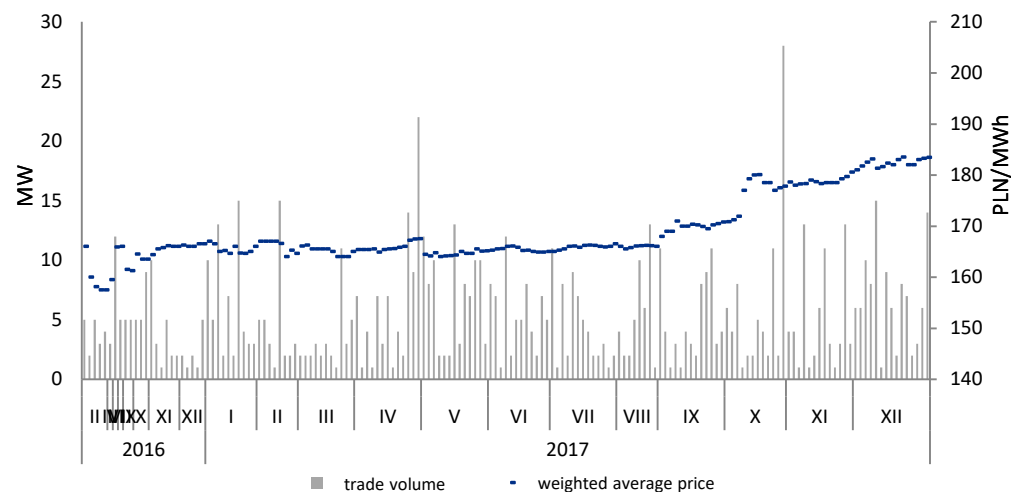
In the course of 2017, we observed a slow increase in prices on the forward electricity market. It was linked, among other things, with the high volatility of CO<sub>2</sub> emission allowance prices (spread between max and min price – EUR 3.57 / t). The market situation was significantly influenced by the trading volume of BASE Y-18 on the PPE substantially reduced as compared to the volumes of BASE Y-17 in the corresponding period of the previous year.

The uncertainty factors still include:

- the question of the exit of the United Kingdom from the European Union, which may translate into possible long-term changes in the Community Emissions Trading System and the prices of CO<sub>2</sub> allowances (EUA)
- the direction of changes in the system and the introduction of new solutions (e.g. the power market) in the scope of providing appropriate power levels in the National Power System

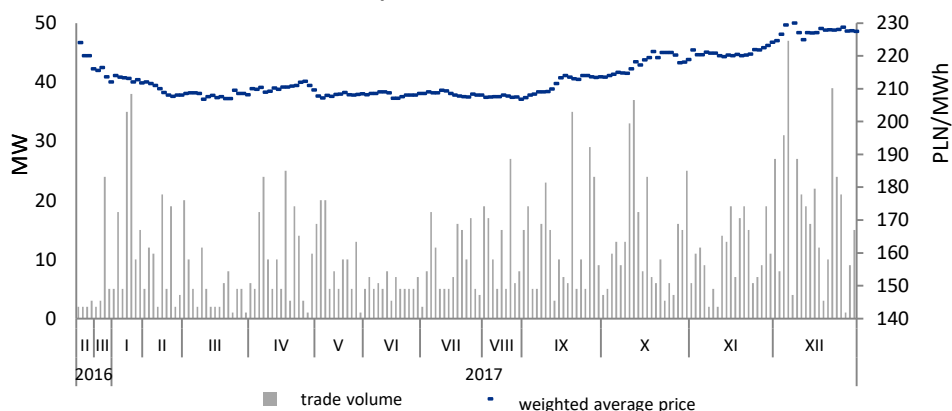
Therefore, possible increases in prices of moderate strength cannot be ruled out.

Transaction prices and volumes - BASE Y-19



Source: Own development based on PPE and TFS data.

Transaction prices and volumes - PEAK Y-18



Source: Own development based on PPE and TFS data.

In 2017, transactions were also concluded for BASE Y-19; however, due to the remote delivery horizon, the trading volume was much lower than in the case of BASE Y-18.

**Obligations involved in obtaining energy certificates**

Pursuant to the effective regulations, energy companies selling electricity to end users in 2017 are obliged to obtain and redeem the following types of certificates of origin:

- for energy generated in renewable sources, the so-called "green" certificates – the obligation at the level of 15.4% of sales to end users
- for energy generated from agricultural biogas, new certificates established by the amendment to the Act on Renewable Energy Sources dated 20 February 2015 – an obligation at the level of 0.60% of sales to end users
- for energy generated in methane cogeneration – "violet" certificates – at 1.8% of sales to end users
- for energy generated in gas cogeneration units or with a total installed capacity of up to 1 MW, the so-called "yellow" certificates – the obligation at the level of 7.0%
- for energy generated in other cogeneration sources, the so-called "red" certificates – the obligation at the level of 23.2%
- for energy efficiency certificates, the so-called "white" certificates – the obligation at the level of 1.5%

The following slide presents the pricing structure of contracts on the PPE session market for individual property rights in the period January – December 2017. „Green” Property Rights (PMOZE) were omitted in the analysis due to the lack of trading and their complete replacement by PMOZE\_A.

Table 3. Prices on the certificates of origin market (PPE’s session market)

	Average price Q1-4 2017	Change in relations to Q1-4 2016			Maximum price PLN/MWh	Minimum price PLN/MWh		
		%	PLN/MWh	PLN/MWh				
OZEX_A („green” property rights)	38.83	↓	-47.3%	↓	-34.8	61.00	21.75	
OZEX_BIO („light blue” property rights)	333.97	-	-	-	-	470.00	300.03	
KGMX („yellow” property rights)	2016	123.30	↑	1.8%	↑	2.17	126.00	70.00
	2017	116.48	-	-	-	-	117.25	115.20
KECX („red” property rights)	2016	10.59	↓	-0.9%	↓	-0.09	10.95	9.00
	2017	9.72	-	-	-	-	9.80	9.59
KMETX („violet” property rights)	2016	62.19	↑	0.8%	↑	0.47	62.90	55.00
	2017	54.81	-	-	-	-	55.30	54.00
EFX („white” property rights) <sup>1)</sup>	693.36	↓	-29.1%	↓	-283.98	1,270.00	290.00	

1) Values in PLN/toe

Source: Own development based on PPE data.

Limits and market prices of carbon dioxide emissions allowances

Late 2016 was characterised by a significant increase in the prices of EUA (European Union Allowance Unit). The reason behind this increase could be the rising coal and energy prices, high prices achieved at auctions and the news about the UK’s willingness to remain a member of the EU ETS system after Brexit. Another significant pro-growth factor was the agreement on modifying the EU ETS system after 2020, stipulating, among others, the withdrawal from market of 24% instead of 12% of allowances during at least 4 years of MSR operation, the redemption of 800 million of allowances withdrawn from the market under backloading, and the increase in the line reduction ratio to 2.4% (from 1.74%). The rapid rise in prices in the second half of December 2016 was followed by a correction.

The decrease in prices of CO<sub>2</sub> emissions in early January 2017 was caused by: an increase in the volume at auctions (with backloading no longer being in effect, volume increased from EUA 3.7m to EUA 4.3m), and lower prices of German energy.

The European Commission suggested the continuation of the obligation resulting from the greenhouse gas emissions by aviation until final decisions are made regarding the global market mechanism. On 15 February 2017, at the plenary session, the European Parliament approved the package of amendments to draft EU ETS Directive which were adopted by the Environmental Council in late February 2017. The EU Member States began distribution of free allowances for 2017.

As it follows from the most recent data on the number of allowances issued for 2017, as published by the European Commission, the countries with the highest number of unissued allowances are: Italy, Romania, and United Kingdom, whereas Malta is the only country which has already issued all allowances. Pursuant to April publication of the EC, the value of verified emissions for 2016 dropped by 2.7% when compared to 2015.

In addition, EC published the data on the number of allowances redeemed. Nearly all plants recorded in the EU ETS system kept the time limit for redemption of emissions for 2016. Moreover, EC published the update of the data on the transmission of free allocations from NER (new entry reserves). The aggregate number of CO<sub>2</sub> emissions allowances sent from the beginning of stage III, i.e., from 2013, until today is 139.9 million, of which as much as EUA 25.8m were sent after January 2017. Next update is to be published in January 2018.

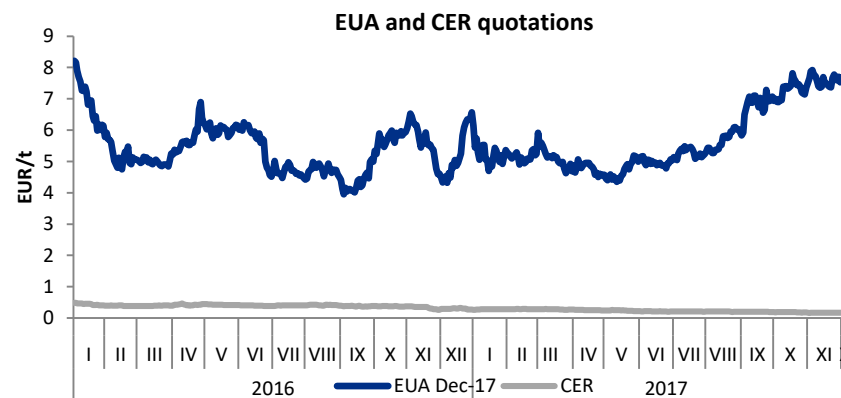
On 17 August, the new stricter BAT conclusions were published in the Official Journal of the EU, setting the nitrogen oxides, sulphur dioxide, lead and suspended dust emissions standards applicable, among others, to large coal fired power plants (4 years for adjustment) at the level much higher than that effective hitherto.

Another Climate Change Conference, COP23, was held in Bonn. Among the most important results of the meeting is the progress in determining the schedule of works over the Paris Agreement implementation. On 22 November, EU adopted the plan of reform of trading in CO<sub>2</sub> emissions allowances under the formula which was developed during the tripartite meeting on 8 November. The main assumptions of the reform include increasing the reduction ratio from 1.74% to 2.2% starting from 2021 and increasing the stabilisation reserve (24%).

Table 4. EUA and CER price change

Product	Price [EUR/t]		% change
	Beginning of January 2017	End of December 2017	
EUA Spot	6.11	8.14	↑ 33.2%
CER Spot	0.26	0.17	↓ -34.6%
EUA Dec-17	6.14	7.39	↑ 20.4%
CER Dec-17	0.27	0.18	↓ -33.3%

Source: Own development based on ICE data.



Source: Own development based on BlueNext and ICE data.

**Risk management**

Enea Group is exposed to risks in each segment of its activity. The risk materialisation could have a significant adverse effect on the continuity of business of individual member companies of the Group, their financial standing, and ability to achieve their strategic goals.

The awareness of these risks requires maintaining, using, and constantly improving a formalised and integrated enterprise risk management (ERM) system. Its framework is determined by the single Enterprise Risk Management Policy binding in Enea Group. ERM system in Enea Group is based on the comprehensive approach to the risk management issue and determination of detailed rules for risk identification and assessment. This is the basis for identification of the key corporate risks and for monitoring of exposure to these risks as well as preparing and monitoring mitigation plans. In the case of some corporate risks, such as credit, liquidity loss, FX, interest rate, and commodity risks, the formalised approach to risk management takes the form of dedicated Policies and Procedures.

The risk management rules adopted are determined on the basis of the highest management standards and compliant with relevant market practice.

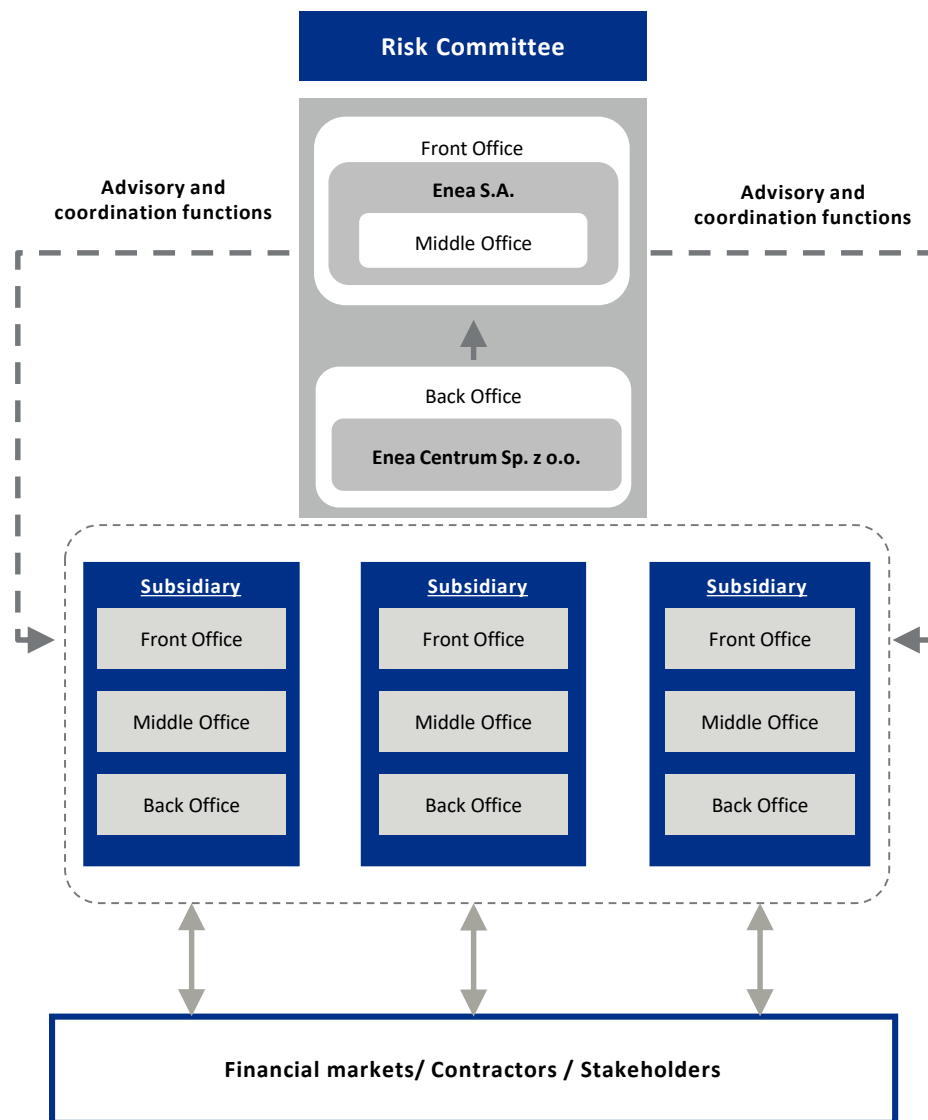
In 2017, the risk management system was undergoing further development and process optimisation, e.g., as a result of the works related to integration with LW Bogdanka and Enea Elektrownia Połaniec and the implementation of IT systems in the scope of corporate and credit risks.

**Management model**

The risk management organisation at Enea Group is based on a coordinated model. The key assumption of the model operation is the coordination of risk management processes within the Group by Enea SA..

**Key features of the coordinated model:**

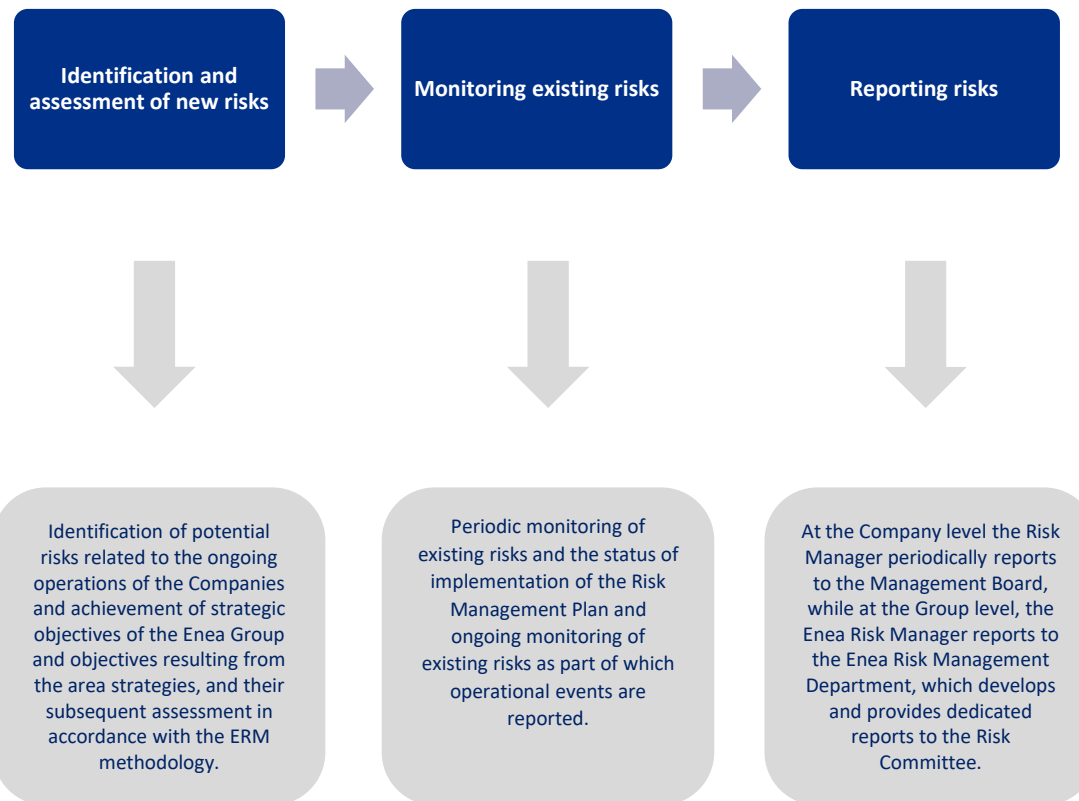
- Member companies of the Group manage risks on the basis of uniform standards set out in the Policies and Procedures.
- The companies ensure operating management of risks within allocated limits and pursuant to the rules approved by Enea Group Risk Committee.
- Individual companies report to the parent company on the measures implemented in the area of risk management..
- Enea SA acts in its capacity as the process coordinator in the Group.
- The Company’s organisational structure is divided into Front-, Middle- and Back Office.





**Risk management process**

The risk management process in Enea Group is a multi-stage process, engaging all the significant organisational units of the Group Companies. The process model is compliant with the best market practice, and also standards being in force within this scope.



**Risk Assessment**

Each risk included in the Risk Register is assessed in terms of probability and potential financial, reputational and health and safety impacts in line with the Corporate Risk Assessment Scale.

Likelihood	4	4	8	12	16
	3	3	6	9	12
	2	2	4	6	8
	1	1	2	3	4
Outcome	1	2	3	4	

  Key risk     
   Material risk     
   Immaterial risk

The identification process also includes non-financial risks that may have a significant negative impact on social, employee, environmental, human rights and anti-corruption issues. Their detailed description can be found in "The Non-Financial Statement" on slide 119 of this Report.

### Documentation governing the risk management process in Enea Group

The overall system of rules for the risk management system operation at Enea Group is described by a concise list of documents constituting internal law and including relevant Policies and Procedures.

The Policies play the role of constitutive documents setting the framework for the operations performed, specifying the scopes of responsibility of participants, and providing the fundamental guidelines for the management model. The Procedures, in turn, describe the course of process of such operations and the methods employed to conduct any audits, measurements, etc.

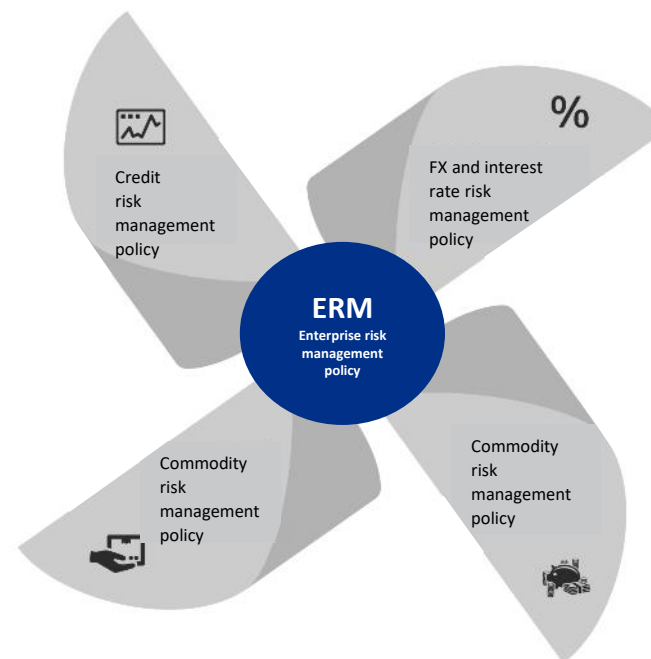
### Enea Group Risk Committee

The key authority in the risk management process at Enea Group is the Risk Committee. The Committee is an interdisciplinary body composed of the representatives of key business areas at Enea Group who represent all key companies of the Group.

### Members of Enea Group Risk Committee

The Risk Committee is composed of dedicated members of the management board of Enea SA and its Subsidiaries within the Group as well as Enea SA department directors in charge of risk management, audit and Compliance.

### INTEGRATED RISK MANAGEMENT SYSTEM



Powers of the Risk Committee	
1.	Giving recommendations to Enea Management Board on approving the policies governing the process of managing risks, business continuity, insurances, and compliance with approval of any relevant updates
2.	Accepting and analysing information received from Content Management Units in the area of managing risks, business continuity, and insurances
3.	Providing opinion on annual reports on the Compliance Policy implementation which are submitted to Enea Management Board for approval
4.	Accepting semi-annual reports on the Compliance Policy ongoing implementation and preparing recommendations as to the Compliance Policy implementation
5.	Issuing of binding interpretation (construction) of the Compliance Policy provisions
6.	Approving the operating documentation governing the process of managing risks, insurances, and business continuity with approval of any relevant updates (strategies, procedures, methodologies, tools, instructions, guidelines, etc.)
7.	Making decisions on the issues which include, without limitation: <ul style="list-style-type: none"> <li>a. Issues resulting from the documentation governing the area of managing risks, business continuity, and insurances</li> <li>b. Giving a consent to the deviations from the rules set out in the documentation governing the areas listed in item a)</li> <li>c. Giving a consent for the member companies of Enea Group to sign contracts based on foreign law or on the settlement currency other than the Polish zloty (save for EFET framework contracts and related suretyships agreements in the case where they meet all the following conditions at the same time: the governing law is the German law, the prevailing language is English, the disputes are settled before the arbitration court, and the settlement currency is EUR or PLN)</li> </ul>

Enea Group's Risk Model

RISK MODEL	CORE RISKS TO WHICH ENEA GROUP IS EXPOSED IN SPECIFIC CATEGORIES	EXAMPLES OF RISK MITIGATING ACTIONS TAKEN IN SPECIFIC CATEGORIES
STRATEGIC	<ul style="list-style-type: none"> <li>• The risk of breaching legal and internal regulations on the protection of personal data</li> <li>• The risk of delays in the implementation / failure to implement measurement of the MV / LV station by the specified statutory deadlines</li> <li>• The risk of an unforeseen increase in the cost of acquiring electricity or gaseous fuel</li> <li>• The risk of adopting erroneous assumptions for long-term financial projections</li> <li>• The risk of improper management of information in a crisis situation</li> <li>• The risk of fewer free CO<sub>2</sub> allowances granted due to non-implementation of investments reported to KPI.</li> <li>• The risk of non-compliance with the restrictive objectives of the EU climate policy</li> <li>• The risk of a generation gap</li> <li>• The risk of failure to meet the economic objectives of the planned construction of the Ostrołęka C power plant</li> </ul>	<ul style="list-style-type: none"> <li>• Conducting induction and periodic training for employees and co-workers</li> <li>• Participation in the work of thematic teams and the bodies of the Association of Energy Trading and other industry associations</li> <li>• Securing systems that process personal data by ensuring system security measures</li> <li>• Monitoring and verification of forecasts of exchange rates, interest rates and other macroeconomic assumptions</li> <li>• Maintaining efficient communication channels with key business units</li> <li>• Participation in work on regulations for the energy and coal industry</li> <li>• Implementation of solutions aimed at supplementing, enhancing and strengthening the competences and knowledge of the organization, e.g. through paid internships and apprenticeships</li> <li>• Ensuring a transparent, competitive and motivational remuneration system</li> <li>• Monitoring of legislative activities</li> <li>• Updating the financial model in line with planned legislative changes</li> </ul>
FINANCIAL	<ul style="list-style-type: none"> <li>• The risk of breach of financing agreements</li> <li>• The risk of rating loss</li> <li>• The risk of losses due to contractors' failure to meet their contractual obligations (including the credit risk)</li> </ul>	<ul style="list-style-type: none"> <li>• Monitoring of banking covenants at Enea Group</li> <li>• Ongoing consultations with the credit rating agency</li> <li>• Conducting structured activities in the area of credit risk management and debt collection, formally defined by means of implemented documentation</li> </ul>
OPERATING	<ul style="list-style-type: none"> <li>• The risk of non-compliance with BAT conclusion requirements</li> <li>• The risk of excessive consumption of some elements of generation assets.</li> <li>• The risk of delayed tender processes.</li> <li>• The risk of non-compliance with laws and internal regulations regarding information processing and IT security in the ENEA Group.</li> <li>• The risk of lowering the Vistula water level due to long-term drought or ice jam and the incidence of high water temperatures in the Vistula River resulting in under-performance of units</li> </ul>	<ul style="list-style-type: none"> <li>• Projects related to compliance with the requirements of the BAT conclusions</li> <li>• Analyses and research on the state of production assets. Initiating renovation projects as needed</li> <li>• Regular periodic employee training</li> <li>• Regular periodic reviews of systems processing personal data and their assessment in terms of ensuring security</li> </ul>
MARKET	<ul style="list-style-type: none"> <li>• The risk of price volatility on the futures market</li> <li>• The risk of non-continuity of fuel supplies</li> <li>• The volumetric risk of fuel and transport</li> <li>• The risk involved in the sales of the assumed volume of coal to major customers</li> </ul>	<ul style="list-style-type: none"> <li>• Improving methods and tools to optimize commodity portfolios</li> <li>• Maintaining and developing competences within the Company to manage the commodity risk</li> <li>• Diversifying sources of supply and service provision</li> <li>• Continuous analysis of the fuel and energy market</li> <li>• Optimization of coal supplies within the Group to the generation entities of the Group taking into account the limited capacity of the by-pass routes and the increase of transport costs on the LWB coal by-pass routes</li> </ul>

## Natural environment issues – Enea Wytwarzanie

### Systemic Power Plants Segment

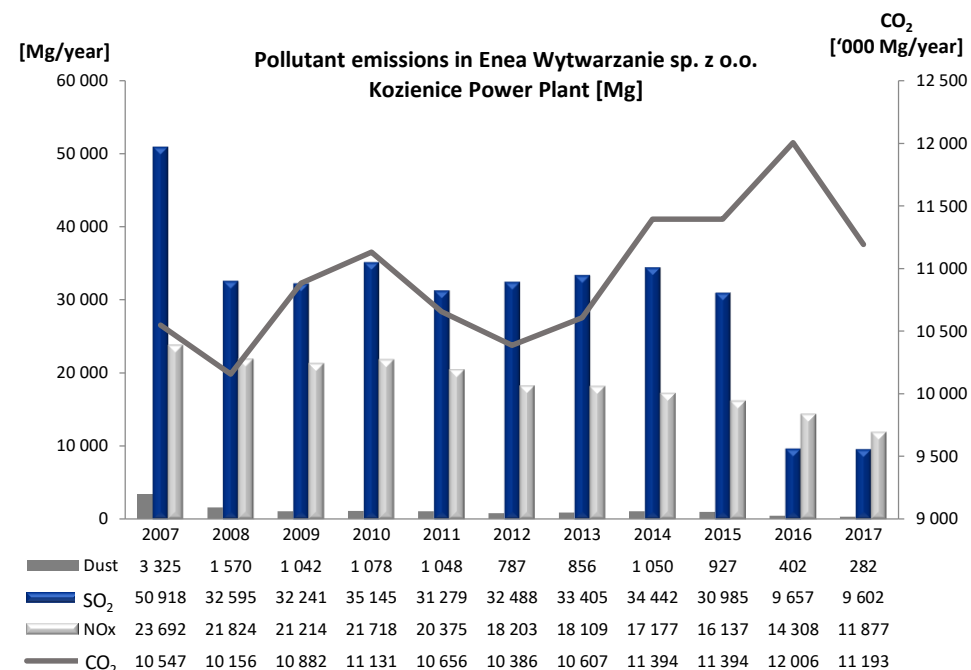
Pursuant to IED Directive, stricter standards of pollution emissions have been in effect since 1 January 2016. The postponement of their effective date was ensured through the derogation mechanism stipulated in the Directive in the form of the Transitional National Plan (TNP) which is binding from 1 January 2016 to 30 June 2020.

During the participation in TNP, it is necessary to keep annual mass limits for pollutions reported for derogation by the plant operators (pursuant to the Regulation: Journal of Laws 2015 item 1138, as amended); also, the emission standards effective as at 31 December 2015 apply. In the light of the rules of TNP operation, it is possible to settle the allocated limits together with other members of the Group: within Enea SA Group, Koziencice Power Plant has shared settlements with Białystok Heat and Power Plant in terms of SO<sub>2</sub> and dust limits. Participation in TNP enables the Company to optimise expenses related to air emissions.

As from 1 January 2018, stricter standards of NO<sub>x</sub> emissions (pursuant to IED Directive) will apply due to the fact that the Treaty of Accession derogation period has ended on 31 December 2017. In order to reduce the nitrogen oxides emissions to the air, the nitrogen oxide selective catalytic reduction (SCR) plant has been gradually constructed since 2013 at Koziencice Power Plant. As at the end of 2017, SCR plant was installed in 200 MW power units, save for the power unit No. 3 where it is not planned to install the SCR plant for economic reasons. In the years 2018 and 2019, it is planned to install the SCR plant in 500 MW power units No. 10 and No. 9, respectively.

Desulphurisation of all flue gases with the use of the FGD I-IV plant offers the warranty of keeping the mass limit on pollution emissions as per TNP and meeting the emission standards set out in IED Directive. The proper operation of the installed ESP plants and their successive replacement for high-end highly efficient plants together with the second stage of dedusting which is guaranteed by the operated FGD plants ensures the achievement of the applicable dust emissions standards. The replacement of ESP plant in the power unit No. 9 is planned for 2019.

On 20 December 2017, the Power Unit No. 11 (1,075 MW) was commissioned. The initial measurements performed during its acceptance procedure have demonstrated that the unit reaches all acceptable pollution emission values specified in the integrated permit.



### Investment operations implemented in order to meet the requirements of Directive 2010/75/EU on industrial emissions (IED) – Koziencice Power Plant

Unit	Generating capacity (MW)	Denitrification installation (compliant with IED < 200 mg/Nm <sup>3</sup> )					Desulphurisation installation (compliant with IED < 200 mg/Nm <sup>3</sup> )		Dedusting equipment (electrostatic precipitators) (compliant with IED < 20 mg/Nm <sup>3</sup> )		
		2014	2015	2016 derogation period	2017	2018	2019	2014	2015	2016	2017
B1	228			✓							
B2	228		✓								
B3	225										
B4	228				✓						
B5	228			✓							
B6	228	✓									
B7	228		✓								
B8	228				✓						
B9	560					✓		✓			✓
B10	560							✓			✓

Natural environment issues – Enea Wytwarzanie

Within the requirements specified by the IED Directive, as well as BAT conclusions planned for implementation from 18 August 2021 (kBAT) – Enea Wytwarzanie has been consistently for many years realising the specified schedule of adaptation investment activities.

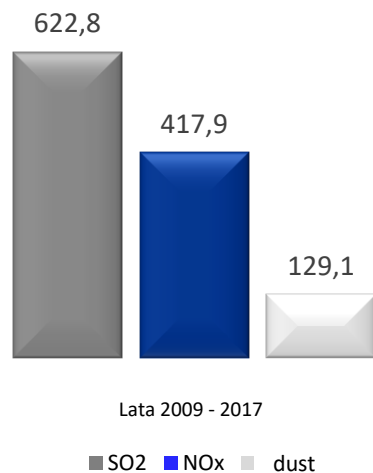
In 2017 the following activities were conducted at Kozenice Power Plant:

- activities related to the adjustment of Enea Wytwarzanie sp. z o.o. to the requirements of the BAT conclusions,
- further catalytic flue gas denitrification installations (SCR) were built on two 200 MW units No. 4 and 8 (with achievable concentrations below 100 mg / Nm<sup>3</sup>) to significantly reduce nitrogen oxides.

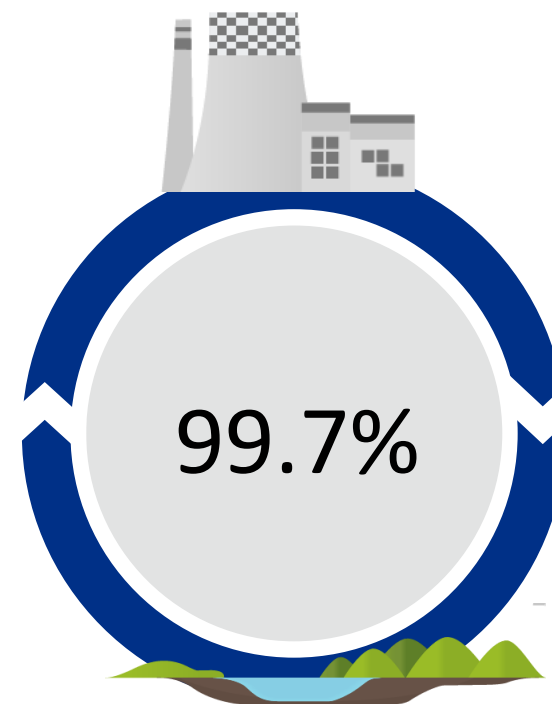
The flue gas denitrification installation on the 500 MW unit No. 10 is at its final stage of implementation. In 2018, the SCR installation is planned for the remaining 500 MW unit No. 9.

The SCR installations gradually developed until 2019 provide the Company with the possibility to comply with the requirements of the IED Directive as well as future requirements arising from the BAT conclusions.

Total financial expenditures for reduction of emissions of SO<sub>2</sub>, NO<sub>x</sub> and dust to the air in 2009-2017 in Kozenice Power Plant [m PLN]



Water consumption in energy generation process



99.7% of collected water is reverse intake. Kozenice Power Plant does not use underground water for production purposes.



Natural environment issues – Enea Elektrownia Połaniec

Enea Elektrownia Połaniec S.A. takes advantage of the natural derogation stipulated in IED Directive with respect to power unit No. 1. Throughout the derogation period, i.e., from 1 January 2016 to 31 December 2023, the operation of the power unit No. 1 is limited to 17,500 hours. A total number of 4,736 hours was used from the available limit of 17,500 hours, of which 2,189 hours were used in 2016 and 2,547 hours in 2017. As at 31 December 2017, the number of hours still to be used is 12,764. A decision on reporting the power unit No. 1 for natural derogation was made because it was impossible to perform desulphurisation of all operating power units No. 1-7 at the same time.

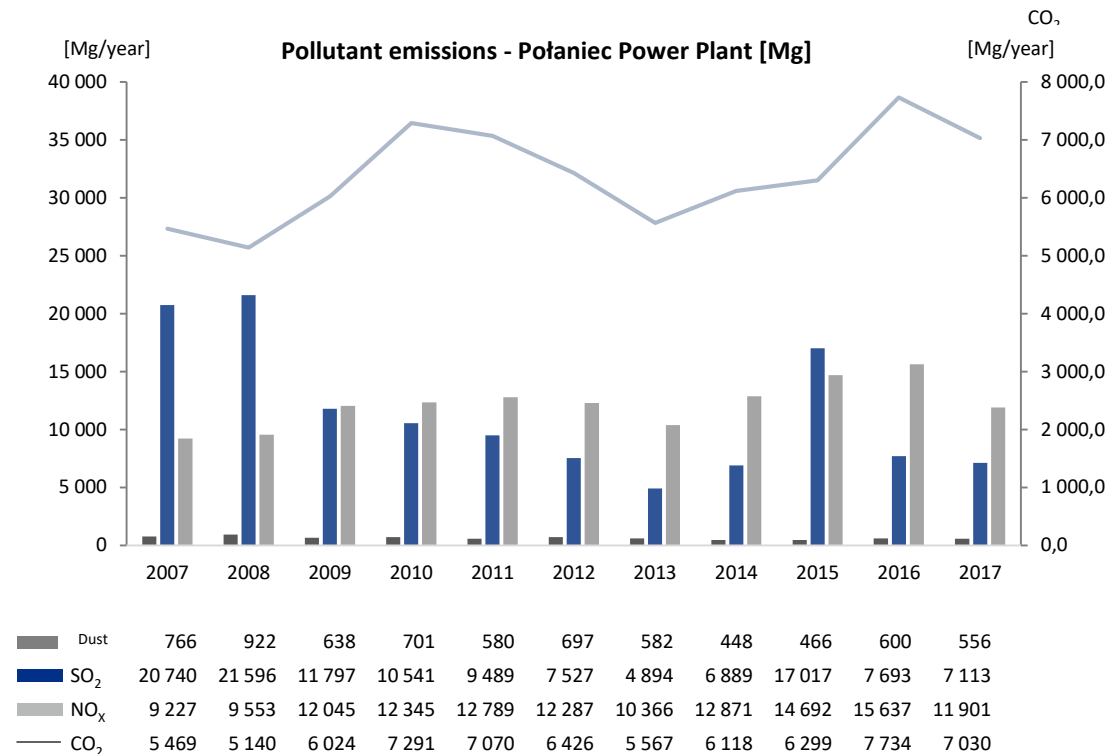
Under Phoenix project whose objective was the upgrade of the Power Plant production capacity and adjusting power units No. 2-7 to the IED Directive requirements, the following improvement of power unit efficiency was achieved:

- Power Unit No. 2 – 242 MW, ISO net efficiency: 38% (before upgrade: 226 MW, efficiency: ca. 36%)
- Power Unit No. 3 – 242 MW, ISO net efficiency: 38% (before upgrade: 223 MW, efficiency: ca. 36%)
- Power Unit No. 4 – 242 MW, ISO net efficiency: 38% (before upgrade: 225 MW, efficiency: ca. 36%)
- Power Unit No. 6 – 242 MW, ISO net efficiency: 38% (before upgrade: 221 MW, efficiency: ca. 36%)
- Power Unit No. 7 – 239 MW, ISO net efficiency: 38% (before upgrade: 221 MW, efficiency: ca. 36%)

The improvement in power efficiency translated to a reduction in bituminous coal consumption by approx. 14g/KWh (approx. 3%) and a decrease in CO<sub>2</sub> emissions. Under the project, the flue-gas desulphurisation (FGD) plant was modernised, whereas the power units No. 2, 3, 6, and 7 were equipped with the nitrogen oxide selective catalytic reduction (SCR) plant. At present, the process of SCR installation in power unit No. 4 is underway. Also, the implementation tendering procedures for Phoenix project in power unit No. 5 has already started.

**Pollutant concentration in Połaniec Power Plant in 2017**

- SO<sub>2</sub> lower by 16 % than the acceptable concentration
- NO<sub>x</sub> lower by 21 % than the acceptable concentration
- Dust lower by 20 % than the acceptable concentration



Investment operations implemented in order to meet the requirements of Directive 2010/75/UE on industrial emissions (IED) – Połaniec Power Plant

Unit	Attainable capacity (MW)	SCR installation (compliant with IED < 200 mg/Nm <sup>3</sup> ) Derogation NOx2016_2017				FGD installation (compliant with IED < 200 mg/Nm <sup>3</sup> )		Dedusting equipment (electrostatic precipitators) (compliant with IED < 20 mg/Nm <sup>3</sup> )	
		2016	2017	2018	2019	2016	2017	2016	2017
B1	225	Unit covered by natural derogation of 17,500h				Derogation of 17,500h		Derogation of 17,500h	
B2	242		✓			✓		✓	
B3	242		✓			✓		✓	
B4	242			✓		✓		✓	
B5	225				✓	✓		✓	
B6	242		✓			✓		✓	
B7	239	✓				✓		✓	
B9	205	emissions below IED norms (flue gases do not undergo denitrification)				emissions below IED norms (flue gases do not undergo desulphurisation)			

Natural environment issues – Enea Elektrownia Połaniec

THE MAIN EFFECTS OF IMPLEMENTED ENVIRONMENTAL ACTIVITIES:

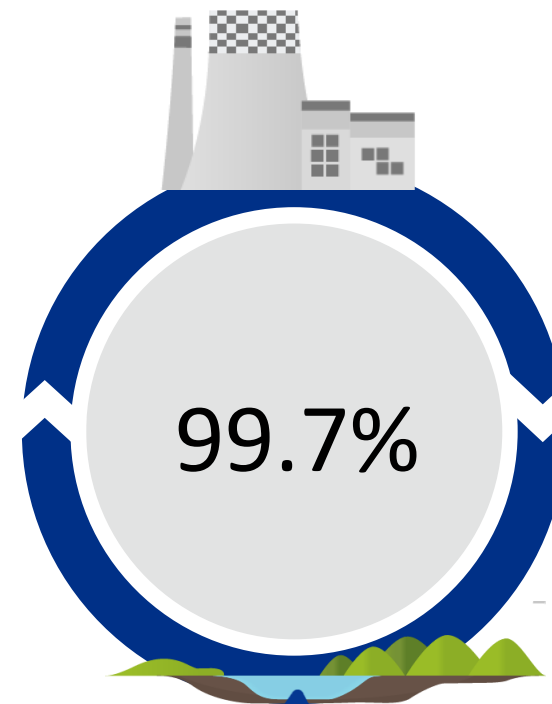
- Improved desulfurization efficiency by installing a formic acid dosing system.
- Equipping units No. 2, 3, 6, 7 with SCR catalysts, resulting in a reduction of nitrogen oxide emissions from about 500 mg/Nm<sup>3</sup> to below 200 mg/Nm<sup>3</sup>. Currently, the SCR catalyst installation process is being carried out at unit No. 4. A tender procedure for the Phoenix project has been launched for unit No. 5.
- Increasing environmental awareness of the employees of the Power Plant, the subsidiary, contractors providing services to the Power Plant and students of nearby schools.

ENVIRONMENTAL EDUCATION ACTIVITIES

In 2017, the following activities were carried out at Enea Elektrownia Połaniec S.A.:

- A meeting with local government authorities of neighbouring municipalities, county and province.
- The ninth edition of Ecological Contest, which aims to promote knowledge of environmental protection and legal regulations on environmental issues among employees of the Power Plant and its Bioenergia subsidiary.
- The second edition of the art contest for neighbouring primary schools designated for children. The aim of the competition is to promote knowledge about the Power Plant and undertaken environmental activities. The subject of the contest is „The Power Plant for the environment, the environment for the Power Plant“.

Water consumption in energy generation process



99.7 % of collected water is reverse intake. Połaniec Power Plant does not use underground water for production purposes. In some technological processes, wastewater is used (instead of freshwater).

### Transitional National Plan

The stricter emissions standards introduced by IED Directive may be postponed by taking advantage of the TNP derogation referred to in Article 32 of IED Directive (implementation to the Polish law through Article 146c of the Environment Protection Law Act, Journal of Laws 2001 No. 62 item 627, as amended). Koźienice Power Plant and Białystok Heat and Power Plant confirmed their participation in TNP in terms of emissions of: SO<sub>2</sub>, dust – Koźienice Power Plant and SO<sub>2</sub>, dust, and NO<sub>x</sub> – Białystok Heat and Power Plant.

Derogation from the emission standards for the sources covered by TNP is effective from 1 January 2016 to 30 June 2020, which means that the standards effective as at 31 December 2015 shall apply in this period (for Koźienice Power Plant: dust - 50 mg/Nm<sup>3</sup>, SO<sub>2</sub> – 1,200 mg/Nm<sup>3</sup> for five 200 MW power units, and 400 mg/Nm<sup>3</sup> for other power units). Pursuant to the Environment Protection Law Act, the Minister of Environment issued Regulation of 21 July 2015 on the requirements relevant for the implementation of the Transitional National Plan (Journal of Laws 2015 item 1138, as amended) which determines the substance mass limits for the sources covered by TNP for the years 2016-2019 and for H1/2020 that become smaller each year.

Enea Wytwarzanie sp. z o.o. settles the emission limits allocated for the pollutants reported to TNP as follows:

- in terms of sulphur dioxide and dust emissions: Koźienice Power Plant together with Białystok Heat and Power Plant,
- in terms of NO<sub>x</sub> emissions: Białystok Heat and Power Plant individually.

The table below presents pollution emission under TNP for 2017 and the degree of utilisation of maximum annual emission limits.

Plant		SO <sub>2</sub>		Dust		NO <sub>x</sub>	
		[Mg]	Utilisation %	[Mg]	Utilisation %	[Mg]	Utilisation %
Koźienice Power Plant	emissions	8,583.89		211.6		-	
	annual max. limit	12,522.5	68.5	1,502.7	14.1	-	-
Białystok Heat and Power Plant	emissions	1,525.2		58.72		297.04	
	annual max. limit	2,666.56	57.2	215.69	27.2	1,347.75	22.0
<b>Total</b>	<b>emissions</b>	<b>10,109.09</b>		<b>269.98</b>		<b>297.04</b>	
	<b>annual max. limit</b>	<b>15,189.06</b>	<b>66.6</b>	<b>1,718.39</b>	<b>15.7</b>	<b>1,347.75</b>	<b>22.0</b>

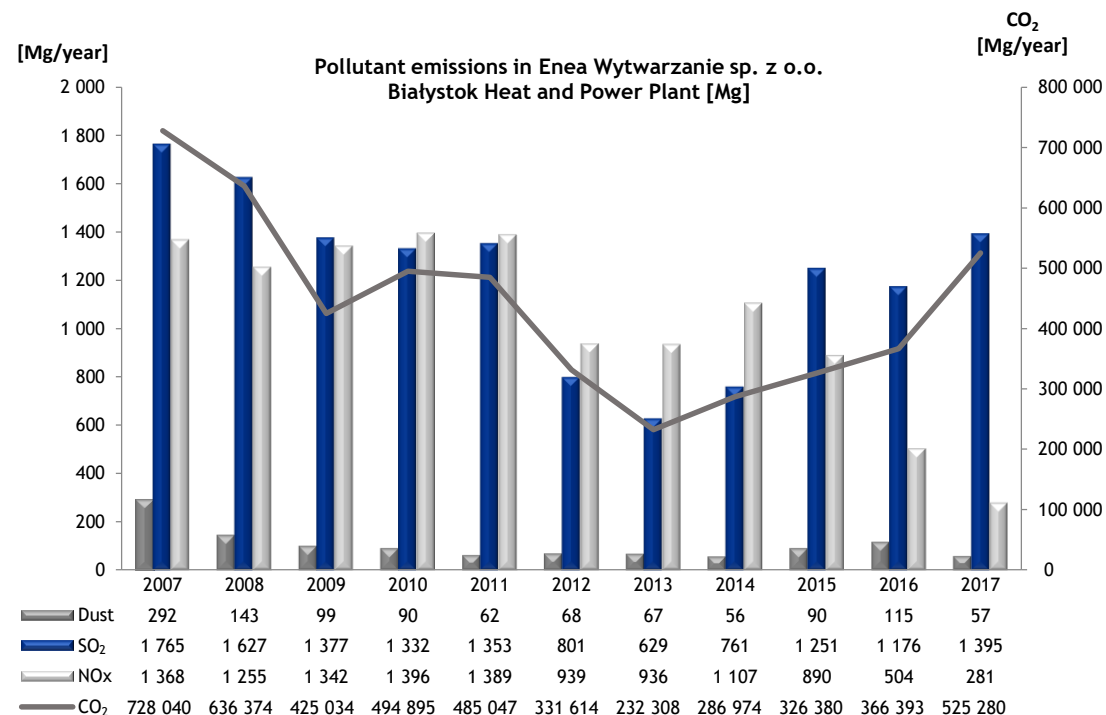
For TNP purposes, emissions (calculated pursuant to the Commission Implementing Decision of 10 February 2012 laying down rules concerning the transitional national plans referred to in the Directive 2010/75/EU of the European Parliament and of the Council on industrial emissions (2012/115/EU)) do not form the grounds for charging the fees for commercial use of the environment.

### Heat Segment

Enea Wytwarzanie in the Heat Segment (Białystok Heat and Power Plant) has implemented the following investments until now which affect the volume of emissions:

- conversion of coal-fired OP-140 boiler No. 5 to biomass fluidised bed OFB-105
- conversion of coal-fired OP-140 boiler No. 6 to biomass fluidised bed OFB-105
- the SCR installation on OFB-105 boilers No. 5 and 6
- the SCR installation on OP-230 boilers No. 7 and 8
- heat recovery system on K6 boiler
- the FGD installation on OP-230 boilers No. 7 and 8.

For 2019, the upgrade of the electro filter on OP-230 boiler No. 8 is planned.



### Investment operations implemented in order to meet the requirements of Directive 2010/75/UE on industrial emissions (IED) – Białystok Heat and Power Plant

Boiler	Current heat output [MW]	SCR installation (as of 2016 compliant with IED < 200 mg/Nm <sup>3</sup> )				FGD installation (as of 2016 compliant with < 200 mg/Nm <sup>3</sup> )				Dust (compliant with IED < 20 mg/Nm <sup>3</sup> )			
		2013	2014	2015	2016	2016	2017	2018	2019	2016	2017	2018	2019
K5	75	✓											
K6	75	✓											
K7	165			✓			✓						
K8	165			✓			✓						✓

Environmental issues

Issues regarding Mining Area – LW Bogdanka:

**Air protection:**

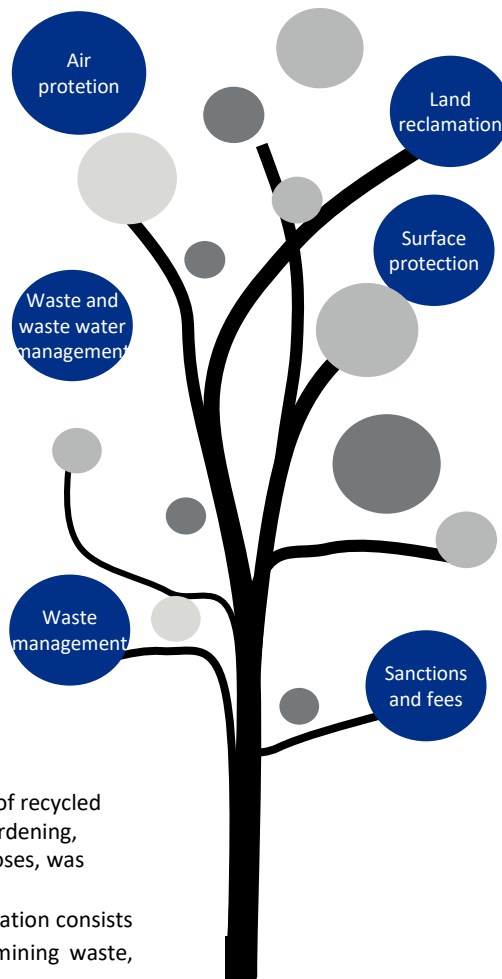
- LW Bogdanka SA does not have any arranged emitter emitting dust and gases to the air
- A non-arranged emitter is the extraction waste neutralisation plant at Bogdanka which may be the source of dusting on dry and windy days
- Fugitive air emissions come from combustion of fuels in combustion engines used in the company and from combustion processes

**Water and waste water management** refers mainly to mine water and includes, without limitation:

- rock mass drainage in the area of mine workings
- controlled drainage of Jurassic aquifers
- re-use of water for fire protection and process purposes
- pumping water to the surface
- surface re-use of mine water (Zakład Przeróbki Mechanicznej Węgla, Łęczyńska Energetyka sp. z o.o. – under SUW)
- mine water retention in a surface reservoir and sedimentation tank for the purpose of suspended solids reduction
- water discharge from the reservoir through a system of drainage ditches and Rów Żelazny watercourse to Świnka river in the amount of approx. 14,622 m<sup>3</sup>/day
- mine waters are characterised by the total contents of chlorides and sulphates in the amount of 1,009 mg/dm<sup>3</sup>

**Waste management:**

- in 2017, the total increase in mining waste was 5,693.7 thousand tonnes
- approx. 47% of waste was subject to recycling and management. The amount of recycled waste, i.e., waste used for industrial waste land reclamation, road and yard hardening, cement production at “Ożarów” Cement Production Plant, and for other purposes, was 2,682.7 thousand tonnes
- 98% of waste is used to perform reclamation of industrial waste land. Reclamation consists in restoring the original relief of such land through filling sand pits with mining waste, covering them with a layer of soil and its agricultural or forest development
- other extraction waste (3,011.0 thousand tonnes) is stored in the extraction waste neutralisation facility in Bogdanka
- LW Bogdanka SA manages other industrial waste: it releases to the licenced entities any waste which is capable of reuse (timber, used oils, scrap metal, scrap conveyor belts) or intended for neutralisation (used light sources, glue and paint packaging, etc.)



**Land reclamation**

- No reclamation works were performed on industrial waste land areas in 2017
- The upkeep works regarding the organised green areas, waste neutralisation facility, and industrial waste land reclaimed in the preceding years in the area of Bogdanka, Nadrybie and Stefanów Fields and the railway facilities in Zawadów are being performed on an ongoing basis

**Surface protection**

- The impact of mining operation conducted in 2017 on the surface was manifested, just as in the previous years, mainly through the expansion of the surface area of the impact exerted so far
- In the area of Bogdanka and Nadrybie Wieś villages, the maximum subsidence remains at the level of 5.00 m in the central part of the subsidence trough
- Just as in the previous years, the damage to buildings in 2017 was caused mainly in rural buildings and was repaired on an ongoing basis; no such reported damage to buildings caused any hazard to users
- In 2017, the aggregate cost of redressing the damage caused by mining operation amounted to approx. PLN 3.1m

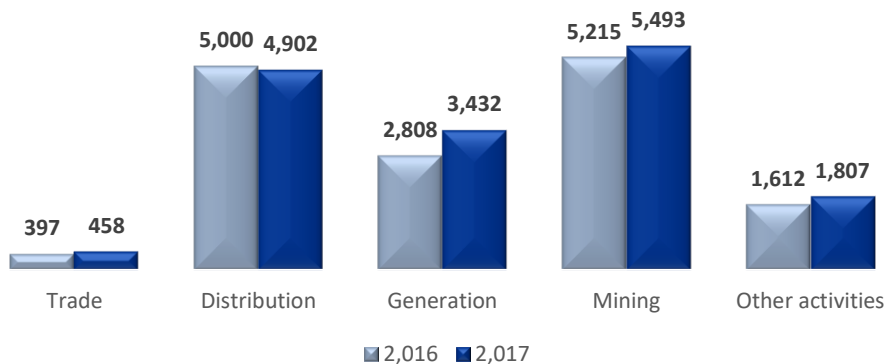
**Sanctions and fees which may be imposed on the Company for environmental protection purposes**

- Mining activity involves the payment of operation fee, the fee for using the natural environment, and various other costs related to:
  - mining waste management,
  - reclamation of industrial waste land,
  - environmental monitoring,
  - preparing the land surveys and documentation necessary for the proper operation of the facility,
- the operation fees are paid every 6 months to the bank accounts of the municipalities where the operation is carried on (60%) and to the National Environmental Protection and Water Management Fund (NFOŚiGW) (40%). The licence fee is the income of NFOŚiGW in 40% and the income of mining municipalities in 60%
- LW Bogdanka SA meets the standards in the field of environmental protection and was not required to pay any penalties for violating the conditions of using the environment set out in applicable legal regulations in 2017

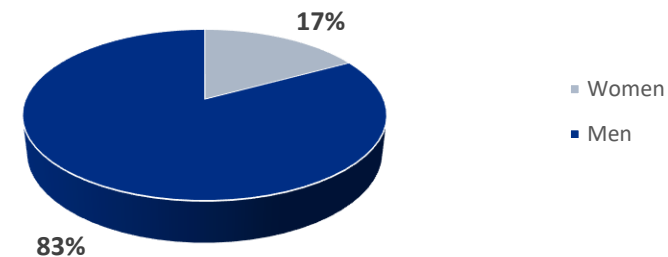
Information on employment

As at the end of 2017, 16,092 persons were actively employed <sup>1)</sup> in Enea Group. The dominant group were persons aged between 26 and 55 years, constituting 78% of all the employees. 80% of the Group's employees are persons with secondary or higher education. Detailed information on employment is presented on the diagrams below.

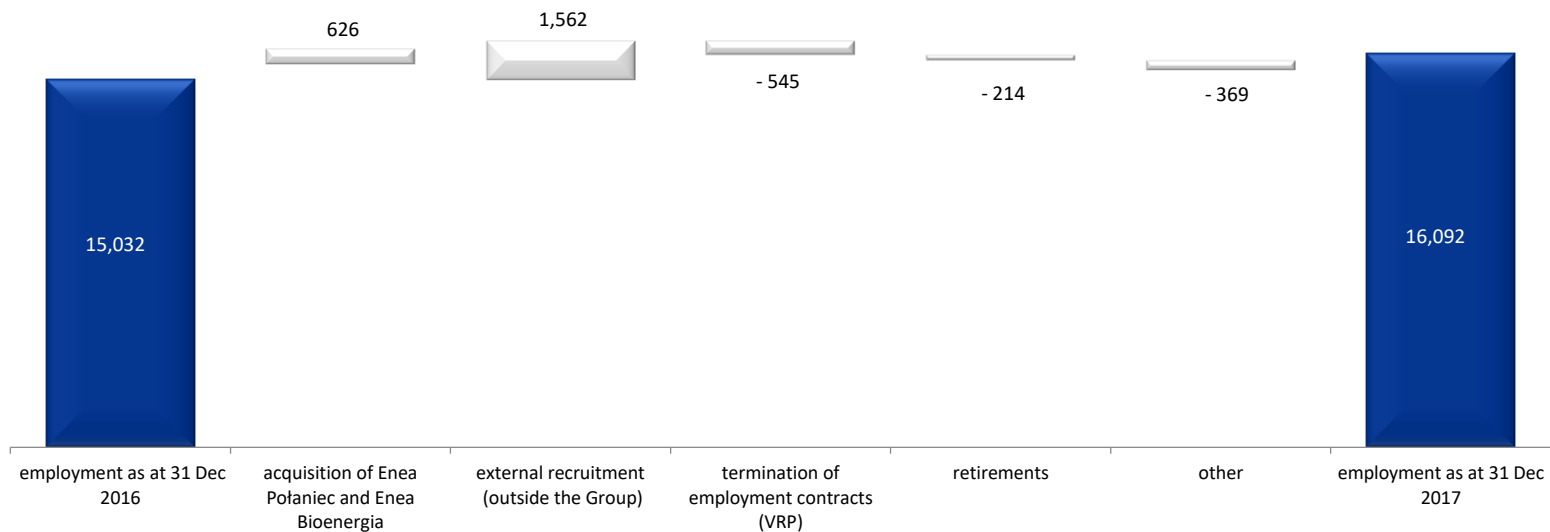
Employment at Enea Group as at 31 December 2017 - employees



Employment at Enea Group as at 31 December 2017 - sex



Changes in employment in Enea Group - employees



<sup>1)</sup> employment without persons on rehabilitation benefits, parental leave and unpaid leave

### HR Policy implementation at Enea Group in 2017

1. Optimisation of the HR work organisation model aimed to facilitate the Group’s activity.

The essence of the new model is :

- creating HR policy at the level of Enea SA and cascading the assumptions for implementation to individual member companies of the Group, which is to ensure the cohesion of HR operations and support for the pursuit of Enea Group Strategy
- ensuring business support in member companies of the Group through HR Business Partners responsible for implementing HR solutions, supporting the Management Boards and the management staff in HR managing, and cooperation with the company’s trade union organisations
- development and implementation of cohesive HR processes and standards throughout Enea Group in such areas as: recruiting, hiring, and changes to employment terms and conditions, development policy, training, management by objectives, incentive systems, etc.
- leaving in the Shared Service Centre at Enea Centrum only the operating activities in the field of HR and payroll services, the Company’s Welfare Benefits Fund, handling of training, and settlement of trade union organisations

2. The implementation of the Generation Change Scheme (GCS) aimed to ensure the proper exchange of personnel and maintain the competence at Enea Group, which warrants maintaining the continuity of business processes. GCS includes 3 components: the Voluntary Redundancy Scheme announced in 2016, the Competence Improvement Scheme, and the New Payroll Policy. The above components are systemic operations and will be continued in the subsequent years throughout Enea Group.

- the Voluntary Redundancy Scheme (VRS) – the process is underway of presumed restoration of jobs for the employees who terminated their employment contracts under the VRS.

- the Competence Improvement Scheme – starting long-term Development Schemes targeted at all employees of ENEA Group. The first stage of the project: the audit of competence, diagnosing competence gaps and obtaining employees’ opinions on the organisation in the satisfaction survey – operations continued in Q1 2018.

3. HR process digitalisation – initiating the operations aimed to introduce electronic personal files (e-files) and electronic document circulation in the scope of processes handled by HRBP (recruiting, hiring, changes to employment terms and conditions, etc.).

4. Operations in the field of employer branding aimed to win the best candidates for work, including the measures targeted at students and graduates, such as promoting at higher schools and during career fairs the “Get installed at Enea” internship and student practice programme which came into effect in January 2017 and the measures targeted at students of technical schools through establishing a model of cooperation with patronage schools in the Company’s area of operation, promoting employment at Enea among students (potential employees), and supporting students in the education process, e.g., through organising educational trips and meetings with experts from Enea.

5. Permanent review of incentive systems and adjusting them to market conditions; implementing the tool for management by objectives, being the basis for transparent and incentive remunerating for the performance, including remuneration for the management and for the sales personnel.

### Information on the rules for remunerating in effect at Enea SA

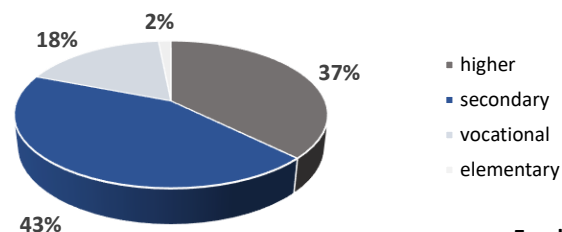
In 2017, there was no formalised remuneration policy at the Company with respect to members of the Company’s bodies and the key managers. However, various formal remuneration regulations are applied in the Company. At Enea SA, remunerations are determined on the basis of the company’s collective labour agreement, bonus regulations, and work regulations. The rules for determining remunerations at Enea SA are linked to its strategy, objectives, interests, and results. In addition, they are set out taking into consideration the principle of non-discrimination on any grounds. Save for the modifications in the rules of remunerating persons performing management or supervision functions, there were no significant changes to the remuneration rules applied at the Company in 2017.

The extra-financial remuneration components (including those for the key managers) applied by Enea SA in 2017 included, without limitation: health care services, training courses, welfare benefits (under the Company’s Welfare Benefits Fund, i.e., co-financing the employees’ holidays and sports, leisure, cultural and education activities, and low-interest loans for housing purposes), an additional day off, preferential insurance offer, company cars with the option to use them for private purposes, and the employee pension scheme.

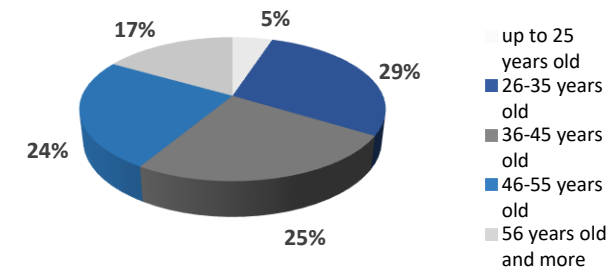
As mentioned above, there was no formalised remuneration policy at Enea SA in 2017. However, the remunerating rules applied at the Company are assessed positively from the point of view of implementation of its objectives, including long-term increase in value for shareholders and stability of the enterprise operation.

As at 31 December 2017, neither the Issuer nor the member companies of Enea Group had any liabilities (including assumed liabilities) on account of retirement pensions or similar benefits assigned individually to former employees performing management or supervision functions or former members of administrating authorities.

Employment at Enea Group as at 31 December 2017 - education



Employment at Enea Group as at 31 December 2017 - age



### Significant trends in the Distribution Area

New technologies emerging, Clients' rising expectations, and a dynamically changing economic environment in Poland and worldwide anticipate changes to the way of operation of Distribution System Operators (DSO); in particular, they emphasise the need to implement innovative solutions in the area of distribution which lead to upgrade and extension of the distribution network enabling to absorb the leading trends in the power industry.

Key trends are related to:

- the development and implementation of smart grids
- the development and implementation of high-end IT systems supporting network management
- the occurrence of new institutional and technical solutions, such as clusters, power cooperatives, prosumer market, power warehouses, electromobility
- implementation of R&D projects

### Tariff for electricity distribution services

The new model of quality regulation came into effect on 1 January 2016, but it will affect the finances of Enea Operator (and other DSO) as of 2018. The President of ERO made a part of the regulated revenue dependent on the quality of services provided by such entities. The service quality assessment will take place in the form of measurement of various indicators, including, without limitation, power supply reliability and the time of connection to the power grid.

From the perspective of the Tariff for electricity distribution services approved for the year 2018, the quality regulation impact on the revenue achievable by the Company is negligible for the year under analysis.

Moreover, in connection with the Regulation of the Minister of Energy of 29 December 2017 on the detailed rules for determining and calculating rate structures and settlements in electricity trading, a new power tariff group G12as was established within the Tariff for electricity distribution services. It is to promote energy consumption during the so-called night consumption fall by setting preferential rates of the grid rate variable component. At present, it is not possible to estimate the impact of establishing a new tariff group on the Company's revenues.

Similarly, the abovementioned Regulation introduces modifications to the clauses governing discounts for non-achievement of the recipient service quality standards or electricity quality parameters. As of 1 January 2019, DSO are obliged to automatically offer discounts to energy recipients within 30 days of the day when they failed to keep the recipient service quality standards or electricity quality parameters and to specify the length of blackout for which a discount is granted. At present, such discounts are granted to recipients upon their request.

### Increasing number of energy sellers

The number of electricity sellers has been constantly growing. The occurrence of a seller pursuing an aggressive pricing policy may put a pressure on the margin on energy sales to retail clients.

Another important fact is that more and more clients decide to change their energy seller. As at the end of December 2017, the number of TPA (Third Party Access) recipients among enterprises (power tariff groups A, B, C) reached 188,231, which means a rise by 8.3%. As regards households, there were 546,867 TPA recipients among them (power tariff group G) as at 2017, which means an increase by 18.2% when compared to the status as at the end of December 2016.<sup>1)</sup>

### Continued cooperation at the construction of the first nuclear power plant in Poland

On 3 September 2014, PGE Polska Grupa Energetyczna, on the one side, and Tauron Polska Energia, Enea and KGHM Polska Miedź (Business Partners), on the other side, signed the Shareholder Agreement. On 15 April 2015, pursuant to the Shareholder Agreement, an agreement of sale of shares in PGE EJ 1 sp. z o.o. was signed, whereby each of the Business Partners acquired 10% of shares in PGE EJ 1. As a result of transfer by PGE Polska Grupa Energetyczna to the Business Partners of shares in PGE EJ 1, PGE Polska Grupa Energetyczna holds 70% in the share capital of PGE EJ 1, whereas the remaining Business Partners (Tauron Polska Energia, Enea and KGHM Polska Miedź) hold 30%, i.e., each of them holds 10%.

Pursuant to the assumptions, PGE Polska Grupa Energetyczna acts as the leader in the project of construction and operation of the first Polish nuclear power plant, whereas PGE EJ 1 is to act in its capacity as the power plant operator in the future.

Pursuant to the Shareholder Agreement, the Parties jointly agree to finance the operations under the initial stage of the Project (Development stage) pro rata to their shareholdings. Enea's financial involvement during the Development stage will not exceed the amount of approx. PLN 107m. In 2017, PGE EJ 1 continued works under the programme of preparing for the construction of the nuclear power plant in Poland.

The Parties to the Shareholder Agreement stipulate that a decision on the declaration of individual Parties' further participation in the subsequent stage of the Project will be made after the Development stage completion.

### Building the generation portfolio

Notwithstanding the take-over of 1,075 MW power plant at Koźnice Power Plant, Enea intends to engage in the construction of new sources or acquisition of the existing ones. Some of these operations will be implemented through partnerships with other energy groups. Implementation of this strategy will mean a significant increase in Enea's importance in electricity production for purposes of the National Power System. The aggregate installed power capacity of conventional sources of power generation is to rise to the level of 5.8-6.3 GW in 2025. This will allow the Group to produce from its own sources 20.7-22.8 TWh of electricity, which will mean the balancing of electricity production and sales.

### Rating

On 30 June, Fitch Ratings agency maintained Enea's long-term rating in domestic and foreign currency at the level of "BBB", which is of material significance for the implementation of the Group's investment plans. The agency confirmed but at the same time withdrew, for contractual reasons, its domestic long-term rating at the level of "A+(pol)" with a stable perspective. Fitch Ratings agency has been conducting the Company's credit risk assessment since 2011.

### Exemption from the duty to submit the rate structures applicable to households

Pursuant to Article 49 of the Energy Law, the President of ERO may exempt a power enterprise from the duty to submit rate structures for approval, if the President finds that the enterprise operates on a competitive market. The release from such duty may have a positive impact on the margin on energy sales.

### Demand for electricity

According to the forecasts included in the document entitled "Updated forecast of demand for fuels and energy until 2030", the demand for electricity in the forthcoming years will rise in all economy sectors. Pursuant to the abovementioned document, net electricity production will have risen to 193.3 TWh by 2030. Moreover, pursuant to the document entitled "Conclusions from forecasting analyses for purposes of the Polish energy policy until 2050", in the time horizon reaching 2050, electricity production will increase by approx. 40% – from 158 TWh in 2010 to 223 TWh in 2050.<sup>2)</sup>

Notwithstanding the above, the Ministry of Energy is currently working on the new Polish power policy (PPP) which will describe the government's long-term vision for the power sector.

<sup>1)</sup> [ure.gov.pl/urząd/informacje-ogolne/aktualnosci/7389,Kolejni-odbiorcy-energii-elektrycznej-skorzystali-z-prawa-wyboru-sprzedawcy.html?search=17331048](http://ure.gov.pl/urząd/informacje-ogolne/aktualnosci/7389,Kolejni-odbiorcy-energii-elektrycznej-skorzystali-z-prawa-wyboru-sprzedawcy.html?search=17331048)

<sup>2)</sup> [bip.me.gov.pl/files/upload/21394/Wnioski%20z%20analiz%20progностycznych\\_2014-08-11.pdf](http://bip.me.gov.pl/files/upload/21394/Wnioski%20z%20analiz%20progностycznych_2014-08-11.pdf)



### Collective disputes

There is no collective dispute in any of the key companies being members of Enea Group. In order to eliminate the risk and occurrence of potential collective dispute, the management boards of the companies remain in constant dialogue with the community. We adjust individual provisions of the "Corporate Governance" taking into account the specificity of LW Bogdanka as the company listed on the WSE.

### Court and administrative proceedings

As at the day of submitting this report, there are no pending proceedings to which Enea SA or its subsidiary unit is a party regarding the liabilities or debt claims whose unit or total value would account for at least 10% of equity of Enea SA.

A detailed description of the proceedings is included in note 47 to the consolidated financial statements of Enea Group for 2017.

### Long-term power market development

On 16 February 2016, the Government of the Republic of Poland adopted the "Plan for the Responsible Development of Poland"<sup>1)</sup>. The document sets the main directions of the State operation and the new impulses ensuring its stable development in the future.

The plan assumes that the Polish economy growth will be based on the following five pillars: reindustrialisation, innovation, capital, foreign expansion, and social and regional development.

Pursuant to the provisions of the power market document, in order to increase energy efficiency and unlock investments after 2020 (which includes avoiding blackouts and becoming independent of energy imports), the State intends, among others, to support the development of power infrastructure (power links, electricity storage technologies), release market areas and introduce the power market mechanism providing an impulse for investments in conventional power segment.

### Regulation on the protection of personal data (RODO)

RODO is an EU legal act which will come into force on 25 May 2018. It introduces new rules for the processing of personal data and imposes new obligations on data controllers. RODO provides for high administrative fines for non-compliance with the provisions of the Regulation and the right to compensation for persons whose right to the protection of personal data has been infringed. Enea SA is currently preparing for the upcoming changes and is implementing the obligations for data controllers laid down in RODO.

### New projections for energy price curves

The long-term financial projections of Enea Group based on electricity price curve forecasts and the expectations regarding fluctuations in market prices of energy origin certificates, CO<sub>2</sub> emissions allowances, and coal prices prove that the situation in the Generation Area becomes more and more demanding. Due to the continued rising trend on the market of energy fuels and their transport, causing the imbalance between the revenues earned and the energy generation cost, the Group anticipates the need for the fast coming into effect of the announced systemic power industry support mechanisms (e.g., through implementing the abovementioned power market). The difficulties experienced by generation sources in generating good financial results exclude the possibility of making outlays on development investments which seem unavoidable in the years to come.

### Variability and liquidity on the wholesale market

Since early 2016, we have been observing a decreasing liquidity of trading in electricity at the Electricity Term Market operated by the Polish Power Exchange (PPE). The situation has not improved in 2017: the volumes of trading in electricity on the PPE term market during three quarters were lower than in the previous year by 36%. A reduction at DAM (spot) market was smaller and amounted to 9%. In response to the dramatic situation at the exchange, the so-called exchange obligation will double already since 2018. A positive fact is the rising trading on the natural gas term market enabling to diversify commercial activity.

### Limits on Property Rights

In the area of PMOZE\_A (certificates of origin of energy generated from renewable sources), there is a permanent surplus of rights on the market, which is reflected by low price levels. The Regulation of the Minister of Energy of 11 August 2017 determining the obligation level for the years 2018-2019 (17.5% and 18.5%, respectively) improved the perspective for the long-term handling of 25 TWh surplus, which translated to a quite strong increase in prices to the level of 61 PLN/MWh followed by a drop to approx. 40 PLN/MWh.

In the area of PMOZE\_BIO (certificates of origin of energy generated from agricultural biogas), the situation has completely changed when compared to the redemption obligation for 2016 and currently the prices of such rights (over 312 PLN/MWh) are below the replacement fee amount, taking into account the bonus for the right to deduct excise duty (20 PLN/MWh) for the obligations fulfilment through redemption of certificates of origin.

As regards PMEF (energy efficiency), following the announcement on 20 July 2017 of the results of the fifth tender for choosing the projects contributing to the improvement in energy efficiency, one should expect a material oversupply of PMEF on the market, which is already reflected in a significant discount in exchange quotations (approx. 500 PLN/toe when compared to the replacement fee of 1,500 PLN/toe).

The current system of property rights for cogeneration will remain in effect until the end of 2018.

### Termination/withdrawal by Enea SA of/from property right purchase agreements

On 28 October 2016, Enea made a statement of termination of or withdrawal from all long-term property right purchase agreements resulting from the certificates of origin of energy from renewable sources (the so-called green certificates). These agreements became dissolved.

The Company had to terminate /withdraw from/ the individual agreements as it has exhausted all possibilities of restoring contract balance and equivalence of the parties' performances due to the amendments to the law. The financial consequences of dissolving the abovementioned agreements will be the avoidance by the Company of the loss being the balance of the contractual prices and the market price of green certificates.

At present, three cases are pending before the Regional Court in Poznań for declaring ineffectiveness of termination (withdrawal) by Enea SA of (from) property right sale agreements. In addition, some proceedings are pending against Enea SA for payment of the fee for property rights resulting from the deduction of payment for the damage caused to Enea SA through the contracting party's non-fulfilment of its contractual obligation to participate, in good faith, in renegotiating the long-term property right sale agreements pursuant to the adaptation clause binding on the parties.

The estimate total net value of Enea's contractual liabilities was approx. PLN 1.187m.

### Situation in the domestic bituminous coal mining sector

The electricity price curve will be strongly dependent on the cost of production fuel sourcing. The current problems of extraction sector with supply cause the necessity the need to increase coal imports from abroad in 2018 and 2019, which will undoubtedly translate to an increase in prices of energy culm types. Coal as the basic component of the domestic electricity generation cost brings additional risks related to the term contracting process.

### Establishing ElectroMobility Poland SA

On 19 October 2016, PGE Polska Grupa Energetyczna, Energa, Enea and Tauron Polska Energia established ElectroMobility Poland SA. The new company's activity is to contribute to establishing the electromobility system in Poland.

The company has the share capital of PLN 10m. Each of the companies establishing ElectroMobility Poland SA took up 25% of the share capital, thus achieving 25% of votes at the general meeting of shareholders. In January 2018, the share capital of the company was increased by the shareholders to the total amount of PLN 30 million.

<sup>1)</sup> [www.mr.gov.pl/media/14840/Plan\\_na\\_rzecz\\_Odpowiedzialnego\\_Rozwoju\\_prezentacja.pdf](http://www.mr.gov.pl/media/14840/Plan_na_rzecz_Odpowiedzialnego_Rozwoju_prezentacja.pdf)

### **Directive (EU) 2015/2193 of the European Parliament and the Council of 25 November 2015 on the limitation of emissions of certain pollutants into the air from medium combustion plants**

27 November 2017 was the effective date of the provisions of the MCP Directive for medium combustion plants which were incorporated in the Environment Protection Law Act by the Act of 15 September 2017 on amendments to the Environment Protection Law Act and certain other Acts (Journal of Laws 2017, item 1999). The key scope of regulation of the abovementioned Directive is the determination of the emissions standards for three types of air pollutants – sulphur dioxide (SO<sub>2</sub>), nitrogen oxides (NO<sub>x</sub>), and suspended dust for the existing and new medium combustion plants, establishing the duty of SO<sub>2</sub>, NO<sub>x</sub>, dust, and CO periodical monitoring, and setting the time limits for the obligatory adjustment of plants. At present, the Regulation of the Minister of Environment on emissions standards for certain types of plants, fuel combustion sources, and waste combustion or co-combustion plants is in the legislative process that is being conducted having regard to the MCP Directive regulations.

The new regulations are important from the point of view of the companies whose shares are held by Enea Wytwarzanie sp. z o.o. and in which the so-called “medium combustion plants” expressly defined in the MCP Directive are located. These companies include: Przedsiębiorstwo Energetyki Ciepłej sp. z o.o. in Oborniki (PEC Oborniki), Miejska Energetyka Ciepła Piła sp. z o.o. in Piła (MEC Piła) and Miejskie Przedsiębiorstwo Energetyki Ciepłej sp. z o.o. in Białystok (MPEC Białystok).

In order to meet the MCP Directive requirements in PEC Piła and MEC Oborniki, it will be necessary to take adjustment measures in the scope of reducing the emissions of:

- dust – construction of the flue gas dedusting plant (ESP)
- SO<sub>2</sub> – burning coal of sulphur content below 0.6% or construction of the FGD plant.

The time limit prescribed for adjusting the plant to the new requirements is as follows:

- for plants ≤ 5 MW – to 01.01.2030
- for plants > 5 MW – to 01.01.2025

Enea Ciepło sp. z o.o. does not plan to take any adjustment measures due to the possibility of obtaining a deviation for emission sources operating for less than 500 h annually.

### **Amendment to RES Act**

On 14 August 2017, the President of the Republic of Poland signed the amendment to the RES Act of 20 February 2015. As mentioned in the rationale of draft Act, the purpose of the Act is to introduce a solution facilitating a sustainable growth in the area of renewable energy sources through changing the amount of unit fee which is the component enabling to make the green certificate market more flexible and – in a long term – to reduce the oversupply of such certificates on the market. The above purpose is to be achieved, in particular, through ensuring that the amount of the so-called replacement fee is determined on an arm’s length basis.

The amended Act departs from the fixed-value replacement fee; instead, the fee value will be linked to the market prices of property rights under green certificates. In addition, (the calculation method of) the fee for making an entry in the register of green certificates (certificates of origin) was changed.

### **Act on electromobility and alternative fuels**

On 28 December 2017, the Council of Ministers passed draft Act on electromobility and alternative fuels which was submitted by the Minister of Energy. Draft Act proposes the regulations which aim to stimulate electromobility development in Poland and the use of alternative fuels, including electricity, in transport. The Act sets the legal framework for expansion of the vehicle charging infrastructure, supporting the growth of the market and infrastructure of alternative fuels as well as innovative forms of transport. The Act was signed the President of the Republic of Poland, Mr Andrzej Duda, on 05 February 2018 and will come into effect 14 days after the day of its publication in the Journal of Laws.

The Act introduces new terms, such as charging services. Electric vehicle charging is the new type of business activity; such charging services are not considered the sale of electricity within the meaning of the Power Law Act, which is why they do not require a licence. Charging services will ensure free-of-charge charging of vehicles in the publicly available charging stations.

The first stage of the electricity charging stations construction will take place in the years 2018 and 2019. The relevant infrastructure should be developed on an arm’s length basis during this period, with co-financing from the public funds. If the target number of charging stations in the municipalities meeting the conditions set out in the Act is not reached by the end of 2019, such municipalities will have to prepare a plan for development of the missing vehicle charging infrastructure; the party responsible for the construction of the missing charging stations in such municipalities will be the electricity distribution system operator. Individual solutions will be implemented gradually until 2028.

### **Act of 20 July 2017 – Water Law**

On 2 August 2017, the President of the Republic of Poland signed the Water Law Act. The Act replaces the 2001 Act governing water management, including the planning, development, and protection of water resources, using the waters and water resource management, water and underwater land ownership issues, as well as the rules for managing such assets as the State Treasury property. The amendment to the Act is related to the implementation of the requirements of the Directive of the European Parliament establishing a framework for Community action in the field of water policy. The Act cancels any exemptions from fees for economic use of water for power purposes and introduces additional fees on this account to be charged from 2018.

### **Draft Power Market Act**

On 28 December 2017, the President of the Republic of Poland signed the Power Market Act. The main purpose of the Act is to ensure the continuity and stability of power supply for industry and households. The power market is to ensure incentives for investments and upgrade operations in the power industry. The power market is the market of the so-called net available power capacity which can be offered by the power producers and controlled energy offtake. Pursuant to the Act, the purpose of the power market is to ensure power supply safety in a medium- and long-term perspective – the so-called sufficiency of generating power. The key component of the power market will be the auctions. First auctions will be organised in 2018 by the electric power transmission system operator and will cover the years 2021-2023. The power market costs will be borne by the final energy consumers in the form of an additional fee.

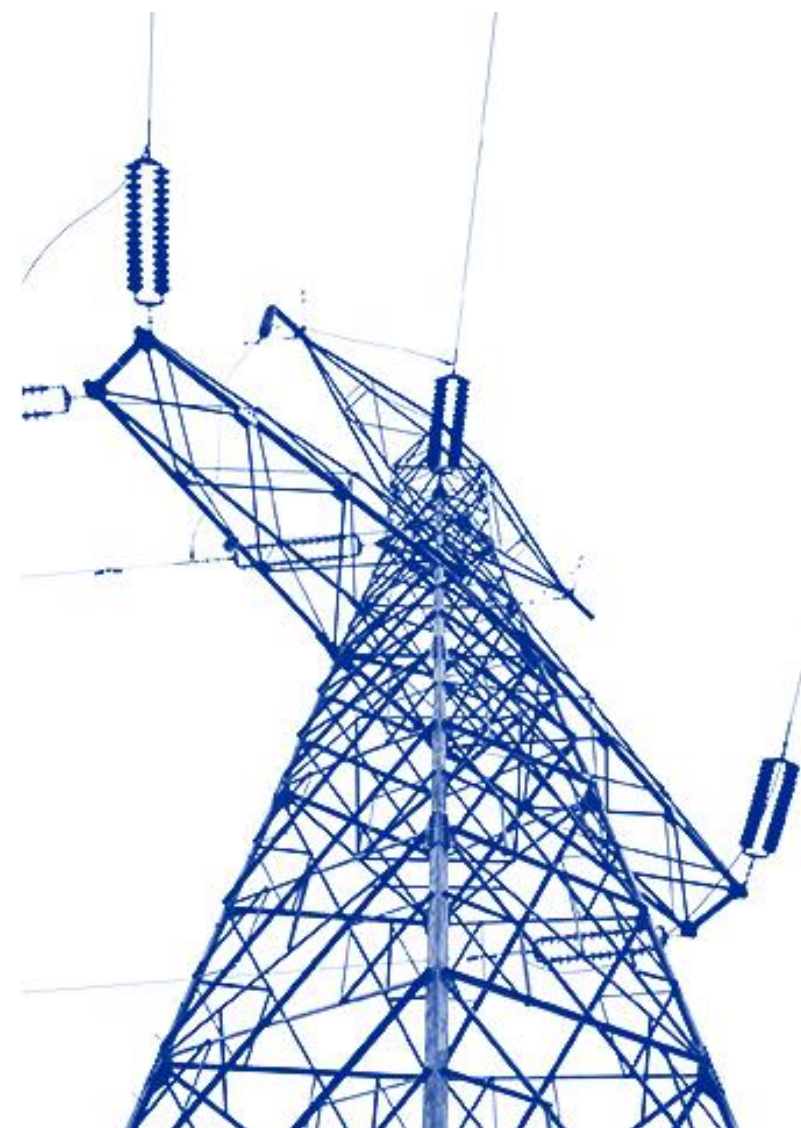
### **REMIT**

REMIT is the Regulation (EU) No 1227/2011 of the European Parliament and of the Council of 25 October 2011 on wholesale energy market integrity and transparency (Regulation on Wholesale Energy Market Integrity and Transparency). By virtue of the Regulation, the electricity market is subject to strict and restrictive rules of publication and public character of any information which may affect the prices of energy products on the wholesale energy market, including the absolute ban on market manipulation. REMIT provides for the obligation of registration of each market participant in the national register of market participants. Any market participant is obliged to report data on the transactions concluded on wholesale energy markets, including any orders placed. The duty of reporting to EW refers to the basic data on the capacity and use of generating infrastructure. Also, REMIT stipulates the obligation to make inside information public in the form of an announcement. REMIT prohibits market manipulation and attempts to manipulate the market and does not allow to use inside information. Under REMIT, regulatory authorities acquire the powers in the field of conducting investigations and enforcing the provisions of REMIT.

### Licences

The energy groups operate on the Polish energy market on the basis of the licences granted to them. The table below presents the licences held by Enea Group companies:

Company	Licence for:
Enea SA	<ul style="list-style-type: none"> <li>trading in electric power - valid to 31 December 2025</li> <li>trading in gas fuels - valid to 31 December 2030</li> </ul>
Enea Operator sp. z o.o.	<ul style="list-style-type: none"> <li>electric power distribution - valid to 1 July 2030</li> </ul>
Enea Wytwarzanie sp. z o.o.	<ul style="list-style-type: none"> <li>electric power generation - valid to 31 December 2030</li> <li>trading in electric power - valid to 31 December 2030</li> <li>heat generation - valid to 31 December 2025</li> <li>heat transmission and distribution - valid to 31 December 2025</li> </ul>
Enea Trading sp. z o.o.	<ul style="list-style-type: none"> <li>trading in electric power - valid to 31 December 2030</li> <li>trading in gas fuels - valid to 31 December 2030</li> <li>foreign trading in natural gas - valid to 31 December 2030</li> </ul>
Enea Ciepło sp. z o.o.	<ul style="list-style-type: none"> <li>Trading, generation, transmission and distribution of heat energy - valid to 30 September 2028</li> </ul>
MEC Piła sp. z o.o.	<ul style="list-style-type: none"> <li>heat generation - valid to 31 December 2025</li> <li>heat transmission and distribution - valid to 31 December 2025</li> <li>electric power generation - valid to 31 December 2030</li> </ul>
PEC Oborniki sp. z o.o.	<ul style="list-style-type: none"> <li>heat generation - valid to 31 December 2025</li> <li>heat transmission and distribution - valid to 31 December 2025</li> </ul>
Enea Elektrownia Połaniec	<ul style="list-style-type: none"> <li>electric power generation - valid to 1 November 2025</li> <li>trading in electric power - valid to 31 December 2030</li> <li>heat generation - valid to 1 November 2025</li> <li>heat transmission and distribution - valid to 1 November 2025</li> </ul>
LW Bogdanka SA	<ul style="list-style-type: none"> <li>bituminous coal extraction from Bogdanka deposit covered by Puchaczów V mining area - valid to 31 December 2031</li> <li>bituminous coal extraction from Lubelskie Zagłębie Węglowe deposit – area K-3 covered by Stręczyn mining area - valid to 17 July 2046</li> <li>bituminous coal extraction from Ostrów deposit situated in the following municipalities: Ludwin, Łęczna, Ostrów Lubelski, Puchaczów, Sosnowica, Uścimów in Lubelskie province – valid to 31 December 2065</li> <li>bituminous coal extraction from Orzechów deposit situated in the following municipalities: Sosnowica, Uścimów, Urszuli, Cyców, Puchaczów and Ludwin in lubelskie province – valid to 14 November 2020</li> </ul>



### CO<sub>2</sub> emission allowances

An important element on the cost side which determines the profitability of electricity generation is the allocation of free emission allowances for carbon dioxide and other gases and substances in a given settlement period. Receiving a free allocation of CO<sub>2</sub> emission is a condition for the implementation of dedicated investments in Enea Group submitted to the National Investment Plan (NIP). The value of actual expenses incurred is the basis for receiving allowances.

In 2017, work was carried out on the possibility of using the unallocated allowances due to lower investments than planned. The Ministry of the Environment conducts talks with the EC on extending the list of investment tasks, closed in 2012, to include new projects in the area of renewable energy sources, low-carbon investments, energy efficiency investments, investments in transmission or heating networks.

In 2017, the rules of functioning of Phase IV of the EU ETS, starting from 2021, were also established. The most important changes that may have a significant impact on the market situation include:

- increase of the linear index to 2.2%
- the lack of free allowances for sectors not classified as exposed to the risk of carbon leakage
- doubling of the number of allowances drawn from the auction pool to the reserve for the first 4 years of IAS operation to the level of 24% surplus of allowances
- permanent removal from the market of 800 million allowances from IAS

According to the plan, Poland met the target of selling 85.88 million CO<sub>2</sub> emission allowances in 2017. 14.99 million came from allowances not sold in 2016, and 70.89 million was the volume originally planned for sale in 2017. The place of sale of the Polish EUA units is the auction platform of the EEX exchange, with which Poland has again signed an agreement for the sale of emission allowances. Auctions take place every second Wednesday, with EUA 4,857 million being auctioned on each of them, with the exception of the first and last auction, and in August. In 2018, political developments in the EU will be important elements affecting the valuation of CO<sub>2</sub> emission allowances, in addition to macroeconomic factors and changes in the prices of energy raw materials and electricity. The negotiations on Brexit and the parliamentary elections in Italy on 4 March will be particularly important for price developments.

Auction date	Volume	Auction price [EUR]	Volume, cumulatively	% volume, cumulatively
29 March 2017	5,738,500	4.71	5,738,500	7%
12 April 2017	4,857,000	4.84	10,595,500	12%
26 April 2017	4,857,000	4.49	15,452,500	18%
10 May 2017	4,857,000	4.49	20,309,500	24%
24 May 2017	4,857,000	4.81	25,166,500	29%
7 June 2017	4,857,000	4.97	30,023,500	35%
21 June 2017	4,857,000	4.95	34,880,500	41%
5 July 2017	4,857,000	5.10	39,737,500	46%
19 July 2017	4,857,000	5.39	44,594,500	52%
2 August 2017	2,428,500	5.29	47,023,000	55%
16 August 2017	2,428,500	5.62	49,451,500	58%
30 August 2017	2,428,500	6.02	51,880,000	60%
13 August 2017	4,857,000	6.95	56,737,000	66%
27 September 2017	4,857,000	6.75	61,594,000	72%
11 September 2017	4,857,000	7.40	66,451,000	77%
25 October 2017	4,857,000	7.41	71,308,000	83%
8 November 2017	4,857,000	7.62	76,165,000	89%
22 November 2017	4,857,000	7.46	81,022,000	94%
6 December 2017	4,855,000	7.38	85,877,000	100%

### Reduction of pollutant emissions

On 17 August 2017, the so-called BAT conclusions (kBAT) for large combustion plants (Commission Implementing Decision (EU) 2017/1442 of 31 July 2017 laying down BAT conclusions for large combustion plants in accordance with Directive 2010/75/EU of the European Parliament and of the Council) were published in the Official Journal of the European Union. Published kBATs introduce, among other things, stricter requirements (than in the IED) for pollutants such as sulphur dioxide, nitrogen oxides and dust. The emission limit values (BATs) also cover the additional substances mercury, hydrogen chloride, hydrogen fluoride and ammonia. In accordance with the requirements of the CNS, a 4-year adjustment period started on 17 August 2017.

## Kozienice Power Plant

2017/2016	SO <sub>2</sub>			NO <sub>x</sub>			Dust			Gross production of electricity [MWh]
	SO <sub>2</sub> emissions [Mg]	SO <sub>2</sub> emissions ratio [kg/MWh]	Fee for SO <sub>2</sub> emissions ['000 PLN]	NO <sub>x</sub> emissions [Mg]	NO <sub>x</sub> emissions ratio [kg/MWh]	Fee for NO <sub>x</sub> emissions ['000 PLN]	Dust emissions [Mg]	Dust emissions ratio [kg/MWh]	Fee for dust emissions ['000 PLN]	
2017	9,601.85	0.747	5,089.0	11,876.85	0.924	6,294.7	281.64	0.022	98.6	12,853,580.92
2016	9,657.04	0.701	5,118.2	14,308.16	1.039	7,583.3	402.00	0,029	140.7	13,770,054.66
% change	-0.57	6.56	-0.57	-16.99	-11.07	-16.99	-29.94	-24.14	-29.91	-6.66

## Połaniec Power Plant

2017/2016	SO <sub>2</sub>			NO <sub>x</sub>			Dust			Gross production of electricity [MWh]
	SO <sub>2</sub> emissions [Mg]	SO <sub>2</sub> emissions ratio [kg/MWh]	Fee for SO <sub>2</sub> emissions ['000 PLN]	NO <sub>x</sub> emissions [Mg]	NO <sub>x</sub> emissions ratio [kg/MWh]	Fee for NO <sub>x</sub> emissions ['000 PLN]	Dust emissions [Mg]	Dust emissions ratio [kg/MWh]	Fee for dust emissions ['000 PLN]	
2017	7,112.70	0.71	3,769.73	11,901.09	1.19	6,307.58	555.82	0.06	194.54	9,974,193.20
2016	7,692.76	0.69	4,077.17	15,637.47	1.40	8,287.86	600.15	0.05	210.05	11,164,530.00
% change	-7.54	2.90	-7.54	-23.89	-15.00	-23.89	-7.39	20.00	-7.38	-10.66

## Compliance with formal and legal requirements

## Enea Wytwarzanie

In 2017, there were no violations of formal and legal requirements in the Company, except for a few violations of SO<sub>2</sub> emission standards in Białystok Heat and Power Plant, related to the control traffic of the newly built FGD installation.

Plant		SO <sub>2</sub>		Dust		NO <sub>x</sub>	
		[Mg]	Utilisation %	[Mg]	Utilisation %	[Mg]	Utilisation %
Kozienice Power Plant	emissions	8,583.89	68.5	211.26	14.1	-	-
	annual max. limit	12,522.5		1,502.7			
Białystok Heat and Power Plant	emissions	1,525.2	57.2	58.72	27.2	297.04	22.0
	annual max. limit	2,666.56		215.69		1,347.75	
Total	emissions	10,109.09	66.6	262.98	15.7	297.04	22.0
	annual max. limit	15,189.06		1,718.39		1,347.75	

In 2017, the emission standards specified in the integrated permit were not exceeded.

## Enea Elektrownia Połaniec

Enea Połaniec SA benefits from the derogation resulting from the IED Directive - a natural derogation of 17,500 hours, which covers boiler No. 1. 4,736 hours were used out of the limit of 17,500 hours, of which 2,547 hours were used in 2017 alone. There are 12,764 hours left to run. In 2017, the emission standards specified in the integrated permit were not exceeded.

**2018 Tariff – distribution of electricity**

The Tariff was prepared in accordance with the assumptions published by the President of the Energy Regulatory Office in the document "ODS Tariffs for 2018" and in accordance with the Regulation of the Minister of Energy of 29 December 2017 on detailed rules of shaping and calculating tariffs and settlements in electricity trading. The tariffs for distribution services approved for 2018 shall result in the following changes in payments to customers for each set of tariff groups:

- A – down by 2.23%
- B – down by 1.58%
- C2 – down by 0.61%
- C1 – down by 0.70%
- G – down by 0.73%

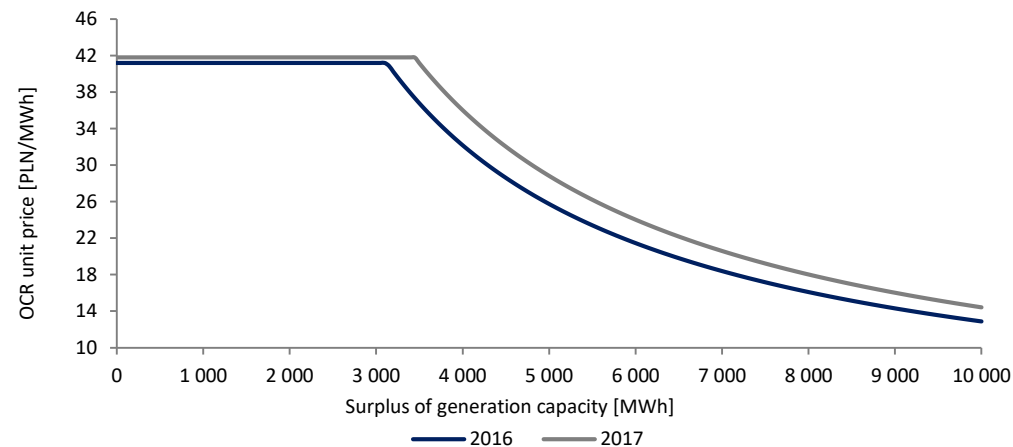
The above figures take into account the impact of transfer fees (transitional, qualitative and RES). If these are eliminated, the figures are as follows:

- A – up by 1.61%
- B – up by 1.45%
- C2 – up by 1.28%
- C1 – up by 1.40%
- G – up by 1.19%

**Operating Capacity Reserve (OCR)**

- OCR mechanism is conducted by Polskie Sieci Elektroenergetyczne – Operator of the Transmission System (OTS) within the system services catalogue
- For producers of energy it is an economic incentive to offer generating capacities to OTSs in the peak hours of demand for power
- OCR includes the available generating capacity, being the surplus of the power available to OTSs over the contracts concluded to satisfy demand for electricity
- The unit price for OCR depends on the volume of generating capacity available to OTSs over the demand for electricity covered:
  - within energy sale agreements
  - On the Balancing Market as part of the free exchange
- A unit price for OCR depends on the volume of generating capacity available to OTSs over the demand and may not be higher than the reference price which for 2015 was 37.28 PLN/MWh, for 2016 was 41.20 PLN/MWh, and for 2017 it was 41.79 PLN/MWh

The diagram below presents the unit price for OCR depending on the volume of generation capacity available to OTSs:



Parameters of the OCR settlement model in 2016-2017:

Parameter	2016	2017
Hourly budget [PLN]	128,758.72	144,070.61
Reference price [PLN/MWh]	41.20	41.79
Hourly volume of required OCR [MWh]	3,451.09	3,447.49
Number of demand peak hours	3,780	3,765
OCR annual budget [mPLN]	486.7	542.4

In 2016, the existing operating reserve settlement rules were changed, which previously made the Transmission system operator not fully use the budget allocated for this service in the hours when the unit price for the operating reserve reached the maximum value. In 2016 additional (monthly and yearly) corrective settlements were introduced to verify the reconciliation and, as a result, any unused funds from the operating reserve are distributed to entities participating in the reserve.

From 2017, the operating reserve volume includes receiving entities with the possibility of demand reduction (demand side response).



### 3. Financial standing



## Consolidated profit and loss account - 2017

[PLN k]	2016	2017	Change	% change
Revenue from the sale of electricity	6,548,229	6,932,940	384,711	5.9%
Revenue from the sale of heat	312,625	347,871	35,246	11.3%
Revenue from the sale of gas	179,476	145,262	-34,214	-19.1%
Revenue from the sale of distribution services	3,001,032	3,215,618	214,586	7.2%
Revenue from certificates of origin	13,739	12,937	-802	-5.8%
Revenue from the sale of CO2 emission rights	32,780	77,315	44,535	135.9%
Revenue from the sale of goods and materials	87,004	87,199	195	0.2%
Revenue from the sale of other products and services	176,369	177,139	770	0.4%
Revenue from the sale of coal	904,424	409,408	-49,016	-54.7%
<b>Net sales revenue</b>	<b>11,255,678</b>	<b>11,405,689</b>	<b>150,011</b>	<b>1.3%</b>
Depreciation	1,110,350	1,194,540	84,190	7.6%
Costs of employee benefits	1,490,752	1,470,644	-20,108	-1.3%
Consumption of materials and raw materials and the value of goods sold	1,361,884	1,728,771	366,887	26.9%
Purchase of energy and gas for sale purposes	4,074,797	3,169,673	-905,124	-22.2%
Transmission services	860,991	1,057,151	196,160	22.8%
Other third party services	664,644	815,743	151,099	22.7%
Taxes and levies	326,537	376,542	50,005	15.3%
<b>Sales tax deductible costs</b>	<b>9,889,955</b>	<b>9,813,064</b>	<b>-76,891</b>	<b>-0.8%</b>
Other operating revenue	144,038	141,790	-2,248	-1.6%
Other operating costs	261,625	221,871	-39,754	-15.2%
Loss on the sale and liquidation of property, plant and equipment	-30,662	-23,530	7,132	23.3%
Impairment loss on non-financial non-current assets	98,160	1,284	-96,876	-98.7%
<b>Operating profit</b>	<b>1,119,314</b>	<b>1,487,730</b>	<b>368,416</b>	<b>32.9%</b>
Financial costs	127,010	170,689	43,679	34.4%
Financial revenue	76,350	139,718	63,368	83.0%
Share in the results of affiliates - and jointly controlled entities	-	9,282	9,282	100.0%
Dividend revenue	148	526	378	255.4%
<b>Profit before tax</b>	<b>1,068,802</b>	<b>1,466,567</b>	<b>397,765</b>	<b>37.2%</b>
Income tax	219,889	301,676	81,787	37.2%
<b>Net profit of the reporting period</b>	<b>848,913</b>	<b>1,164,891</b>	<b>315,978</b>	<b>37.2%</b>
<b>EBITDA</b>	<b>2,327,824</b>	<b>2,683,554</b>	<b>355,730</b>	<b>15.3%</b>

## 2017:

## Factors behind the change of EBITDA of Enea Group:

- \* The basic factor behind the change in EBITDA is the takeover of Enea Elektrownia Połaniec (as of 14 March 2017)
- (+) an increase in revenue from the sale of electricity by PLN 385 million arises mainly from a higher sales volume of 3,334 GWh with a simultaneous drop in the average sale price by 4.6% and higher revenue from Regulatory System Services
- (+) an increase in revenue from sales of heat by PLN 35 million results from the sales volume higher by 1,716,340 GJ (mainly as a result of the EEP acquisition) with a simultaneous drop in the average sales price
- (-) a decrease in revenue from sales of natural gas by PLN 34 million caused by a 38 GWh decrease in volume with a simultaneous drop in the average price by 15.3%,
- (+) an increase in revenue from the sale of distribution services by PLN 215 million results from higher transfer costs – an increase in the transitional fee and the RES fee (implemented as of 1 July 2016) and higher sales volume of distribution services (by 2.8%) to end users
- (+) higher revenue from the sale of CO<sub>2</sub> emission allowances by PLN 45 million mainly result from the achieved profit on futures for CO<sub>2</sub> emission allowances, with a simultaneous lower volume of CO<sub>2</sub> emission allowances trading carried out as part of the current balancing of electricity production
- (-) a decrease in coal sales by PLN 495 million results from a higher volume of intra-group supplies
- (+) a decrease in employee benefit costs by PLN 20 million mainly due to a change in employee provisions (e.g. the release of a provision for retirement coal allowance as a result of the purchase of a free coal allowance from current and future pensioners), with a simultaneous increase in costs due to the takeover of EEP
- (-) an increase in the cost of consumption of materials and raw materials and the value of goods sold by PLN 367 million mainly due to the EEP acquisition with a simultaneous decrease in costs due to a larger volume of intra-group purchase of coal
- (+) a drop in the cost of purchasing electricity and gas by PLN 905 million results from:
  - (+) a decrease in the volume of electricity purchased (by 3,721 GWh) with simultaneous decrease in the average purchase price - by 3.3%
  - (+) decrease in the cost of natural gas purchase due to a decrease in the average price by 12.0% and a decrease in volume by 17 GWh
  - (+) decrease in the purchase cost of PM (property rights) mainly due to the continuing low prices of green certificates
- (-) an increase in transmission costs by PLN 196 million mainly as a result of an increase in the interim fee and the charging of renewable energy charges (from H2 2016) and an increase in the fixed transmission fee in the PSE tariff
- (-) an increase in the cost of third party services by PLN 151 million mainly due to the acquisition of EEP
- (-) an increase in taxes and levies by PLN 50 million results, among others, from the acquisition of EEP and from an increase in the value of property, plant and equipment related to completed investment processes
- (+) an increase in the result generated on other operating activities by PLN 45 million:
  - (+) lower provisions for potential claims by PLN 43 million (including: PLN 86 million establishment of a provision for terminated contracts for the purchase of renewable energy PM RES), establishment in 2016 of a provision related to the estimation of the value of shares in Eco-Power sp. z o. o. company of PLN 129 million)
  - (+) profit on the bargain purchase of shares in ENGIE Energia Polska SA (currently Enea Elektrownia Połaniec SA) - PLN 12 million
  - (+) surplus of coal inventories by PLN 11 million
  - (+) lower increase in provisions for non-contractual use of transmission corridors PLN 10 million
  - (+) lower loss on liquidation of property, plant and equipment by PLN 7 million, e.g. as a result of the liquidation of excavations
  - (+) higher revenue arising from claims, penalties and fines by PLN 2 million
  - (-) an increase in impairment losses on overdue and bad debt by PLN 29 million
  - (-) a decrease in free property, plant and equipment accepted without consideration by PLN 19 million, e.g. as a result of fewer agreements on collisions on network assets



## Consolidated profit and loss account – Q4 2017

[PLN k]	Q4 2016	Q4 2017	Change	% change
Revenue from the sale of electricity	1,669,912	1,817,852	147,940	8.9%
Revenue from the sale of heat <sup>1)</sup>	108,994	105,841	-3,153	-2.9%
Revenue from the sale of gas	43,646	44,512	866	2.0%
Revenue from the sale of distribution services	783,754	832,369	48,615	6.2%
Revenue from certificates of origin <sup>2)</sup>	758	-7,363	-8,121	-1,071.4%
Revenue from the sale of CO <sub>2</sub> emission rights	10,841	63,377	52,536	484.6%
Revenue from the sale of goods and materials	21,324	28,874	7,550	35.4%
Revenue from the sale of other products and services <sup>1)</sup>	45,922	51,879	5,957	13.0%
Revenue from the sale of coal	266,583	106,151	-160,432	-60.2%
<b>Net sales revenue</b>	<b>2,951,734</b>	<b>3,043,492</b>	<b>91,758</b>	<b>3.1%</b>
Depreciation	280,265	317,140	36,875	13.2%
Costs of employee benefits	416,205	328,429	-87,776	-21.1%
Consumption of materials and raw materials and the value of goods sold	347,410	470,931	123,521	35.6%
Purchase of energy and gas for sale purposes <sup>2)</sup>	1,027,870	880,514	-147,356	-14.3%
Transmission services	226,259	268,877	42,618	18.8%
Other third party services	215,179	270,354	55,175	25.6%
Taxes and levies	80,533	90,443	9,910	12.3%
<b>Sales tax deductible costs</b>	<b>2,593,721</b>	<b>2,626,688</b>	<b>32,967</b>	<b>1.3%</b>
Other operating revenue	45,358	64,754	19,396	42.8%
Other operating costs	173,181	49,931	-123,250	-71.2%
Loss on the sale and liquidation of property, plant and equipment	-11,210	-12,468	-1,258	-11.2%
Impairment loss on non-financial non-current assets	48,808	1,284	-47,524	-97.4%
<b>Operating profit</b>	<b>170,172</b>	<b>417,875</b>	<b>247,703</b>	<b>145.6%</b>
Financial costs	27,416	67,933	40,517	147.8%
Financial revenue	28,461	78,715	50,254	176.6%
Share in the results of affiliates - and jointly controlled entities	-	1,880	1,880	100.0%
<b>Profit before tax</b>	<b>171,217</b>	<b>430,537</b>	<b>259,320</b>	<b>151.5%</b>
Income tax	42,959	103,595	60,636	141.1%
<b>Net profit of the reporting period</b>	<b>128,258</b>	<b>326,942</b>	<b>198,684</b>	<b>154.9%</b>
<b>EBITDA</b>	<b>499,245</b>	<b>736,299</b>	<b>237,054</b>	<b>47.5%</b>

## Q4 2017:

## Factors behind the change of EBITDA of Enea Group:

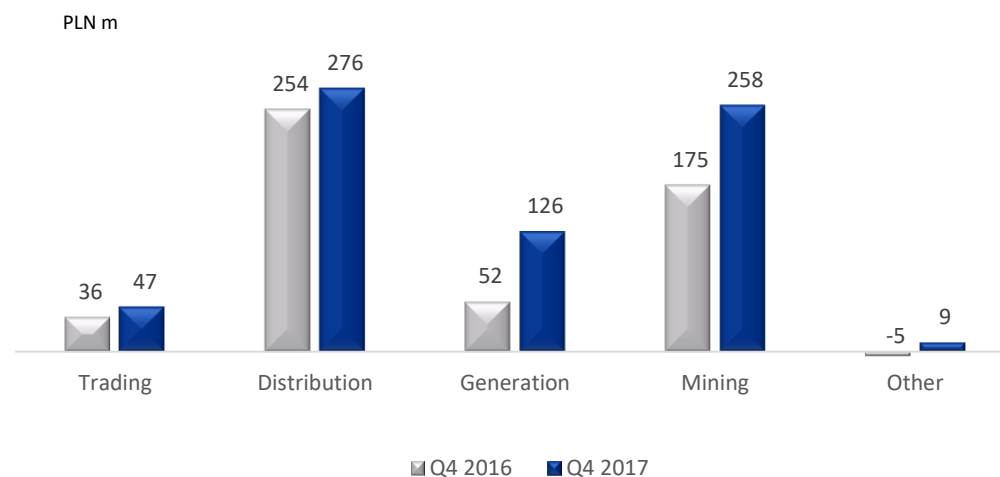
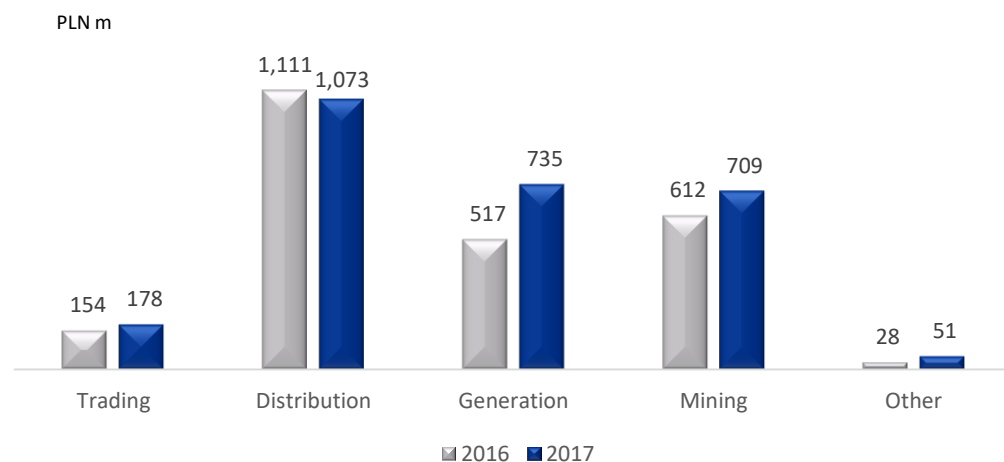
- \* The basic factor behind the change in EBITDA is the takeover of Enea Elektrownia Potaniec (as of 14 March 2017)
  - (+) an increase in revenue from the sale of electricity by PLN 148 million arises mainly from a higher sales volume of 1,258 GWh with a simultaneous drop in the average sale price by 6.3% and higher revenue from Regulatory System Services
  - (-) a decrease in revenue from sales of heat by PLN 35 million results from the sales volume higher by 322.220 GJ (mainly as a result of the EEP acquisition) with a simultaneous drop in the average sales price by 18%
  - (+) an increase in revenue from the sale of distribution services by PLN 49 million results from higher transfer costs - increase in the interim fee and the RES fee and higher sales volume of distribution services (by 2.5%) to end users
  - (-) a decrease in revenue from the sale of certificates of origin by PLN 8 million due to the valuation of the cost of sales and inventory
  - (+) higher revenue from the sale of CO<sub>2</sub> emission allowances by PLN 53 million mainly result from the achieved profit on futures for CO<sub>2</sub> emission allowances, with a simultaneous lower volume of CO<sub>2</sub> emission allowances trading carried out as part of the current balancing of electricity production
  - (+) higher revenue from sales of goods and materials by PLN 8 million due to an increase in the volume of goods sold
  - (+) higher revenue from sales of other services by PLN 6 million due to the EEP acquisition and increase in revenue from services related to street lighting operation and maintenance
  - (-) a decrease in coal sales by PLN 160 million results from a higher volume of intra-group supplies
  - (+) a decrease in employee benefit costs by PLN 88 million mainly due to a change in employee provisions (the release of a provision for retirement coal allowance as a result of the purchase of a free coal allowance from current and future pensioners), with a simultaneous increase in costs due to the takeover of EEP
  - (-) an increase in the consumption of materials and raw materials and the value of goods sold by PLN 124 million mainly due to the EEP acquisition with a simultaneous decrease in costs due to a larger volume of intra-group purchase of coal
  - (+) the drop in the cost of purchasing electricity and gas by PLN 147 million results from:
    - (+) a decrease in the volume of electricity purchased (by 868GWh) with simultaneous decrease in the average purchase price - by 1.0%
    - (+) decrease in the purchase cost of PM (property rights) of green certificates
  - (-) an increase in transmission costs by PLN 43 million mainly as a result of an increase in the transferred costs (increase in the interim fee and renewable energy charges and increase in the fixed transmission fee in the PSE tariff)
  - (-) an increase in the cost of third party services by PLN 55 million mainly due to the acquisition of EEP
  - (-) an increase in taxes and levies by PLN 10 million is related to the acquisition of EEP and from an increase in the value of fixed assets related to completed investment processes
  - (+) an increase in the result generated on other operating activities by PLN 141 million:
    - (+) lower provisions for potential claims by PLN 135 million (including: establishment of a provision related to the estimation of the value of shares in Eco-Power sp. z o. o. company of PLN 129 million, PLN 17 million provision for terminated contract purchases for PM RES)
    - (+) surplus of coal inventories by PLN 11 million
    - (+) donation costs incurred in Q4 2016 in the amount of PLN 7 million
    - (+) higher balance of refunds from the insurer by PLN 4 million
    - (-) an increase in impairment losses on overdue and bad debt by PLN 14 million
    - (-) lower revenue arising from claims, penalties and fines by PLN 7 million

<sup>1)</sup> Presentation change of published data for Q4 2016

<sup>2)</sup> Presentation change in the scope of valuation and the cost of own sale of property rights

Results in particular areas of the Enea Group’s business

EBITDA [PLN k]	2016	2017	Change	% change	Q4 2016	Q4 2017	Change	% change
Trading	153,996	177,768	23,772	15.4%	36,306	46,797	10,491	28.9%
Distribution	1,111,327	1,073,359	-37,968	-3.4%	253,858	275,528	21,670	8.5%
Generation	517,490	735,337	217,847	42.1%	52,379	125,756	73,377	140.1%
Mining	611,779	708,983	97,204	15.9%	174,722	257,915	83,193	47.6%
Other	27,513	51,284	23,771	86.4%	- 4,866	9,276	14,142	290.6%
Unassigned items and exclusions	- 94,281	- 63,177	31,104	33.0%	- 13,154	21,027	34,181	259.9%
<b>Total EBITDA</b>	<b>2,327,824</b>	<b>2,683,554</b>	<b>355,730</b>	<b>15.3%</b>	<b>499,245</b>	<b>736,299</b>	<b>237,054</b>	<b>47.5%</b>

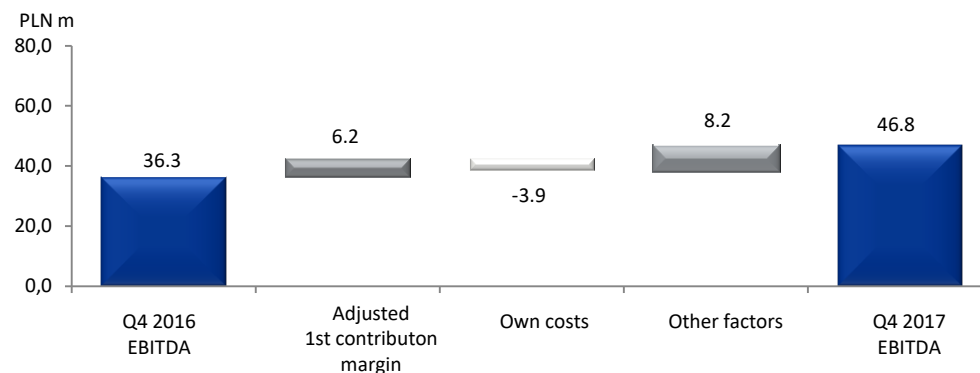
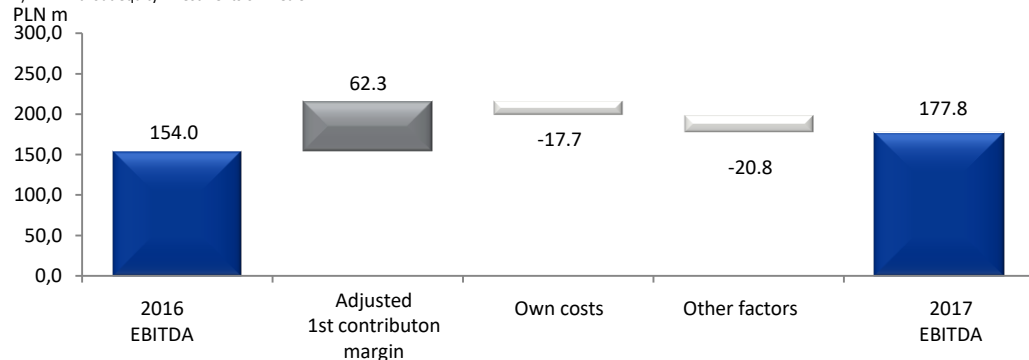


Trading Area

[PLN k]	2016	2017	Change	% change	Q4 2016	Q4 2017	Change	% change
Sales revenue	7,178,766	5,975,913	-1,202,853	-16.8%	2 077,804	1,772,509	-305,295	-14.7%
EBIT	153,203	176,813	23,610	15.4%	36,063	46,555	10,492	29.1%
Depreciation	793	955	162	20.4%	243	242	-1	-0.4%
<b>EBITDA</b>	<b>153,996</b>	<b>177,768</b>	<b>23,772</b>	<b>15.4%</b>	<b>36,306</b>	<b>46,797</b>	<b>10 491</b>	<b>28.9%</b>
CAPEX <sup>1)</sup>	2 307	283	-2,024	-87.7%	1,163	-	-1,163	-100.0%
Share of revenue from the sale of the area in the net sales revenue of the Group	45%	37%	-8 pp		48%	40%	-8 pp	

Retail sales of electricity are carried out by Enea SA  
Wholesale trade is carried out by Enea Trading sp. z o. o.

1) Without equity investments of Enea SA



2017 EBITDA change factors:

First contribution margin

- (-) decrease in the average sale price of energy by 4.5%
- (+) lower costs of ecological obligations by 39.9%
- (+) decrease in the average purchase price of energy by 1.6%
- (+) increase in the volume of energy sales by 7.3%
- (+) increase in the result on trading in CO<sub>2</sub> emission allowances by 153%
- (-) decrease in the result on gas fuel trading

Own costs

- (-) higher direct selling costs by PLN 16 million
- (-) higher costs of shared services by PLN 5 million
- (+) lower general and administrative costs by PLN 3 million

Other factors

- (-) higher provisions for litigations and potential claims by PLN 9 million
- (-) higher impaired receivables by PLN 5 million
- (-) higher write-offs for receivables by PLN 5 million
- (-) higher costs of litigation by PLN 2 million

Q4 2017 EBITDA change factors:

First contribution margin

- (-) decrease in the average energy sale price by 4.3%
- (+) lower costs of ecological obligations by 12.4%
- (+) decrease in the average purchase price of energy by 1.5%
- (+) increase in the volume of energy sales by 6.4%
- (+) increase in the result on trading in CO<sub>2</sub> emission allowances by 154%
- (-) decrease in the result on gas fuel trading

Own costs

- (-) higher direct selling costs by PLN 4 million

Other factors

- (+) lower provisions for litigations and potential claims by PLN 3 million
- (+) in Q4 2016 donation costs in the amount of PLN 7 million
- (-) higher impaired receivables by PLN 3 million

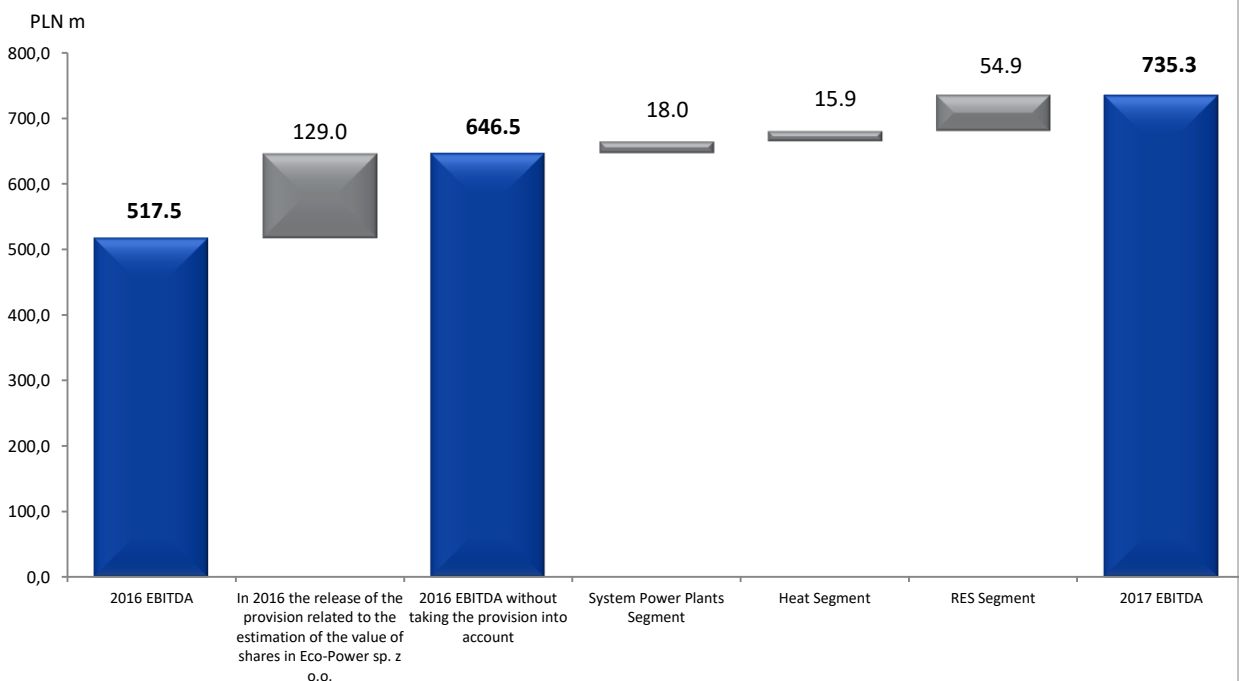
## Generation Area

[PLN k]	2016	2017	Change	% change	Q4 2016	Q4 2017	Change	% change
Sales revenue	3,310,314	4,578,795	1,268,481	38.3%	852,527	1,198,994	346,467	40.6%
<i>Electricity</i>	2,909,673	4,081,498	1,171,825	40.3%	727,773	1,060,016	332,243	45.7%
<i>Certificates of origin</i>	45,537	104,509	58,972	129.5%	9,940	22,241	12,301	123.8%
<i>Sales of CO<sub>2</sub> emission allowances</i>	32,713	17,786	-14,927	-45.6%	10,642	3,551	-7,091	-66.6%
<i>heat</i>	296,771	342,199	45,428	15.3%	97,505	104,115	6,610	6.8%
<i>others</i>	25,620	32,803	7,183	28.0%	6,667	9,071	2,404	36.1%
EBIT	178,751	428,460	249,709	139.7%	-60,210	41,174	101,384	168.4%
Depreciation	247,931	306,877	58,946	23.8%	63,781	84,582	20,801	32.6%
Impairment loss on non-financial non-current assets	90,808	-	-90,808	-100.0%	48,808	-	-48,808	-100.0%
<b>EBITDA</b>	<b>517,490</b>	<b>735,337</b>	<b>217,847</b>	<b>42.1%</b>	<b>52,379</b>	<b>125,756</b>	<b>73,377</b>	<b>140.1%</b>
CAPEX	1,390,165	1,094,673	-295,492	-21.3%	451,786	470,033	18,247	4.0%
Share of revenue from the sale of the area in the net sales revenue of the Group	21%	28%	7 pp		20%	27%	7 pp	

In the Generation area financial data of Enea Wytwarzanie sp. z o.o. together with its subsidiaries and Enea Elektrownia Połaniec SA. is presented.

At the end of 2017, Enea Wytwarzanie possesses, e.g. 11 high-efficiency and modernized power units in the Koźienice Power Plant. As a result of the EEP acquisition, the production area was increased by additional 7 coal units with a total gross power of 1,657 MW and the world's largest biomass-fired unit with a total installed capacity of 225 MW.

The annual production capacity in this area is about 37 TWh of electricity.



### 2017 EBITDA change factors:

#### System Power Plants

- (+) Enea Elektrownia Połaniec PLN 126.8 million
- (-) a decrease in the margin on the turnover and on the Balancing Market by PLN 64.6 million
- (-) a decrease in the margin on generation by PLN 54.8 million
- (-) a decrease in other factors by PLN 26.5 million: inventory shortage of production fuel PLN -20.5 million, result on other operating activities PLN -3.8 million
- (+) higher revenue from Regulatory System Services by PLN 24.6 million
- (+) a decrease in overheads by PLN 12.6 million

#### Heat Segment

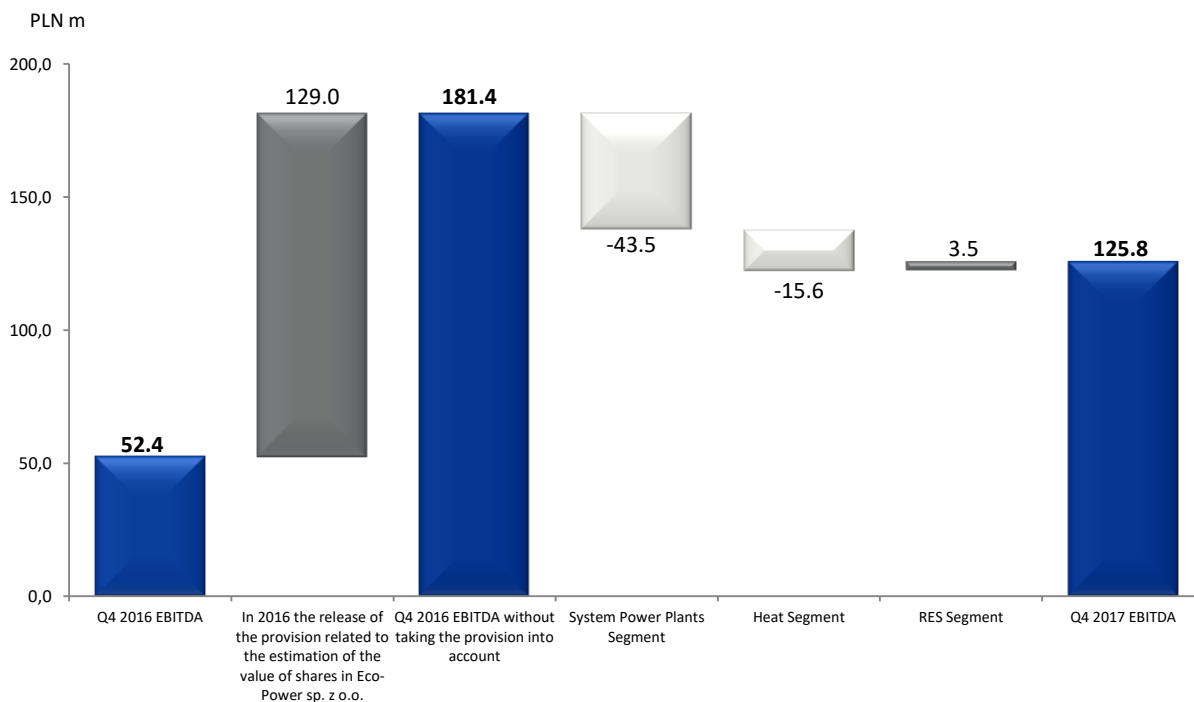
- (+) decrease in costs of consumption of materials and raw materials consumption by PLN 28.6 million, including a decrease in costs of biomass consumption by PLN 59.1 million, an increase in costs of coal consumption by PLN 15.4 million
- (+) an increase in revenues from services by PLN 1.2 million
- (+) an increase in revenues from heat sales by PLN 1.4 million
- (-) an increase in employee benefits costs by PLN 5.1 million
- (-) a decrease in revenues from certificates of origin by PLN 8.1 million
- (-) a decrease in revenues from electricity by PLN 14.6 million
- (+) Enea Elektrownia Połaniec PLN 13.0 million

#### RES Segment

- (+) in 2016 the provision related to the estimation of the value of shares in Eco-Power sp. z o.o. for the amount of PLN 129.0 million
- (+) Water Area (PLN +12.3 million): increase in revenues from electricity by PLN 11.1 million,
- (+) Biogas Area (PLN +6.8 million): release of the provision for compensation claims PLN +3.5 million; an increase in revenues from certificates of origin by PLN 1.9 million; a decrease in variable costs by PLN 0.9 million,
- (-) Wind Area (PLN -0.5 million): an increase in overheads by PLN 5.6 million (greater scope of real estate taxation - change of regulations); a decrease in revenue from certificates of origin by PLN 1.8 million; an increase in revenues from electricity by PLN 4.6 million; in 2016, the costs of sale and liquidation of property, plant and equipment - PLN 2.0 million
- (+) Enea Elektrownia Połaniec 36.2 million

## Generation Area

[PLN k]	2016	2017	Change	% change	Q4 2016	Q4 2017	Change	% change
Sales revenue	3,310,314	4,578,795	1,268,481	38.3%	852,527	1,198,994	346,467	40.6%
<i>Electricity</i>	2,909,673	4,081,498	1,171,825	4.03%	727,773	1,060,016	332,243	45.7%
<i>Certificates of origin</i>	45,537	104,509	58,972	129.5%	9,940	22,241	12,301	123.8%
<i>Sales of CO<sub>2</sub> emission allowances</i>	32,713	17,786	-14,927	-45.6%	10,642	3,551	-7,091	-66.6%
<i>heat</i>	296,771	342,199	45,428	15.3%	97,505	104,115	6,610	6.8%
<i>others</i>	25,620	32,803	7,183	28.0%	6,667	9,071	2,404	36.1%
EBIT	178,751	428,460	249,709	139.7%	-60,210	41,174	101,384	168.4%
Depreciation	247,931	306,877	58,946	23.8%	63,781	84,582	20,801	32.6%
Impairment loss on non-financial non-current assets	90,808	-	-90,808	-100.0%	48,808	-	-48,808	-100.0%
<b>EBITDA</b>	<b>517,490</b>	<b>735,337</b>	<b>217,847</b>	<b>42.1%</b>	<b>52,379</b>	<b>125,756</b>	<b>73,377</b>	<b>140.1%</b>
CAPEX	1,390,165	1,094,673	-295,492	-21.3%	451,786	470,033	18,247	4.0%
Share of revenue from the sale of the area in the net sales revenue of the Group	21%	28%	7 pp		20%	27%	7 pp	


**Q4 2017 EBITDA change factors:**
**System Power Plants**

- (+) Enea Elektrownia Potaniec PLN 44.8 million
- (-) a decrease in the margin on generation by PLN 55.7 million
- (-) a decrease in other factors by PLN 26.9 million: inventory shortage of production fuel PLN -20.5 million, the result on other operating activities PLN -3.8 million
- (-) lower margin on trading and the Balancing Market by PLN 18.5 million
- (+) lower overheads by PLN 2.6 million
- (+) higher revenue from Regulatory System Services by PLN 10.2 million

**Heat Segment**

- (-) a decrease in revenues from the sale of heat by PLN 7.5 million
- (-) an increase in employee benefits costs by PLN 4.7 million
- (-) a decrease in the result on other operating activities by PLN 3.3 million
- (-) a decrease in revenues from sales of energy by PLN 2.9 million
- (+) Enea Potaniec Power Plant PLN 4.2 million

**RES Segment**

- (+) in 2016 the provision related to the estimation of the value of shares in Eco-Power sp. z o.o. for the amount of PLN 129.0 million
- (+) Water Area (PLN +6.0 million): an increase in revenues from electricity by PLN 4.1 million, a decrease in overheads by PLN 1.1 million; an increase in revenues from certificates of origin by PLN 0.7 million
- (+) Biogas Area (PLN +3.7 million): release of the provision for compensation claims PLN +3.6 million
- (+) Wind Area (PLN +4.0 million): increase in revenues from electricity by PLN 1.2 million; increase in revenues from certificates of origin by PLN 1.3 million; in 2016, the costs of sale and liquidation of property, plant and equipment PLN 2.0 million
- (-) Enea Elektrownia Potaniec 10.1 million

Distribution Area

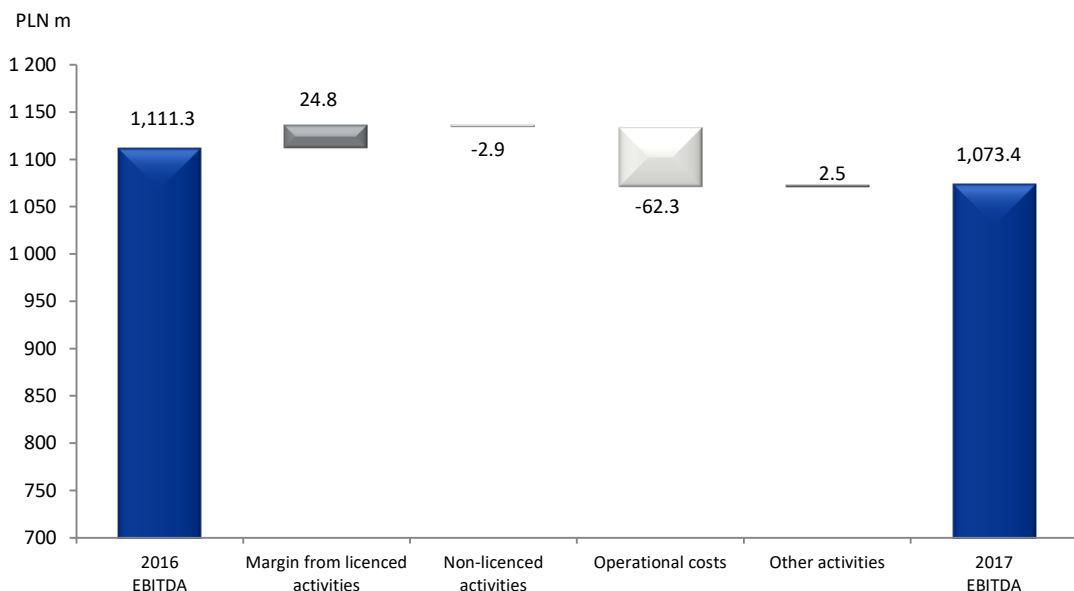
[PLN k]	2016	2017	Change	% change	Q4 2016	Q4 2017	Change	% change
Sales revenue	3,083,878	3,280,236	196,358	6.4%	810,333	853,278	42,945	5.3%
<i>distribution services to end users</i>	2,887,972	3,109,954	221,982	7.7%	746,882	800,043	53,161	7.1%
<i>network connection fees</i>	67,564	64,258	-3,306	-4.9%	19,845	16,197	-3,648	-18.4%
<i>others</i>	128,342	106,024	-22,318	-17.4%	43,606	37,038	-6,568	-15.1%
EBIT	631,607	576,171	-55,436	-8.8%	135,476	149,753	14,277	10.5%
Depreciation	479,720	497,188	17,468	3.6%	118,382	125,775	7,393	6.2%
<b>EBITDA</b>	<b>1,111,327</b>	<b>1,073,359</b>	<b>-37,968</b>	<b>-3.4%</b>	<b>253,858</b>	<b>275,528</b>	<b>21,670</b>	<b>8.5%</b>
CAPEX	920,413	1,022,251	101,838	11.1%	274,937	429,289	154,352	56.1%
Share of revenue from the sale of the area in the net sales revenue of the Group	19%	20%	1 pp		19%	19%	-	

Enea Operator sp. z o.o. is responsible for the distribution of electricity to 2.5 million customers - in western and north-western Poland in the area of 58.2 thousand km<sup>2</sup>.

The basic task of Enea Operator is to provide energy in a continuous and reliable manner, while maintaining appropriate quality parameters.

In the Distribution area, financial data includes data of the following companies :

- Enea Operator sp. z o.o.
- Enea Serwis sp. z o.o.
- Enea Pomiar sp. z o.o.
- Annacond Enterprises sp. z o. o.



**2017 EBITDA change factors:**

**Margin from licenced activities**

- (+) higher revenues from the sale of distribution services to end users by PLN 222 million
- (+) lower costs of electricity purchase to cover the balance sheet difference (balance) by PLN 17 million
- (-) higher purchase costs of transmission services by PLN 203 million
- (-) lower revenues from network connection fees by PLN 9 million
- (-) lower revenues from the sale of distribution services to other entities by PLN 3 million

**Operational costs**

- (-) higher costs of third-party services by PLN 25 million
- (-) higher taxes and levies by PLN 15 million
- (-) higher employee benefits costs by PLN 15 million
- (-) higher other operating expenses by PLN 7 million

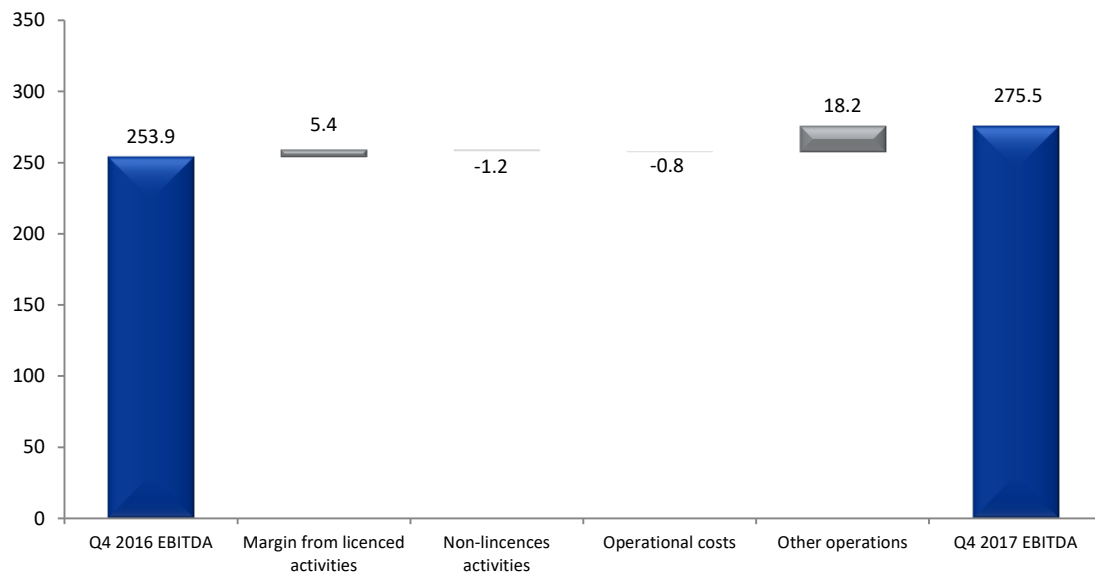
**Other operations**

- (+) lower other operating costs by PLN 10 million
- (+) higher result on liquidation by PLN 4 million
- (-) lower other operating revenue by PLN 11 million

Distribution Area

[PLN k]	2016	2017	Change	% change	Q4 2016	Q4 2017	Change	% change
Sales revenue	3,083,878	3,280,236	196,358	6.4%	810,333	853,278	42,945	5.3%
<i>distribution services to end users</i>	2,887,972	3,109,954	221,982	7.7%	746,882	800,043	53,161	7.1%
<i>network connection fees</i>	67,564	64,258	-3,306	-4.9%	19,845	16,197	-3,648	-18.4%
<i>others</i>	128,342	106,024	-22,318	-17.4%	43,606	37,038	-6,568	-15.1%
EBIT	631,607	576,171	-55,436	-8.8%	135,476	149,753	14,277	10.5%
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CAPEX	920,413	1,022,251	101,838	11.1%	274,937	429,289	154,352	56.1%
Share of revenue from the sale of the area in the net sales revenue of the Group	19%	20%	1 pp		19%	19%	-	

PLN m



**Q4 2017 EBITDA change factors:**

**Margin from licenced activities**

- (+) higher revenues from the sale of distribution services to end users by PLN 53 million
- (+) lower costs of electricity purchase to cover the balance sheet difference (balance) by PLN 2 million
- (-) higher purchase costs of transmission services by PLN 43 million
- (-) lower revenues from network connection fees by PLN 4 million
- (-) lower revenues from the sale of distribution services to other entities by PLN 3 million

**Other operations**

- (+) lower other operating costs by PLN 14 million
- (+) higher other operating revenue by PLN 4 million

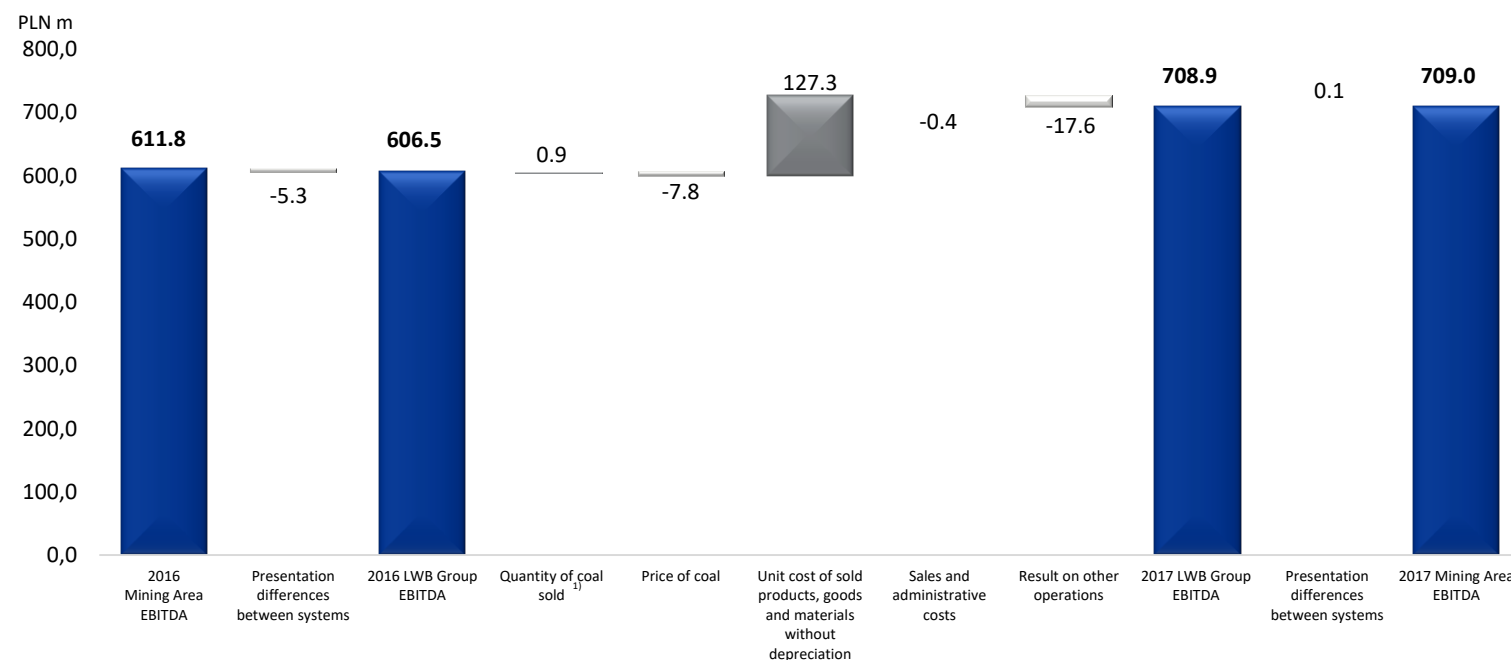
Mining Area

[PLN k]	2016	2017	Change	% change	Q4 2016	Q4 2017	Change	% change
Sales revenue	1,785,981	1,780,320	-5,661	-0.3%	471,878	473,190	1,312	0.3%
<i>coal</i>	1,724,416	1,725,221	805	0.5%	452,043	457,198	5,155	1.1%
<i>Other products and services</i>	49,896	41,805	-8,091	-16.2%	17,223	12,456	-4,767	-27.7%
<i>goods and materials</i>	11,669	13,294	1,625	13.9%	2,612	3,536	924	35.4%
EBIT	241,189	350,684	109,495	45.4%	82,250	159,248	76,998	93.6%
Depreciation	363,238	357,015	-6,223	-1.7%	92,472	97,383	4,911	5.3%
Impairment loss on non-financial non-current assets	7,352	1,284	-6,068	-82.5%	-	1,284	1,284	100.0%
<b>EBITDA</b>	<b>611,779</b>	<b>708,983</b>	<b>97,204</b>	<b>15.9%</b>	<b>174,722</b>	<b>257,915</b>	<b>83,193</b>	<b>47.6%</b>
CAPEX	307,720	373,411	65,691	21.3%	92,611	119,003	26,392	28.5%
Share of revenue from the sale of the area in the net sales revenue of the Group	11%	11%	-		11%	11%	-	

The Mining Area presents the financial results of the LW Bogdanka Group with the parent company - Lubelski Węgiel Bogdanka SA and its subsidiaries.

LW Bogdanka divides its range of sales into energy-rich coal, which accounts for 99% and for pea and nut coal.

The main recipients are professional and industrial power industry.



**2017 EBITDA change factors :**

- (+) an increase in revenues from coal sales: higher sales volume (+10,000 t), at a lower price
- (-) a decrease in revenues from sales of other products - and services: logistics and customs services for exported coal, lease of fixed assets, sales of heat
- (+) a decrease in the unit cost of products, goods and materials sold without depreciation - the release of a provision for retirement coal allowance for pensioners and pensioner allowance for current employees, improvement of cost effectiveness with a slightly growing volume of coal sold
- (-) lower result on other operating activities: - in 2016, a provision for compensation for Budimex was released as a result a favorable judgment of the Court of Appeal and higher compensation was received

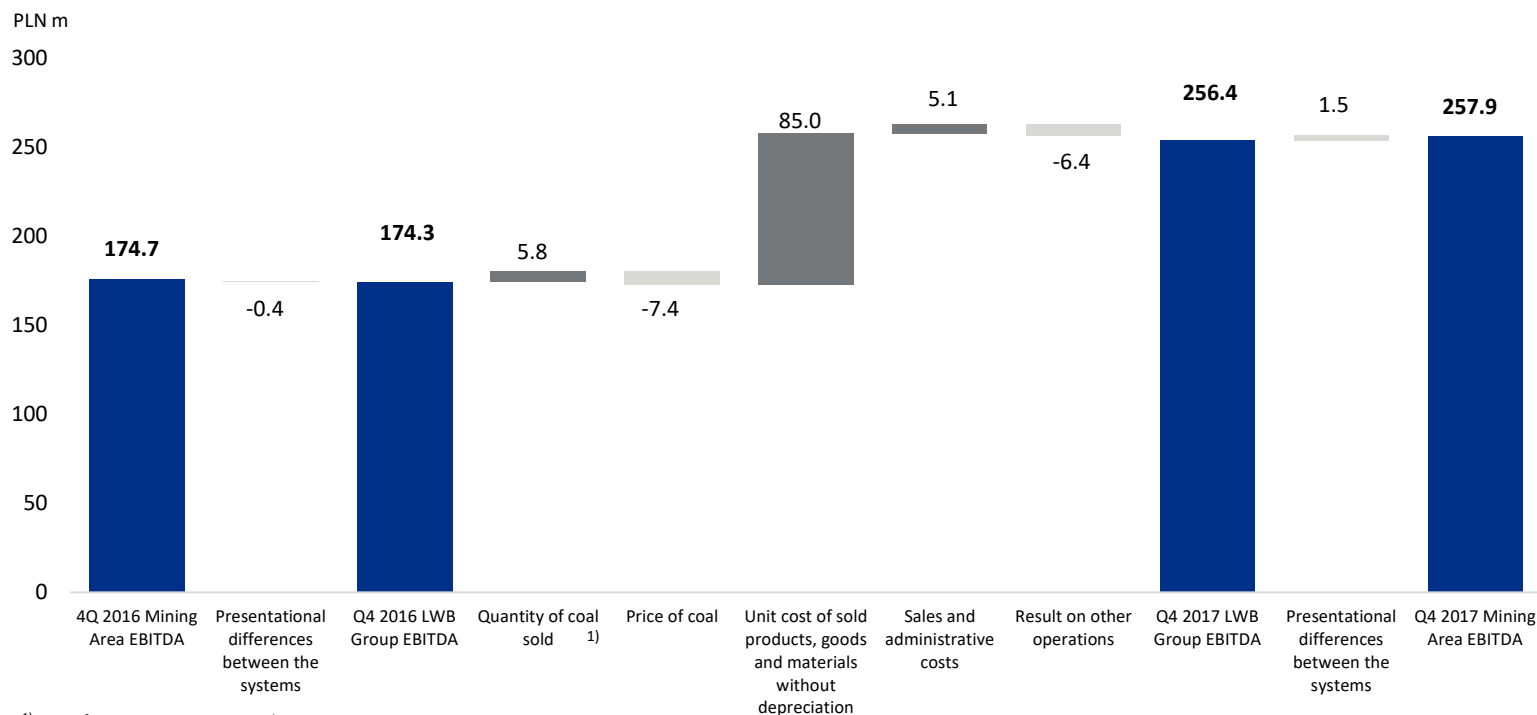
The presentation differences concern the financial reporting of the Enea Group and LW Bogdanka Group in the scope of depreciation

<sup>1)</sup>Sum of impact on revenues and costs



Mining Area

[PLN k]	2016	2017	Change	% change	Q4 2016	Q4 2017	Change	% change
Sales revenue	1,785,981	1,780,320	-5,661	-0.3%	471,878	473,190	1,312	0.3%
<i>coal</i>	1,724,416	1,725,221	805	0,5%	452,043	457,198	5,155	1.1%
<i>Other products and services</i>	49,896	41,805	-8,091	-16.2%	17,223	12,456	-4,767	-27.7%
<i>goods and materials</i>	11,669	13,294	1,625	13.9%	2,612	3,536	924	35.4%
EBIT	241,189	350,684	109,495	45.4%	82,250	159,248	76,998	93.6%
Depreciation	363,238	357,015	-6,223	-1.7%	92,472	97,383	4,911	5.3%
Impairment loss on non-financial non-current assets	7,352	1,284	-6,068	-82.5%	-	1,284	1,284	100.0%
<b>EBITDA</b>	<b>611,779</b>	<b>708,983</b>	<b>97,204</b>	<b>15.9%</b>	<b>174,722</b>	<b>257,915</b>	<b>83,193</b>	<b>47.6%</b>
CAPEX	307,720	373,411	65,691	21.3%	92,611	119,003	26,392	28.5%
Share of revenue from the sale of the area in the net sales revenue of the Group	11%	11%	-		11%	11%	-	



**Q4 2017 EBITDA change factors :**

- (+) an increase in revenues from coal sales: higher sales volume (+51,000 t), at a lower price
- (-) a decrease in revenues from sales of other products - and services: logistics and customs services for exported coal, lease of fixed assets
- (+) a decrease in the unit cost of products, goods and materials sold without depreciation - the release of a provision for retirement coal allowance for pensioners and pensioner allowance for current employees,
- (+) Lower administrative and sales costs: the release of a provision for retirement coal allowance for pensioners and pensioner allowance for current employees,

The presentation differences concern the financial reporting of the Enea Group and LW Bogdanka Group in the scope of depreciation

<sup>1)</sup> Sum of impact on revenues and costs

Other Operations

[PLN k]	2016	2017	Change	% change	Q4 2016	Q4 2017	Change	% change
Sales revenue	533,901	587,844	53,943	10.1%	138,912	169,797	30,885	22.2%
EBIT	- 747	7,553	8,300	1,111.1%	- 13 198	- 3,254	9,944	75.3%
Depreciation	28,260	43,731	15,471	54.7%	8,332	12,530	4,198	50.4%
<b>EBITDA</b>	<b>27,513</b>	<b>51,284</b>	<b>23,771</b>	<b>86.4%</b>	<b>- 4,866</b>	<b>9,276</b>	<b>14,142</b>	<b>290.6%</b>
CAPEX	108,496	86,334	- 22,162	-20.4%	54,529	45,622	- 8,907	-16.3%
Share of revenue from the sale of the area in the net sales revenue of the Group	3%	4%	1 pp		3%	4%	1 pp	

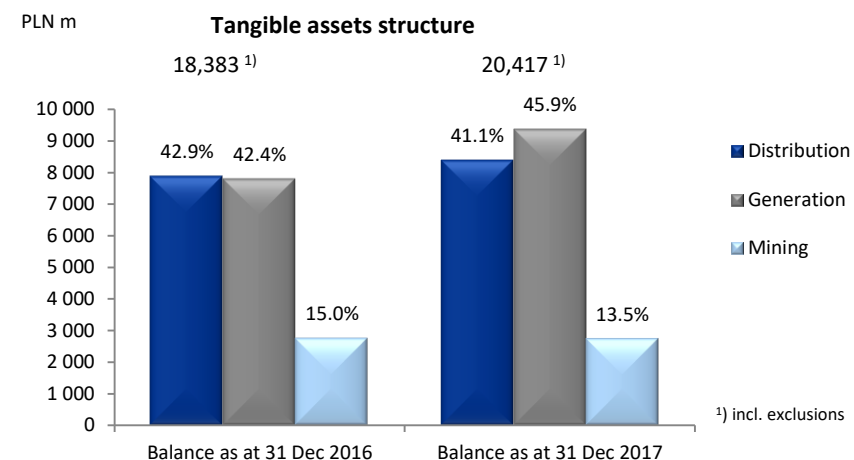


**Other Operations include companies from the following areas :**

- **support for other companies in the Capital Group :**  
 Enea Centrum sp. z o.o. – the Shared Services Center in the Group in the field of accounting, human resources, ITC and customer service  
 Enea Logistyka sp. z o.o. – a company specializing in logistics, warehousing and procurement
- **accompanying activities:**
- Enea Oświetlenie sp. z o.o. – a company specializing in indoor and outdoor lighting; it designs, builds road lighting, it illuminates urban spaces, illuminates historic and public buildings, and provides construction and comprehensive services for photovoltaic power plants,

## Asset position - the structure of assets and liabilities of the Enea Group

Assets [PLN k]	As at:		Change	% change
	31 December 2016	31 December 2017		
<b>Fixed assets</b>	<b>19,486,599</b>	<b>22,080,914</b>	<b>2,594,315</b>	<b>13.3%</b>
Property, plant and equipment	18,382,498	20,416,867	2,034,369	11.1%
Perpetual usufruct of land	74,899	105,571	30,672	41.0%
Intangible assets	370,638	418,248	47,610	12.8%
Investment real estates	28,020	26,981	-1,039	-3.7%
Investments in subsidiaries, affiliates and jointly controlled entities	2,518	355,152	352,634	14,004.5%
Assets due to deferred income tax	403,257	501,945	98,688	24.5%
Financial assets available for sale	42,482	40,698	-1,784	-4.2%
Financial assets at fair value through profit or loss	112	33,364	33,252	29,689.3%
Derivatives	40,267	29,553	-10,714	-26.6%
Trade and other receivables	30,690	30,729	39	0.1%
Funds accumulated as part of the Mine Liquidation Fund	111,218	121,806	10,588	9.5%
<b>Current assets</b>	<b>5,049,920</b>	<b>6,232,080</b>	<b>1,182,160</b>	<b>23.4%</b>
CO <sub>2</sub> Emission allowances	417,073	595,533	178,460	42.8%
Inventories	448,941	846,187	397,246	88.5%
Trade and other receivables	1,824,488	1,903,568	79,080	4.3%
Receivables due to current income tax	9,541	149,859	140,318	1470.7%
Financial assets held to maturity	478	478	-	-
Financial assets at fair value through profit or loss	4,852	49,329	44,477	916.7%
Cash and cash equivalents	2,340,217	2,687,126	346,909	14.8%
Fixed assets held for sale	4,330	-	-4,330	-100.0%
<b>Total assets</b>	<b>24,536,519</b>	<b>28,312,994</b>	<b>3,776,475</b>	<b>15.4%</b>


**Change factors for fixed assets (increase by PLN 2,594 million):**

- an increase in property, plant and equipment by PLN 2,034 million mainly due to the acquisition of EEP assets, the commissioning of unit No. 11 and increased expenditure on network assets - in the distribution segment
- the increase in investments in subsidiaries by PLN 353 million mainly due to the acquisition of new shares in the increased share capital of Polska Grupa Górnicza sp. o.o., acquisition of shares in Polimex-Mostostal SA and Elektrownia Ostrołęka SA
- increase in financial assets at fair value through profit or loss - PLN 33 million is mainly related to the valuation of call options for shares in Polimex-Mostostal SA

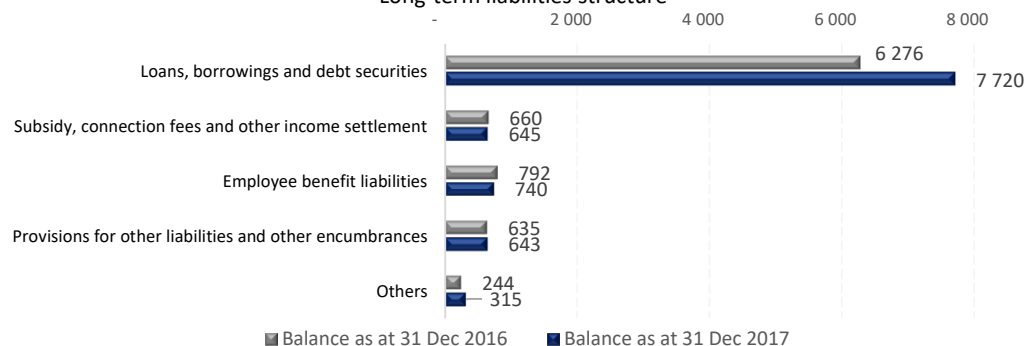
**Change factors for current assets (increase by PLN 1,182 million):**

- an increase in inventories by PLN 397 million mainly due to greater inventories of coal, certificates of origin, biomass and spare parts for unit No. 11
- an increase in cash and cash equivalents by PLN 347 million results mainly from the acquisition of EEP assets and investment and financial activities
- an increase in the value of CO<sub>2</sub> emission allowances by PLN 178 million is mainly due to the acquisition of EEP (acquisition of new CO<sub>2</sub> emission allowances for redemption in 2018)
- an increase in financial assets at fair value through profit or loss - PLN 45 million results from the valuation of forward contracts for the purchase of electricity and gas and property rights

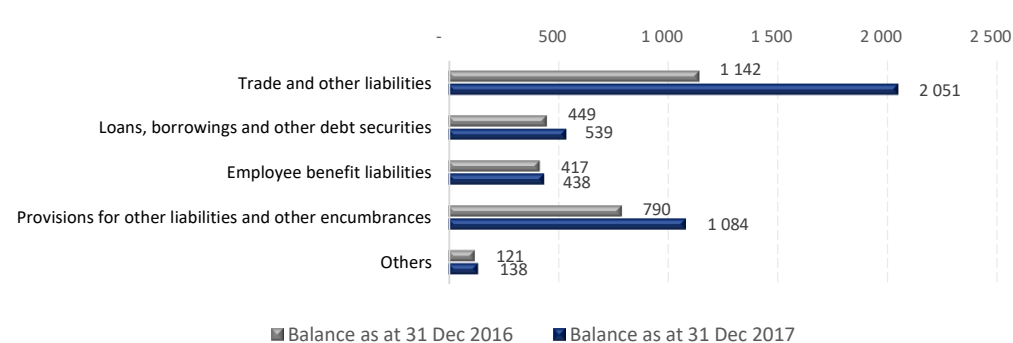
Asset position - the structure of assets and liabilities of Enea Group

Liabilities [PLN k]	As at:		Change	% change
	31 December 2016	31 December 2017		
<b>Total equity</b>	<b>13,011,729</b>	<b>13,999,669</b>	<b>987,940</b>	<b>7.6%</b>
Share capital	588,018	588,018	-	-
Capital from the surplus of the issue price over the nominal value	3,632,464	3,632,464	-	-
Capital from the revaluation of financial instruments	744	741	- 3	-0.4%
Other equity	-25,652	- 27,101	- 1,449	-5.6%
Reserve capital from the valuation of hedging instruments	33,826	25,967	- 7,859	-23.2%
Profits retained	7,946,612	8,858,130	911,518	11.5%
Non-controlling shares	835,717	921,450	85,733	10.3%
<b>Liabilities</b>	<b>11,524,790</b>	<b>14,313,325</b>	<b>2,788,535</b>	<b>24.2%</b>
Long-term liabilities	8,606,757	10,063,012	1,456,255	16.9%
Short-term liabilities	2,918,033	4,250,313	1,332,280	45.7%
<b>Total liabilities and equity</b>	<b>24,536,519</b>	<b>28,312,994</b>	<b>3,776,475</b>	<b>15.4%</b>

Long-term liabilities structure



Short-term liabilities structure



**Change factors for long-term liabilities (increase by PLN 1,456 million)**

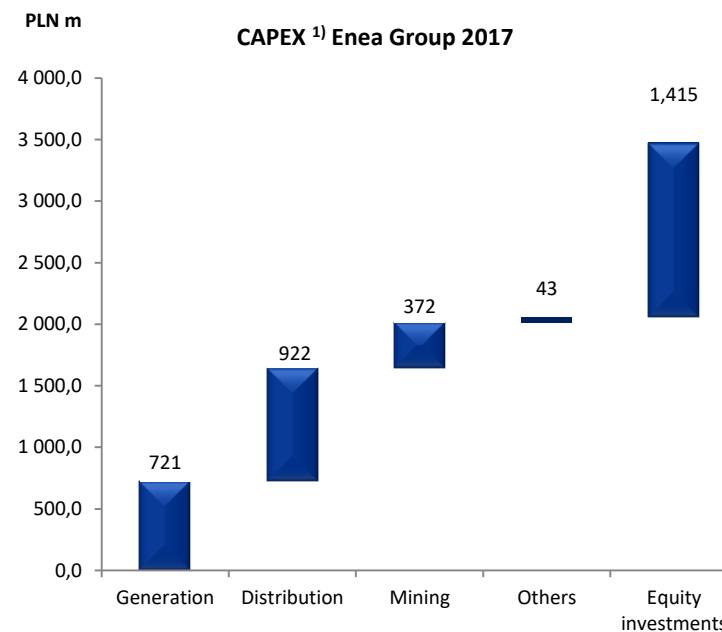
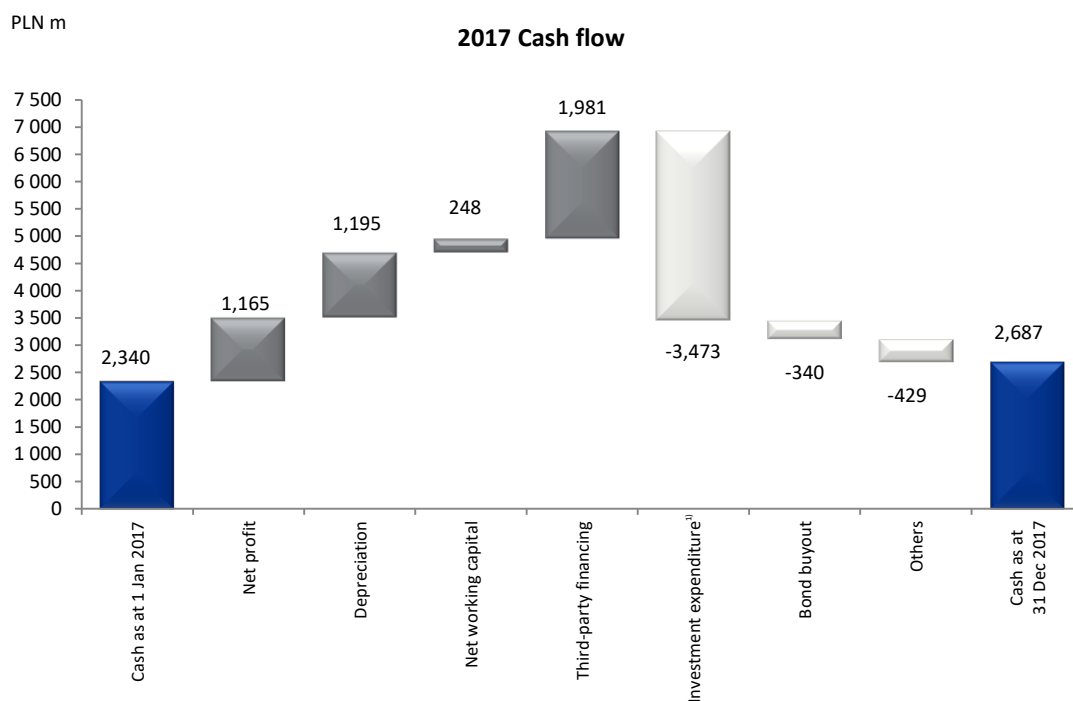
- PLN 1,444 million increase in loans, borrowings and debt securities - mainly due to the launch of subsequent loan tranches in the EIB for the financing of a multi-annual investment plan to modernize and expand Enea Operator's energy networks, issue new bonds under the „Scheme Agreement up to PLN 700 million" and new bonds - under the „Scheme Agreement up to PLN 3,000 million". In addition, in the reporting period there was a buyout of bonds by LW Bogdanka and repayment of the EIB loan capital instalments and the "Program Agreement up to PLN 700 million"
- PLN 52 million decrease in liabilities due to employee benefits results mainly from the release of the coal allowance provision for future and current pensioners of LW Bogdanka
- PLN 53 million increase in the deferred tax liability mainly relates to the reversal of the impairment loss on non-current assets and the change in provisions for LW Bogdanka (in particular due to the coal allowance)

**Change factors for short-term liabilities (increase by PLN 1,332 million)**

- PLN 909 million increase in trade and other liabilities results, for instance, from the EEP acquisition, higher liabilities under fixed assets under construction resulting from the construction of unit No. 11 and compensation for termination of contracts for the purchase of certificates of electricity origin
- PLN 294 million increase in provisions for other liabilities and other encumbrances results mainly from the change in provisions for CO<sub>2</sub> emission allowances and potential claims regarding the termination of contracts for the purchase of certificates of origin of electricity
- PLN 90 million increase in loans, borrowings and debt securities results from classifying to the short-term liabilities parts of the EIB loan tranches drawn during the reporting period and issuance of new bond series

Cash position of Enea Group

Cash flow statement [PLN k]	2016	2017	Change	% change
Net cash flow from operating activities	2,424,445	2,579,644	155,199	6.4%
Net cash flow from investment activities	- 2,490,580	- 3,482,925	- 992,345	-39.8%
Net cash flow from financial activities	584,258	1,250,190	665,932	114.0%
Increase / (decrease) in net cash	518,123	346,909	- 171,214	-33.0%
Cash balance at the beginning of the reporting period	1,822,094	2,340,217	518,123	28.4%
<b>Cash balance at the end of the reporting period</b>	<b>2,340,217</b>	<b>2,687,126</b>	<b>346,909</b>	<b>148%</b>



<sup>1)</sup> Acquisition of tangible and intangible fixed assets and acquisition of subsidiaries, associates and jointly controlled entities, adjusted for the acquired cash

Ratio analysis<sup>1)</sup>

	2016	2017	Q4 2016	Q4 2017
<b>Profitability ratios</b>				
ROE - return on equity	6.5%	8.3%	3.9%	9.3%
ROA - return on assets	3.5%	4.1%	2.1%	4.6%
Net profitability	7.5%	10.2%	4.3%	10.7%
Operating profitability	9.9%	13.0%	5.8%	13.7%
EBITDA profitability	20.7%	23.5%	16.9%	24.2%
<b>Liquidity and financial structure ratios</b>				
Current liquidity ratio	1.7	1.5	1.7	1.5
Coverage of fixed assets with equity	66.8%	63.4%	66.8%	63.4%
Total debt ratio	47.0%	50.6%	47.0%	50.6%
Net debt/ EBITDA	1.9	2.1	1.9	2.1
<b>Economic activity ratios</b>				
Current receivables turnover in days	57	59	54	55
Trade and other liabilities turnover in days	56	78	54	70
Inventory turnover in days	26	31	25	28



<sup>1)</sup> The definitions of the ratios are provided on page 145

## Profit and loss account of Enea SA – 2017

[PLN k]	2016	2017	Change	% change
Sales of electricity to retail customers	3,943,856	4,043,405	99,549	2.5%
Sales of gas fuel to retail customers	132,247	82,091	-50,156	-37.9%
Sales of distribution services to customers who have comprehensive agreements	1,498,816	1,591,465	92,649	6.2%
Sales of energy and gas fuel to other entities	99,028	170,448	71,420	72.1%
Sales of services	4,027	4,698	671	16.7%
Other revenue	,752	2,522	1,770	235.4%
Excise tax	257,374	255,049	-2,325	-0.9%
<b>Net sales revenue</b>	<b>5,421,352</b>	<b>5,639,580</b>	<b>218,228</b>	<b>4.0%</b>
Depreciation	3,459	2,635	-824	-23.8%
Costs of employee benefits	55,751	53,544	-2,207	-4.0%
Consumption of materials and raw materials and the value of goods sold	2,416	2,154	-262	-10.8%
Purchase of energy and gas for sale purposes	3,577,904	3,582,160	4,256	0.1%
Transmission services	1,498,807	1,592,446	93,639	6.2%
Other third party services	162,450	179,415	16,965	10.4%
Taxes and levies	3,103	3,272	169	5.4%
<b>Sales tax deductible costs</b>	<b>5,303,890</b>	<b>5,415,626</b>	<b>111,736</b>	<b>2.1%</b>
Other operating revenue	27,697	34,819	7,122	25.7%
Other operating costs	36,873	140,864	103,991	282.0%
Loss on the sale and liquidation of property, plant and equipment	-1	3,971	3,972	397,200.0%
<b>Operating profit</b>	<b>108,285</b>	<b>121,880</b>	<b>13,595</b>	<b>12.6%</b>
Financial costs	200,231	195,237	-4,994	-2.5%
Financial revenue	190,159	1,097,427	907,268	477.1%
Dividend revenue	548,874	810,534	261,660	47.7%
<b>Profit before tax</b>	<b>647,087</b>	<b>1,834,604</b>	<b>1,187,517</b>	<b>183.5%</b>
Income tax	26,844	21,280	-5,564	-20.7%
<b>Net profit of the reporting period</b>	<b>620,243</b>	<b>1,813,324</b>	<b>1,193,081</b>	<b>192.4%</b>
<b>EBITDA</b>	<b>111,744</b>	<b>124,515</b>	<b>12,771</b>	<b>11.4%</b>

## 2017:

## Change factors for EBITDA of Enea SA (an increase by PLN 13 million):

- (+) increase in margin and coverage by PLN 121 million:
  - (-) a decrease in the average sale price of energy by 4.5%
  - (+) lower costs of environmental obligations by 39.0%
  - (+) a decrease in the average purchase price of energy by 1.6%
  - (+) an increase in the volume of energy sales by 7.3%
  - (-) a decrease in the result on gas fuel trading
- (+) lower employee benefits costs (by PLN 2 million):
  - (+) lower costs of provisions for employee benefits by PLN 5 million
  - (-) higher costs of remuneration with derivatives by PLN 3 million
- (-) higher costs of third-party services (by PLN 17 million):
  - (-) higher costs of sales and customer service by PLN 15 million
  - (-) higher costs of shared services by PLN 8 million
- (+) lower costs related to advertising and representation by PLN 2 million
- (+) lower costs of consultancy services by PLN 3 million
- (-) a decrease in the result on other operations (by PLN 93 million) is caused by:
  - (-) higher provisions for litigations and potential claims by PLN 95 million (including PLN 86 million of provisions for terminated PM RES contracts)
  - (-) more receivables written off by PLN 5 million
  - (-) higher impairments by PLN 5 million
  - (-) higher costs of litigations by PLN 2 million
  - (+) recognition of revenue of PLN 12 million due to the expiry of the availability of the bond issue scheme (PLN 3 billion)
  - (+) recognition of revenue of PLN 4 million in connection with the transfer of ownership and perpetual usufruct of land, which are in off-balance sheet records

## 2017:

## Settlement of results of share impairment tests :

- (+) the share impairments tests conducted showed an increase in their recoverable amount, and thus the need to reverse some of the write-downs of the value of shares in ENEA Wytwarzanie from previous years by PLN 879 million

## Profit and loss account of Enea SA – 4Q 2017

[PLN k]	Q4 2016	Q4 2017	Change	% change
Sales of electricity to retail customers	1,020,170	1,038,975	18,805	1.8%
Sales of gas fuel to retail customers	35,567	22,380	-13,187	-37.1%
Sales of distribution services to customers who have comprehensive agreements	386,682	408,894	22,212	5.7%
Sales of energy and gas fuel to other entities	23,930	57,577	33,647	140.6%
Sales of services	1,096	1,487	391	35.7%
Other revenue	114	296	182	159.6%
Excise tax	71,536	64,880	-6,656	-9.3%
<b>Net sales revenue</b>	<b>1,396,023</b>	<b>1,464,729</b>	<b>68,706</b>	<b>4.9%</b>
Depreciation	799	562	-237	-29.7%
Costs of employee benefits	14,959	15,577	618	4.1%
Consumption of materials and raw materials and the value of goods sold	773	529	-244	-31.6%
Purchase of energy and gas for sale purposes	902,650	949,185	46,535	5.2%
Transmission services	386,547	409,230	22,683	5.9%
Other third party services	45,381	46,305	,924	2.0%
Taxes and levies	530	523	-7	-1.3%
<b>Sales tax deductible costs</b>	<b>1,351,639</b>	<b>1,421,911</b>	<b>70,272</b>	<b>5.2%</b>
Other operating revenue	5,670	21,450	15,780	278.3%
Other operating costs	16,746	31,356	14,610	87.2%
Loss on the sale and liquidation of property, plant and equipment	7	3,716	3,709	52,985.7%
<b>Operating profit</b>	<b>33,315</b>	<b>36,628</b>	<b>3,313</b>	<b>9.9%</b>
Financial costs	42,649	53,415	10,766	25.2%
Financial revenue	50,422	921,080	870,658	1,726.7%
Dividend revenue	<b>4,088</b>	<b>904,293</b>	<b>863,205</b>	<b>2,100.9%</b>
<b>Profit before tax</b>	<b>6,380</b>	<b>1,589</b>	<b>-4,791</b>	<b>-75.1%</b>
Income tax	<b>34,708</b>	<b>902,704</b>	<b>867,996</b>	<b>25,00.9%</b>
<b>Net profit of the reporting period</b>	<b>34,114</b>	<b>37,190</b>	<b>3,076</b>	<b>9.0%</b>

## Q4 2017:

## Change factors for EBITDA Enea SA (an increase by PLN 3 million):

- (-) a decrease in margin and coverage by PLN 0.4 million:
- (-) a decrease in the average sale price of energy by 4.3%
- (+) lower costs of environmental obligations by 12.7%
- (+) a decrease in the average purchase price of energy by 1.5%
- (+) an increase in the volume of energy sales by 6.4%
- (-) a decrease in the result on gas fuel trading
- (-) higher costs of third-party services (by PLN 1 million):
- (-) higher costs of sales and customer service by PLN 4 million
- (+) lower costs of consultancy services by PLN 2 million
- (+) lower costs related to advertising and representation by PLN 1 million
- (+) an increase in the result on other operations (by PLN 5 million) is caused by:
  - (+) recognition of revenue of PLN 12 million due to the expiry of the availability of the bond issue scheme (PLN 3 billion)
  - (+) recognition of revenue of PLN 4 million in connection with the transfer of ownership and perpetual usufruct of land, which are in off-balance sheet records
  - (+) donation costs in the Q4 2016 of PLN 7 million
  - (+) lower provisions for litigations and potential claims by PLN 3 million
  - (-) provisions for terminated PM RES contracts of PLN 17 million
  - (-) more receivables written off by PLN 3 million
  - (-) higher impairments by PLN 1 million

## Q4 2017:

## Settlement of results of share impairment tests:

- (+) the share impairments tests conducted showed an increase in their recoverable amount, and thus the need to reverse some of the write-downs of the value of shares in ENEA Wytwarzanie from previous years by PLN 879 million



## Assets position - the structure of assets and liabilities of Enea SA

Assets [PLN k]	As at:		Change	% change
	31 December 2016	31 December 2017		
<b>Fixed assets</b>	<b>14,912,074</b>	<b>19,068,965</b>	<b>4,156,891</b>	<b>27.9%</b>
Property, plant and equipment	29,063	25,905	-3,158	-10.9%
Perpetual usufruct of land	1,970	1,215	-755	-38.3%
Intangible assets	4,814	4,666	-148	-3.1%
Investment real estates	15,405	14,855	-550	-3.6%
Investments in subsidiaries, affiliates and jointly controlled entities	9,448,433	11,945,473	2,497,040	26.4%
Assets due to deferred income tax	48,562	66,693	18,131	37.3%
Financial assets available for sale	41,902	39,307	-2,595	-6.2%
Intra-group bonds	5,136,547	6,771,221	1,634,674	31.8%
Financial assets at fair value through profit or loss	-	23,836	23,836	100%
Derivatives	40,267	29,553	-10,714	-26.6%
Trade and other receivables	145,111	146,241	1,130	0.8%
<b>Current assets</b>	<b>3,305,851</b>	<b>3,383,956</b>	<b>78,105</b>	<b>2.4%</b>
Inventories	84,984	217,158	132,174	155.5%
Trade and other receivables	1,119,479	1,126,982	7,503	0.7%
Receivables due to current income tax	-	126,336	126,336	100.0%
Intra-group bonds	486,566	167,054	-319,512	-65.7%
Cash and cash equivalents	1,614,822	1,746,426	131,604	8.1%
<b>Total Assets</b>	<b>18,217,925</b>	<b>22,452,921</b>	<b>4,234,996</b>	<b>23.2%</b>

**Change factors for fixed assets (increase by PLN 4.157 million):**

- an increase in investments in subsidiaries, affiliates and jointly controlled entities by PLN 2,497 million is mainly due to the acquisition of 100% shares in ENGIE Energia Polska SA (currently Enea Elektrownia Połaniec SA) in the amount of PLN 1,264 million and reversal of impairment losses on shares in ENEA Wytwarzanie for PLN 879 million
- an increase in intra-group bonds by PLN 1,635 million results from the change in the volume of purchased bonds and the reclassification of part of bonds from fixed assets to current assets

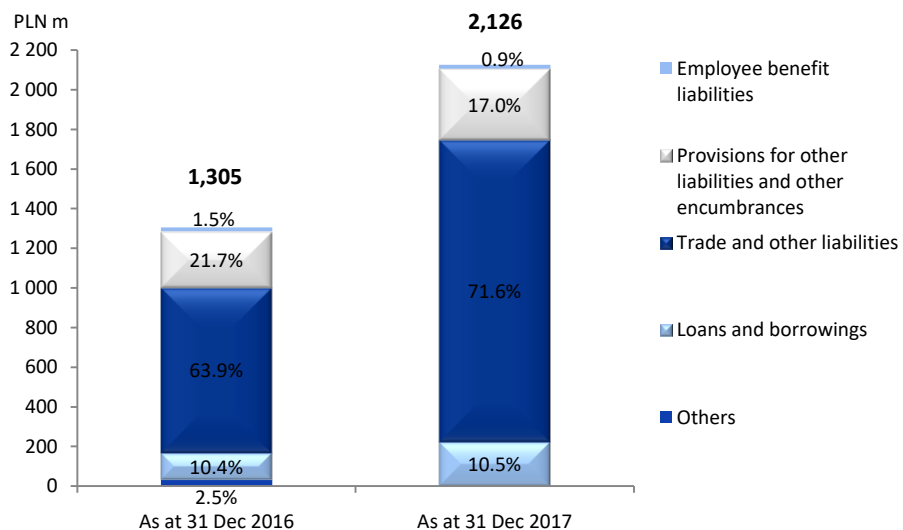
**Change factors for current assets (increase by PLN 78 million):**

- a decrease in intra-group bonds by PLN 320 million results from the repayment of the bonds' capital and reclassification of fixed assets to the short-term part
- an increase in inventories by PLN 132 million relates to certificates of origin of electricity
- an increase in cash by PLN 132 million - the financial and investment activities (including the purchase of ENGIE Energia Polska's assets) and ENEA SA's operation as a Pool Leader in the pool structure including also other Group Companies have all an impact on the higher cash position
- receivables due to current income tax in the amount of PLN 126 million

Assets position - the structure of assets and liabilities of Enea SA

Liabilities [PLN k]	As at:		Change	% change
	31 December 2016	31 December 2017		
<b>Total equity</b>	<b>10,940,79</b>	<b>12,631,977</b>	<b>1,691,498</b>	<b>15.5%</b>
Share capital	588,018	588,018	-	-
Capital from the surplus of the issue price over the nominal value	4,627,673	4,627,673	-	-
Capital from the revaluation of financial instruments	33,826	25,967	-7,859	-23.2%
Reserve capital	2,640,358	3,150,240	509,882	19.3%
Profits retained	3,050,604	4,240,079	1,189,475	39.0%
<b>Total liabilities</b>	<b>7,277,446</b>	<b>9,820,944</b>	<b>2,543,498</b>	<b>35.0%</b>
Long-term liabilities	5,972,038	7,695,443	1,723,405	28.9%
Short-term liabilities	1,305,408	2,125,501	820,093	62.8%
<b>Total liabilities and equities</b>	<b>18,217,925</b>	<b>22,452,921</b>	<b>4,234,996</b>	<b>23.2%</b>

Structure of short-term liabilities



**Change factors for liabilities :**

- Launch of the next tranche of the EIB loan for the modernization and expansion of the distribution assets - PLN 746 million
- bond issue schemes - funds of PLN 1,199 million for investment purposes of Enea SA and subsidiaries
- an increase in the level of trade liabilities by PLN 100 million
- an increase in provisions for liabilities by PLN 78 million
- a decrease in the level of tax liabilities (including income tax) by PLN 60 million
- an increase in cash pooling liabilities by PLN 557 million

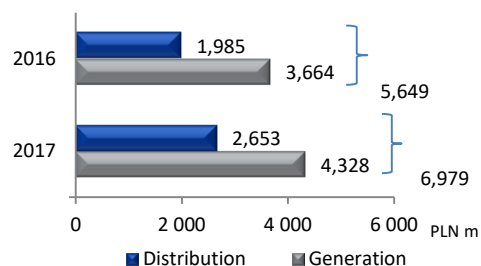
Cash position of Enea SA

Cash flow statement [PLN k]	2016	2017	Change	% change
Net cash flow from operating activities	83,403	591,748	508 345	609,5%
Net cash flow from investment activities	-561,847	-2 009,136	-1 447 289	-257,6%
Net cash flow from financial activities	695,634	1,548,992	853 358	122,7%
Increase / (decrease) in net cash	217,190	131,604	-85 586	-39,4%
Cash balance at the beginning of the reporting period	1,397,632	1,614,822	217 190	15,5%
<b>Cash balance at the end of the reporting period</b>	<b>1,614,822</b>	<b>1,746,426</b>	<b>131 604</b>	<b>8,1%</b>

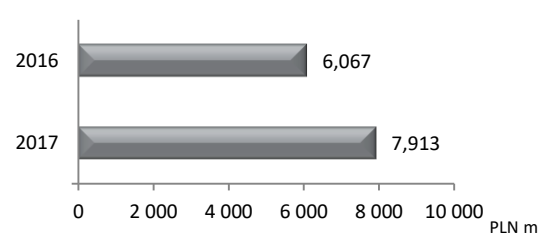
Ratio analysis of Enea SA <sup>1)</sup>

	2016	2017	4Q 2016	4Q 2017
<b>Profitability ratios</b>				
ROE - return on equity	5.7%	14.4%	1.3%	28.6%
ROA - return on assets	3.4%	8.1%	0.8%	16.1%
Net profitability	11.4%	32.2%	2.5%	61.1%
Operating profitability	2.0%	2.2%	2.4%	2.5%
EBITDA profitability	2.1%	2.2%	2.4%	2.5%
<b>Liquidity and financial structure ratios</b>				
Current liquidity ratio	2.5	1.6	2.5	1.6
Coverage of fixed assets with equity	73.4%	66.2%	73.4%	66.2%
Total debt ratio	39.9%	43.7%	39.9%	43.7%
<b>Economic activity ratios</b>				
Current receivables turnover in days	75	72	68	67
Trade and other liabilities turnover in days	41	47	38	47
Inventory turnover in days	8	10	12	12

The balance of intra-group bonds

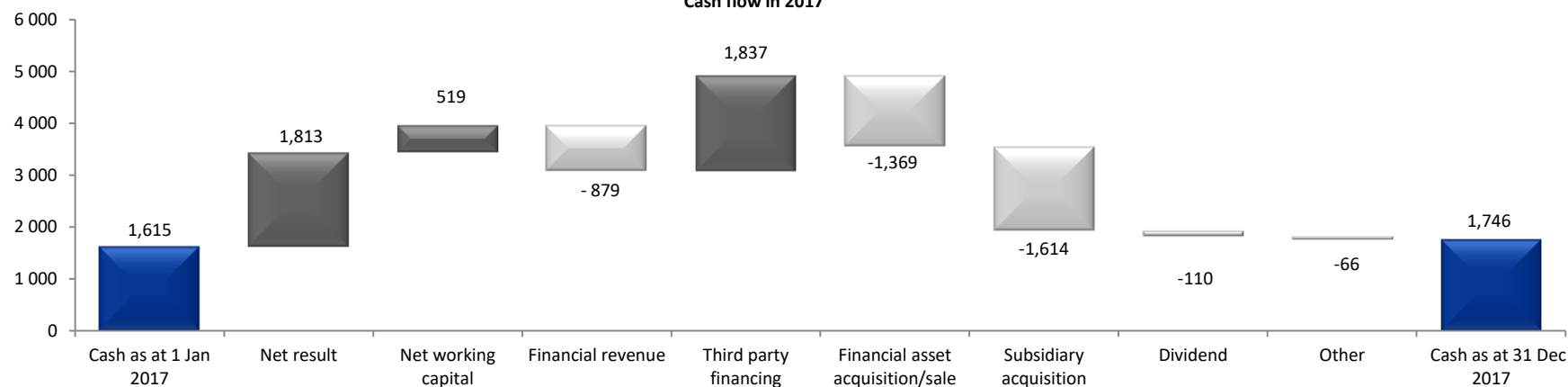


The balance of external debt



mIn zł

Cash flow in 2017



<sup>1)</sup> Definitions of indicators are provided on page 145

## Financial results forecast

The Management Board of Enea SA did not publish any financial results forecast for 2017.

### Rules for preparing the annual consolidated financial statements and basis for publication

This Management Board Report on the operations of Enea Capital Group for the financial year 2017 was prepared pursuant to § 92.1.4 and § 92.3 read in conjunction with § 91.5 to §91.6 and § 83.7 of the Regulation of the Minister of Finance of 19 February 2009 on current and periodical information submitted by securities issuers and on the conditions for considering equivalent the information required under the regulations of non-Member States (Journal of Laws No. 33, item 259, as amended).

The consolidated financial statements of the Capital Group and the stand-alone financial statements of Enea SA included in Enea SA consolidated report for the financial year 2017 were prepared pursuant to the International Accounting Standards and International Financial Reporting Standards (MSR/MSSF) approved by the European Union.

The consolidated financial statements of the Capital Group and stand-alone financial statements Enea SA were prepared on a going concern basis, i.e., with the assumption of continuation of business activity by the Issuer and its Capital Group in the foreseeable future. As at the day of signing the consolidated and stand-alone financial statements, the Company's Management Board does not know of the existence of any facts or circumstances which would indicate any threat to the ability to continue its activity in the period of 12 months following the balance sheet date as a result of an intended or forced cessation or a significant limitation of the current activity.

The financial data presented in the statements are expressed in kPLN, unless stated otherwise.

### Financial instruments used

Enea SA implements the Strategy for interest rate risk hedging whose main purpose is to hedge the cash flows resulting from the financing agreements signed. The adopted strategy assumes the limitation of the risk of impact on the financial result and changes to the cash flows resulting from the risk of change to interest rates on the market in a specific time horizon. In 2017, as part of the financial market transaction agreements, the interest rate risk was hedged for the total amount of 1,091,000 kPLN. The interest rate risk hedging was made on the basis of the Interest Rate Swap (IRS) instruments. The total value of concluded interest rate risk hedging transactions as at 31.12. 2017 is 5,442,520 kPLN.

During the reporting period, as part of implementation of the Strategy for FX risk hedging in 2017 horizon for the currency exposure identified outside the areas of the core activity of the key member companies of Enea Group whose objective is to limit the hazard related to variability of FX rates, 8 transactions were concluded to hedge the cash flows of the total value of 1,812 kEUR. The concluded transactions were used to hedge the FX risk of the member companies of Enea SA (value 497 kEUR) and Enea Wytwarzanie sp. z o.o. (value 1,315 kEUR). In the case of Enea SA, the hedging was made on the basis of the Forward Non-Deliverable instrument, whereas in the case of Enea Wytwarzanie sp. z o.o. – Forward Deliverable instrument.

During the reporting period, Enea Trading sp. z o.o. concluded FX risk hedging transactions (term transactions for EUR purchase) in order to hedge payments resulting from the purchase of CO<sub>2</sub> emissions allowances under term contracts. As at 31 December 2017, the volume of active forward contracts for the purchase of EUR amounted to 81,623 kEUR.

During the reporting period Enea Wytwarzanie sp. z o.o. held active NDF forward contracts for the purchase of biomass for the amount of 521 kEUR.

## Manging financial resources

In January 2014, the member companies of Enea Capital Group signed comprehensive banking service agreements with PKO BP SA and Pekao SA banks. The signed agreement warrant for the member companies of Enea Capital Group the comprehensive banking services as part of the product range available at these banks and overdraft availability as well as enable to perform joint management of cash with the use of cash pooling mechanism. The objectives of concluding the abovementioned agreements included, without limitation, ensuring the effective management of funds of the Group member companies and cost optimisation in the scope of expenses on banking services. Cash pooling services enable to consolidate bank accounts and, as a consequence, to perform netting of the balances of accounts of Enea Tax Capital Group (Enea TCG) member companies through covering any temporary shortage of funds with the surplus funds held by other member companies of Enea TCG.

The ongoing management of the companies' liquidity focuses on the cash flows planning and on monitoring the current concentration of funds in bank accounts. Enea SA as the Pool Leader invests any surplus funds in current assets in the form of bank deposits. In order to make the liquidity and liquidity risk management process more uniform, the member companies of Enea TCG were covered by intra-Group regulations, i.e., the liquidity and liquidity risk management policy and procedure. In addition, in order to limit the risk of the lack of funds for purposes of timely repayment of accounts payable, the member companies of Enea Capital Group have access to intraday limits as part of the cash pooling services. If there is no sufficient balance of funds available under cash pooling, it is possible to use overdraft.

### Entity authorised to audit financial statements

KPMG Audyt spółka z ograniczoną odpowiedzialnością sp. k. was chosen to conduct the financial revision operations referred to in the table below. The agreement with the abovementioned entity was signed on 6 May 2015. Information on the net fee for the entity conducting the financial revision operations for Enea SA in the years 2016-2017 is presented in the table below:

Figures in kPLN	2016	2017
The fee for the audit of the annual consolidated and stand-alone financial statements of Enea SA	118	196
The fee for the audit of the annual financial statements of subsidiaries	429	622
The fee for the review of the mid-year stand-alone financial statement and mid-year consolidated financial statement of Enea SA and for the review of mid-year financial statements of subsidiaries	127	152
The fee for other services	40	40
<b>TOTAL</b>	<b>714</b>	<b>1,010</b>

The remuneration for other services includes the fee for the audit of the regulatory statements for 2016 pursuant to Article 44 of the Power Law, the fee for performing the agreed procedures with respect to bank covenants for 2016, and the fee for verification of purchase price allocation (PPA) of Enea Elektrownia Połaniec S.A.

Detailed information on selecting and appointment of KPMG Audyt spółka z ograniczoną odpowiedzialnością sp. k. and a description of the services provided was published in the current report No. 38/2014 of 18 December 2014.

## Expected financial situation

In 2017, the Mining Area of Enea Group recorded much higher results compared to the preceding year. It was possible to achieve this thanks to constant monitoring of operating costs of the mine, maintaining the unit cost of production at such a low level as in 2017 will be impossible, especially due to the labour situation in the mining industry, and as a result of the commencement of preparatory work towards Ostrów field. Two elements remain invariably a priority for this area: the optimal level of unit cost of extraction and the implementation of investment processes enabling coal extraction to comply with short- and long-term plans. The stability of the future results of Mining is positively affected by the inclusion of the Połaniec Power Plant in the Enea Group structure. Further development and operability of the area was ensured by obtaining a mining licence in the new Ostrów field in 2017 which increased the LWB's operational resources and extended the prospects for the mine from 25 to 50 years.

The Generation Area, which is responsible for 27% of Enea's EBITDA, remains invariably influenced by the demanding situation on the energy market. Hard coal-based production involves exposure to the risk related to carbon dioxide emission costs. The major repairs of generation units planned for 2018-2019, which will enforce relatively long periods of suspension of electricity production, are important factors for the revenue of the Generation area. Lower production of current generation assets will be compensated by Unit 11, which was put into operation in December 2017 and through the optimal use of production capacities of two sets of generating sources - the Koźienice Power Plant and Połaniec Power Plant.

Distribution is the area that consistently stabilizes the predictability of financial flows as it is responsible for 40% of the EBITDA result of Enea Group. Two elements remain the factors affecting the results of this area: a decrease in the average weighted cost of capital adopted by the Energy Regulatory Office (URE) for tariff calculations (WACC) - 7.197% in 2015, 5.675% in 2016, 5.633% in 2017. and the URE's implementation of the so-called quality tariffs as of 2016. 3Q2017 turned out to be a real challenge for distribution network operators in Poland. Weather elements of unprecedented strength had a huge impact on the SAIDI and SAIFI indicators, which may significantly affect the EBITDA level in Distribution in 2019. In order to ensure the implementation of indicators determined by the President of the Energy Regulatory Office, the Group implements investments in the distribution area by enhancing security and stability of energy supplies.

In the area of Trading, operational activities invariably concentrate on increasing revenue from the sales of electricity and gas fuel - thanks to the continuously developed product offer, new customers are gained, and the volume of energy and gas sold is also increased. The financial result of Trading is adversely affected by the growing competition on the market, exerting pressure on realized sales prices. The better y/y the results of the Trading area are mainly affected by the effects of termination of long-term contracts for the purchase of green property rights; the possible risk related to the impact of ongoing disputes with green energy producers on the results of subsequent periods is mitigated by the establishment of provisions for possible claims.

Despite difficult market and regulatory conditions, due to the consistent increase in the scale of the Group's operations, the search for synergies between its business areas, Enea Group generates financial results at the expected level, and the Group's liquidity standing is stable.

The financial standing of the Group remains safe, e.g. due to the relatively high amount of cash at the end of 2017, including short-term financial assets held to maturity and financial assets valued at fair value by the result of approximately PLN 2.6 billion. Thanks to constant discipline, search for cost optimization and care for the appropriate use of resources, the Group ensures that investments are financed from its own resources as well as from financing institutions.

Thanks to better results, a safe cash standing and the availability of financing, Enea Group can consistently implement the extensive CAPEX program (investment outlays) - in individual areas of activity.

### Significant events after the balance sheet date

On 3 January 2018, a bilateral agreement was signed to purchase coal from Polska Grupa Górnicza sp. z o.o. in the term of 2018 - 2021. The contract was concluded for the needs of power units of Enea Elektrownia Połaniec SA, and the total net value of the Agreement is PLN 1.49 billion. In January 2018, an agreement was also signed under which PGG will provide Enea Wytwarzanie with a coal supply worth PLN 0.52 billion by the end of 2021.



## 4. Shares and shareholding



## Share capital structure

As at publication date of the report for 2017, Enea SA' share capital amounts to PLN 441,442,578 and is divided into 441,442,578 ordinary bearer shares of the nominal value of PLN 1 each.

A total number of votes resulting from all the issued shares of the Issuer corresponds to the number of shares and amounts to 441,442,578 votes.

## Shareholding structure

All the Company's shares are dematerialised bearer shares registered with the National Depository for Securities.

The table below presents the shareholding structure of Enea SA as at 31 December 2017 and as at the date of release of the periodic report for 2017.

Shareholder	Number of shares / number of votes at GM	Share in the share capital / share in the total number of votes
State Treasury	227,364,428	51.50%
PZU TFI	43,959,339	9.96%
Other	170,118,811	38.54%
<b>TOTAL</b>	<b>441,442,578</b>	<b>100.00%</b>

## Potential changes in the shareholding structure

The Company does not know of any agreements or events that could result in future changes in the proportions of shares held by the existing Shareholders. However, the nature of the process of acquiring unpaid employee shares from the State Treasury by entitled employees and their heirs may result in some changes in the number of shares held by the State Treasury.

## Own shares

Neither Enea SA, nor any Enea Group companies acquired the Company's own shares in 2017.

## Employee share control system

Enea SA's Statute foresees the so called block of employee shares. All the ordinary registered shares of B series in Enea SA in the number of 41,638,955 were designated for transferring employee shares.

Pursuant to the act on commercialisation and privatisation on 16 May 2010 Enea Group's employees obtained the right to acquire the Company's shares from the State Treasury free of charge. 8,818 persons were authorised to the unpaid acquisition of Enea's shares for whom 33,239,235 shares were designated.

The right to the unpaid acquisition from the State Treasury of Enea's shares by authorised persons expired on 16 May 2012. After that date agreements may be concluded only by heirs of authorised persons in specific cases provided for in the said act.

Pursuant to §6 item 3 of the Statute of Enea SA registered shares of B series belonging to the State Treasury are designated for the purposes specified in the act on commercialisation and privatisation and act on the principles of purchasing shares from the State Treasury in the process of consolidation of energy sector companies, became bearer shares on the moment of expiry of the prohibition to sell or expiry of the right to acquire the shares free of charge. To the Company's knowledge, the number of Enea SA's actions available for unpaid acquisition by the Company's employees was 1,969,793 as at 31 December 2017.

In 2017, Enea SA did not launch any standard employee share programme control systems.



### Prices of Enea SA's Shares on the Warsaw Stock Exchange

Enea SA's shares are listed on the Warsaw Stock Exchange (WSE) from 17 November 2008. The weight of the Company's shares in stock indices as at 29 December 2017.

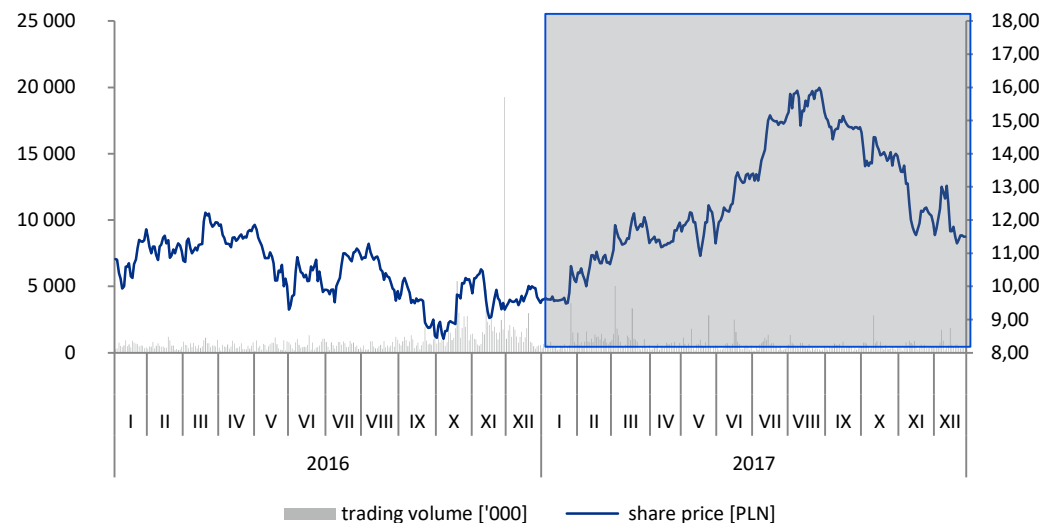


The table below presents data on the Company's shares during 2017.

Key data	FY 2017
Number of shares [pcs.]	441,442,78
Minimum price [PLN]	9.48
Maximum price [PLN]	15.99
Closing price [PLN]	11.50
Starting price [PLN]	9.50
Average volume [pcs.]	658,074

After the 2016 downward trend, in 2017 the share price of Enea increased from PLN 9.50 (the closing of the last session of 2016) to PLN 11.50 (the closing of the last session in 2017), i.e. by PLN 2.00, or 21%. Enea shares reached the highest price on 28 August and the lowest on 23 January 2017.

Price of Enea SA's shares in 2016-2017



Change in the price of Enea SA's shares in 2016-2017 vs. the changes in the WIG30 and WIG-Energy indices







## 5. Governing bodies



## Composition of Enea SA Management Board

From early 2017 to 24 August 2017, the Company's Management Board was composed of the following persons: Mirosław Kowalik – President of the Management Board and Chief Executive Officer, Wiesław Piosik – Corporate Vice-President of the Management Board, Piotr Adamczak – Commercial Vice-President of the Management Board, and Mikołaj Franzkowiak – Financial Vice-President of the Management Board.

On 24 August 2017, the Company's Supervisory Board passed a resolution on recalling from Enea SA Management Board Wiesław Piosik, i.e., Corporate Vice-President, and Mikołaj Franzkowiak, i.e., Financial Vice-President of the Management Board. At the same time, the Supervisory Board appointed, with effect from the same date, the Supervisory Board Member, Rafał Szymański, to temporarily perform the operations of the Corporate Vice-President of Enea SA for a period no longer than three months, until the appointment of the new Corporate Management Board Member of Enea SA. On 22 September, the Company's Supervisory Board passed a resolution on appointing Piotr Olejniczak the Financial Management Board Member with effect from 1 October 2017. On 29 September 2017, Rafał Szymański who was appointed the Company's Supervisory Board to temporarily perform the operations of the Corporate Management Board Member at Enea S.A. submitted to the Company his resignation from the appointment to perform the abovementioned operations, with effect from 1 October 2017. On 5 October, the Supervisory Board passed a resolution on appointing Zbigniew Piętka the Corporate Management Board Member with effect from 10 October 2017.

### Mirosław Kowalik

President of the Board and Chief Executive Officer



### Piotr Adamczak

Commercial Vice-President of the Management Board



### Piotr Olejniczak

Financial Vice-President of Management Board



### Zbigniew Piętka

Corporate Vice-President Management Board



Mirosław Kowalik has been connected with the power energy for over 20 years, holding managerial positions on an operating and strategic level. In 2015 he managed SNC Lavalin sp. z o.o. Polska as the Vice-President of the Board and Business Development Director. During 1999-2015 he worked on various managerial positions for ASLTOM Power Group, recently as the Marketing and Sales Director. Connected with the ABB concern during 1995-1998.

Mirosław Kowalik is a graduate of the Faculty of Energy Engineering of the Gdynia Maritime University. He graduated from MBA (Rotterdam School of Management programme in cooperation with the University of Gdańsk and Gdańsk Foundation for Management Development), achieving the degree of Executive Master of Business Administration. He is also a graduate of postgraduate studies of Corporate Finance Management at the Warsaw School of Economics. He has also completed many specialist product and management training courses, including most recently four-year part-time doctoral studies and two-year postgraduate Executive Doctor of Business Administration studies at the Institute of Economics of the Polish Academy of Sciences.

**Scope of competence:** He chairs the work of the Management Board and directly coordinates the activities of the Company and the Enea Group in accordance with the adopted Strategy.

Piotr Adamczak has been connected with the power industry for over 20 years. He commenced his professional career in Zakład Energetyczny Poznań. He managed the Market Organisation Department in EnergoPartner Wielkopolska. During 2002-2011 he worked in Energetyka Poznańska, and after the consolidation in Grupa Energetyczna Enea SA, on the positions of the Office Manager, Division Manager and Department Director, he dealt with the centralisation and realisation of tasks within the wholesale trade in electricity, duties of a commercial and technical coordinator, commercial coordinator, and commercial cooperation with RES as well. From 2011 he worked on the position of the Office Manager, and from 2013 of the Trading Department Director in Enea Trading, where he dealt with commercial activities on electricity markets, proprietary interests to certificates of origin, emission allowances and commercial cooperation with RES for the account of Enea Group companies.

Piotr Adamczak is a graduate of the Poznań University of Technology, majoring in Electrical Engineering at the Faculty of Electrical Engineering. He also graduated from Postgraduate Studies in Economic Problems of Power Sector Transformation at the Warsaw School of Economics, and Postgraduate Studies in Electricity Trade Management at the Poznań Trade and Services College.

**Scope of competence:** Supervision and coordination of the overall tasks related to the trading activity and Customer service.

Piotr Olejniczak has been involved in corporate finance area since the very beginning of his business career. He has over 20 years of experience gained in consulting companies where he was employed on managerial positions. Since 2015, he has been carrying on his own business activity in the field of consulting, among others. Earlier, in the years 2008-2015, he had been the Director of the Capital Market Department at IPOPEMA Securities. Also, he spent seven years working for KPMG Advisory as a manager and vice director in the Corporate Finance Team. In the period 1996-2001, Piotr Olejniczak was engaged by BRE Corporate Finance where he got promoted from Senior Consultant to Area Manager. He started his business career at Doradca Consultants Ltd. as a junior consultant in the Financial Consulting Department.

Piotr Olejniczak has graduated from the Faculty of Economy at the University of Gdańsk. He also studied finance and the German language during his scholarship at FHTW Berlin (at present: Hochschule für Wirtschaft und Recht Berlin) and at the Johann Wolfgang Goethe University in Frankfurt am Main. He completed postgraduate studies at the University of Warsaw in the field of corporate law and capital market law. He attended numerous training courses on such areas as mergers and acquisitions.

**Scope of competence:** Supervision and coordination of the entirety of economic, financial, and accounting issues related to risk management in the Company and in Enea Group, ICT and controlling.

Zbigniew Piętka has been involved in the power sector for almost 40 years. From 2016, he was Deputy Director of the Maritime Office in Szczecin for technical affairs. From 2009 to 2014, he worked as an electro-technical officer in the Polish Shipping industry, with which he was also associated at the beginning of his career from 1981 to 1994. From 2007 to 2008 he was Vice-President of Enea for Infrastructure. He also gained managerial experience in the Szczecin-Świnoujście Seaports Authority, where in 1994-2007 he was Head of the Energy Department - Main Energy Officer.

Zbigniew Piętka is a graduate of the Faculty of Electrical Engineering of the Szczecin University of Technology. He also completed Postgraduate Studies at the Warsaw University of Technology in the field of energy company management in the conditions of development of energy markets.

**Scope of competence:** Supervision and coordination of all issues related to Corporate Governance, ownership supervision, services in Enea Group.

In 2017, no formalised diversity policy was implemented at Enea SA with respect to the Company's governing bodies and its key managers. The Company is exercising its efforts to ensure that the appointment of its governing bodies and key managers is each time conducted pursuant to the commonly binding legal regulations and preceded by a thorough analysis of the experience, competence, skills, and substantive preparation of each of the candidates, regardless of other, non-substantive criteria, including, without limitation, sex or age. In the Company's opinion, the abovementioned assessment criteria of the candidates for the abovementioned positions enable to choose the candidates who warrant the ability to pursue the Company's strategy and develop its activity.

## Composition of Enea SA Supervisory Board

On 27 December 2017, the Company received the notice of resignation of Ms Małgorzata Niezgoda from her function of Enea SA Supervisory Board Member effective as of 27 December 2017. Until that time, Ms Małgorzata Niezgoda had acted in her capacity as the Chairwoman of the Company's Supervisory Board. On 28 December 2017, the Extraordinary General Meeting of Shareholders of Enea SA passed a resolution on appointing Mr Stanisław Kazimierz Hebda a member of the Company's Supervisory Board. At the same time, the Extraordinary General Meeting of Shareholders appointed Mr Stanisław Kazimierz Hebda the Chairman of the Company's Supervisory Board.

### Stanisław Kazimierz Hebda, Chairman of the Supervisory Board

**Date of appointment: 28 December 2017**

Stanisław Kazimierz Hebda is the General Director at the Ministry of Energy. He has over 28 years of professional experience, including 15 years on managerial positions. He is an appointed civil servant. As an expert in shareholder supervision over state-owned companies, he represented the State Treasury in many supervisory boards. He was a member of the Examination Board at the Ministry of the State Treasury for candidates to supervisory boards. Stanisław Kazimierz Hebda has graduated from the Main School of Planning and Statistics (present name: the Warsaw School of Economics). He studied at the Faculty of Production Economics (major: Economics and Organisation of Industry). He completed postgraduate National Security Studies (University of Warsaw), European Studies (University of Warsaw) and postgraduate Audit and Internal Control Studies (Vistula University). He was the Chairman of the Audit Committee at Korporacja Ubezpieczeń Kredytów Eksportowych SA. He has over 10 years of experience in diplomatic service as a former commercial consul in the Consulate General of the Republic of Poland in Munich and Cologne.

### Piotr Kossak, Vice-Chairman of the Supervisory Board

**Date of appointment: 15 January 2016**

Piotr Kossak runs a legal practice in his own Law Firm of the Legal Counsel in Sandomierz specialising in reprivatization issues, foundation and association law and companies law. During 2010-2012 he was connected with the University of Human and Life Sciences in Sandomierz - as a research associate and dean on the Faculty of Law and Administration. Piotr Kossak is a PhD of legal sciences within law. He received this degree at the Faculty of Law, Canon Law and Administration of John Paul II Catholic University of Lublin (KUL) in Lublin. He completed the legal training by the District Chamber of Legal Advisers in Kraków and barrister's training by the District Bar Council in Kielce. In 2006 he was entered into the list of legal counsels in the District Chamber of Legal Advisers in Kraków, and in 2009 he was entered into the list of barristers of the District Bar Council in Kielce. Piotr Kossak satisfies the independence criteria for members of the Supervisory Board.

### Rafał Szymański, Secretary of the Supervisory Board

**Date of appointment: 2 July 2015**

Rafał Szymański is an employee of the Ministry of Energy in the Supervisory Department. As part of his professional duties, he is responsible for i.a. ownership supervision over companies with Treasury shareholding. So far, he has been an employee of the Ministry of the Treasury, where i.a. he held the position of the Head of the Supervisory Department of power sector companies with Treasury shareholding. Rafał Szymański graduated from the University of Warmia and Mazury in the field of ecological engineering and completed Postgraduate Studies on the Operation of the Energy Market at the Warsaw School of Economics.

### Wojciech Klimowicz, Member of the Supervisory Board

**Date of appointment: 2 July 2015**

Wojciech Klimowicz has been connected with Enea SA since 2003 and currently works in the Sales Department. Wojciech Klimowicz graduated from the Adam Mickiewicz University in Poznań with a Master's degree, Faculty of Social Sciences, majoring in Political Science (specialization: local government administration). He also completed Postgraduate Studies Statistical analysis of data in administration and business at the Faculty of Economics of the Poznań University of Economics.

### Tadeusz Mikłosz, Member of the Supervisory Board

**Date of appointment: 2 July 2015**

Tadeusz Mikłosz has many years of professional experience on the area of power engineering and corporate governance. Since 1983 he has been associated with Enea SA and its legal predecessor, currently an employee of the Operational Management Department. Since 1997, he has been a member of numerous supervisory boards of commercial law companies. Tadeusz Mikłosz has a university degree in team management and political science. In addition, he completed Postgraduate Studies in Business Law at the Poznań University of Economics.

### Sławomir Brzeziński, Member of the Supervisory Board

**Date of appointment: 2 July 2015**

Sławomir Brzeziński has been connected with Enea SA since 2008. Currently, he holds the position of the Organisation and Investor Relations Department Director. Previously he was related to the International Fairs of Poznań. Sławomir Brzeziński is a graduate of the Faculty of Mechanical Engineering and Management at Poznań University of Technology. He also graduated Post-graduate studies at Poznań University of Economics in logistics and supply chain management and Poznań University of Technology, majoring in quality management.

### Roman Stryjski, Member of the Supervisory Board

**Date of appointment: 15 January 2016**

Roman Stryjski is a Professor of the University of Zielona Góra, Director of the Institute of Computer Science and Production Management. Formerly, he was professionally connected with the Higher Engineering School in Zielona Góra and the Pedagogical University in Zielona Góra for many years. Member of international scientific societies and advisory committees, the Polish Association for Energy Certification and the Committee of Organisation and Management Sciences of the Polish Academy of Sciences Branch in Poznań. Roman Stryjski is a doctor habil. of technical sciences of Martin Luther University Halle-Wittenberg.

### Piotr Mirkowski, Member of the Supervisory Board

**Date of appointment: 15 January 2016**

During 2009-2015 Piotr Mirkowski was a member of the Supervisory Board of the joint-stock company Radpec SA. In 2007-2015 he was connected with RTBS "Administrator" sp. z o.o. From 1998 to 1999 he was employed in Zakład Usług Technicznych Energetyki Ciepłej in Radom on the position of an Operations Director. During 1989-1998 he worked as Manager of the Heat Networks Department in Wojewódzkie Przedsiębiorstwo Energetyki Ciepłej in Radom. Piotr Mirkowski is a graduate of the Radom School of Engineering, specialising in mechanical engineering. He also graduate from Postgraduate Studies at the Warsaw University of Technology in heating and energy auditing. He holds certificates of an ISO auditor and an ISO representative.

### Rafał Bargiel, Member of the Supervisory Board

**Date of appointment: 15 January 2016**

Rafał Bargiel currently runs his own law firm of legal counsel, which provides comprehensive legal services to individual and corporate legal counsel clients. Since 1 September 2017, he has been working as a legal advisor in the Law Firm of Legal Counsel Rafał Bargiel in Bielsko-Biała. Previously, he ran his own barrister law firm. Rafał Bargiel obtained his Master's degree at the University of Silesia in Katowice at the Faculty of Law and Administration. He completed a barrister training by the District Bar Council of Bielsko-Biała.

### Paweł Skopiński<sup>1)</sup>, Member of the Supervisory Board

**Date of appointment: 5 September 2016**

Paweł Skopiński is a legal counsel in the Ministry of Energy. Connected with the Legal Department in the Ministry of Treasury since 2004. During 2010-2016 he was a Legal Counsel in the Legal and Litigation Department of the Ministry of Treasury. Previously, he cooperated with renowned law firms on preparation of legal opinions. Paweł Skopiński graduated from the University of Warsaw, Faculty of Law and Administration in Warsaw. In 2009 he obtained the professional title of a Legal Counsel and was entered into the list of legal counsels of the District Chamber of Legal Advisers in Warsaw.

In 2017, no formalised diversity policy was implemented at Enea SA with respect to the Company's governing bodies and its key managers. The Company is exercising its efforts to ensure that the appointment of its governing bodies and key managers is each time conducted pursuant to the commonly binding legal regulations and preceded by a thorough analysis of the experience, competence, skills, and substantive preparation of each of the candidates, regardless of other, non-substantive criteria, including, without limitation, sex or age. In the Company's opinion, the abovementioned assessment criteria of the candidates for the abovementioned positions enable to choose the candidates who warrant the ability to pursue the Company's strategy and develop its activity.

<sup>1)</sup>On March 13, 2018 the Company received the resignation of Mr. Paweł Skopiński from the position of a Member of the Supervisory Board of Enea SA.

## Rules for appointment and description of the scope of powers of the parent's governing bodies

Detailed information can be found in Section 6 "Corporate Governance" on pages 102-109.

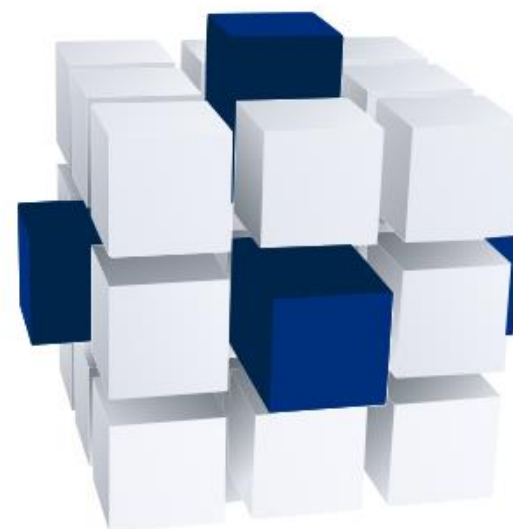
### Rules for remunerating Enea SA Management Board Members

The rules for remunerating Enea SA Management Board Members which were in effect in 2017 have been implemented on the basis of the resolution of the Extraordinary General Meeting of Shareholders of Enea SA of 15 December 2016 on the rules for determining remunerations of the Management Board members passed in connection with the coming into effect of the Act of 9 June 2016 on the rules for determining remunerations of persons managing certain companies. In Resolution of 17 January 2017, the Supervisory Board set out the rules for remunerating the Management Board Members of Enea SA.

As of 1 January 2017, the Management Board Members and the Company are bound by the Management Services Agreements ("Agreement") whereby:

- a. during the Agreement term, the Management Board Members are entitled to fixed monthly remuneration and the variable remuneration depending on the degree of achievement of managerial objectives which cannot exceed 65% of the fixed annual remuneration
- b. in consideration of the Management Board Members' compliance with the obligations resulting from the prohibition of carrying on any competitive activity during the non-competition period, the Management Board Members are entitled to the compensation in the total amount calculated as the product of 0.5 times the monthly fixed remuneration and 6
- c. in the case of expiry of the Management Services Agreement as a result of expiry of the Management Board Member's term of office, the Company has the right, for the period of 1 month after the Agreement expiry date, to demand from the Management Board Members the provision of services which involve handing over the issues related to managing the Company to a person named by the Supervisory Board, on terms and conditions set out in the Agreement. In consideration of the above, the Management Board Members are entitled to the remuneration in the amount equal to the monthly fixed remuneration
- d. the Management Board Members are entitled to a severance pay in the amount equal to 3 times the fixed remuneration, save for the following cases :
  - termination, dissolution or amendment to the Agreement as a result of a change of the function performed by the Management Board Member in the Management Board
  - termination, dissolution or amendment to the Agreement as a result of appointing the Management Board Member for another term of office at the Management Board
  - taking the function of the Management Board Member in the member company of the capital group within the meaning of Article 4.14 of the Act of 16 February 2007 on competition and consumer protection
  - resignation from the function performed

In the case where a Management Board Member violates non-competition obligation after he/she ceased to perform his/her function, such Management Board Member loses their entitlement to the compensation with effect from the day of serving the termination notice on the Management Board Member. In addition, the Company has the right to demand the Management Board Member to pay liquidated damages. The Agreement provides for the Manager's obligation to take out, at their own expense, insurance against any third-party liability which may arise in connection with management.



## Rules for remunerating Enea SA Supervisory Board Members

The rules for remunerating Enea SA Supervisory Board Members which were in effect in 2017 have been implemented on the basis of the resolution of the Company's Extraordinary General Meeting of Shareholders of 15 December 2016. Pursuant to the provisions of the abovementioned resolution of the Extraordinary General Meeting of Shareholders, the monthly remuneration of the Supervisory Board members was determined as the product of the average monthly remuneration in the enterprise sector, exclusive of distribution of profit in Q4 of the preceding year, published by the President of the Main Statistical Office and the following multiplier: :

- for the Chairman of the Supervisory Board – 1.7
- for other Supervisory Board Members – 1.5

The resolution of the Extraordinary General Meeting of Shareholders further stipulates that:

- the Supervisory Board Members are entitled to the abovementioned remuneration regardless of the number of meetings convened
- the remuneration shall not be due for the month during which the Supervisory Board Member was not present at any of the duly convened meetings and such absence was not excused

## Remuneration

The table below presents the remuneration received from 1 January 2017 to 31 December 2017 by persons being members of Enea SA Management Board who signed management contracts with the Company:

Name	Position	Net remuneration in PLN [exclusive of VAT] <sup>1)</sup>	Additional benefits
Mirosław Kowalik	President of the Board	1,243,254.79	-
Wiesław Piosik	Vice-President of the Board <sup>2)</sup>	1,172,135.62	-
Piotr Adamczak	Vice-President of the Board	1,052,767.12	-
Mikołaj Franzkowiak	Vice-President of the Board <sup>3)</sup>	1,124,267.12	-
Piotr Olejniczak	Vice-President of the Board <sup>4)</sup>	165,000.00	-
Zbigniew Piętka	Vice-President of the Board <sup>5)</sup>	150,333.26	-
Dalida Gepfert	Vice-President of the Board <sup>6)</sup>	10,015.56	-
Grzegorz Kinelski	Vice-President of the Board <sup>6)</sup>	10,015.56	-

In the period of performing managerial functions in 2017, the Management Board Members of Enea SA did not receive remuneration for performing during this time any functions in Enea SA subsidiaries. The remuneration received by managing persons did not include any non-financial components.

<sup>1)</sup>The remuneration includes all remunerations resulting from the concluded contracts and included in the Company's expenses, including the fee for the non-competition obligation and the bonus for 2016

<sup>2)</sup> Position held until 24 August 2017

<sup>3)</sup> Position held until 24 August 2017

<sup>4)</sup> Position held from 1 October 2017

<sup>5)</sup> Position held from 10 October 2017

<sup>6)</sup> Position held until 7 January 2016.

<sup>7)</sup> Position held until 27 December 2017

<sup>8)</sup> Position held from 28 December 2017

<sup>9)</sup> Including the remuneration of the Supervisory Board Member assigned to act in his capacity as the Management Board Member

<sup>10)</sup> On March 13, 2018 the Company received the resignation of Mr. Paweł Skopiński from the position of a Member of the Supervisory Board of Enea SA

The table below presents the remuneration of persons being members of Enea SA Supervisory Board in the financial year 2017:

Name	Net remuneration [PLN]
Sławomir Brzeziński	79,268.04
Tadeusz Mikłosz	79,268.04
Małgorzata Niezgoda <sup>7)</sup>	88,871.23
Stanisław Kazimierz Hebda <sup>8)</sup>	-
Wojciech Klimowicz	79,268.04
Rafał Szymański <sup>9)</sup>	103,267.86
Piotr Mirkowski	79,268.04
Roman Stryjski	79,268.04
Piotr Kossak	79,268.04
Rafał Bargiel	79,268.04
Paweł Skopiński <sup>10)</sup>	79,268.04

Persons being members of Enea SA Supervisory Board in the financial year 2017 were remunerated for performing their functions in the Supervisory Board in the amounts resulting from the applicable legal regulations.

## List of shares and allotment certificates to Enea SA shares held by members of the Management and Supervisory Boards

Name	Position	Number of Enea SA shares as at 31 December 2017	Number of Enea SA shares as at 23 March 2018	Nominal value [PLN]
Tadeusz Mikłosz	Member of the Supervisory Board	4,140	4,140	4,140

As at the date of release of this periodic report no other persons from the Management or Supervisory Boards hold any Enea SA shares.

As at the date of release of this periodic report no persons from the Management or Supervisory Boards hold any shares in subsidiaries of Enea SA.

## 6. Corporate governance



## The set of principles followed

Creating values for shareholders, also through the Company's transparency, is one of Enea Group's priorities. Having that in mind, the Management Board of Enea SA represents that in 2016 the Company applied the corporate governance rules being the Attachment to the Resolution No. 26/1413/2015 of the Supervisory Board of the Warsaw Stock Exchange of 13 October 2015, titled "Best Practices of WSE Listed Companies 2016,, (BPLC, corporate governance), published on WSE website under [https://www.gpw.pl/regulations\\_best\\_practices](https://www.gpw.pl/regulations_best_practices)

## Waived rules and recommendations for corporate governance

Enea SA's Management Board's intention is to apply all the principles of the corporate governance. Due to the fact however, that some principles may pose the necessity to incur excessive burdens by the Company which could exceed potential benefits resulting from market needs, in 2017 the Company waived the application of some principles and recommendations of the corporate governance indicated below.

### I. Management Board and Supervisory Board

*II.Z.3. At least two supervisory board members meet the independence criteria referred to in rule II.Z.4.*

**The Company's comment:** The Company would like to explain that pursuant to Enea SA's Statute the independence criteria should be met by at least one member of the Supervisory Board. Hence, the Company's Statute does not secure the compliance with the rule in question. However, the Management Board declares that it considers the circumstances mentioned in the content of this rule as good corporate practice. Therefore, the Management Board declares that it may request the Company's competent bodies to consider making adequate changes to the Company's internal instruments with an adequate recommendation.

*II.Z.5. A supervisory board member submits to the remaining members of the supervisory board and to the company's management board a statement that he/she meets the criteria of independence set out in rule II.Z.4.*

**The Company's comment:** The Company would like to explain that pursuant to the Company's Statute, an independent member of the Supervisory Board is obliged to make a written statement to the Company about meeting all the criteria of independence – together with an obligation to immediately inform the Company whenever he/she ceases to meet such criteria. However, the Statute of Enea SA does not provide for a duty to make such statements to the remaining members of the Supervisory Board. However, the Management Board declares that it considers the circumstances mentioned in the content of this rule as good corporate practice. Therefore, the Management Board declares that it may request the Company's competent bodies to consider making adequate changes to the Company's internal instruments with an adequate recommendation.

*II.Z.7. As regards the tasks and operation of the committees operating in the supervisory board, the provisions of Annex I to the European Commission Recommendation referred to in rule II.Z.4 shall apply. In the case where the audit committee function is performed by the supervisory board, the above rules shall apply accordingly.*

**The Company's comment:** The Company would like to explain that with respect to the tasks and operation of the committees operating in the Supervisory Board, it applies the provisions of Annex I to the European Commission Recommendation referred to in the rule under analysis, with a proviso that the Company's internal instruments do not require the majority of members of these committees to meet the independence criteria. The Management Board declares that it considers the circumstances mentioned in the content of this rule as good corporate practice. Therefore, the Management Board declares that it may request the Company's competent bodies to consider making adequate changes to the Company's internal instruments with an adequate recommendation.

*II.Z.8. Chairman of the audit committee meets the independence criteria set out in rule II.Z.4.*

**The Company's comment:** The Company would like to explain that pursuant to the Supervisory Board Regulations in effect at the Company, at least one member of the Audit Committee should be an independent member. However, the Company's internal documents do not stipulate that this requirements must be met by the chairperson of such committee.

In the light of the provisions of the abovementioned Regulations, the committee members choose the chairperson from among themselves. The Management Board declares that it considers the circumstances mentioned in the content of this rule as good corporate practice. Therefore, the Management Board declares that it may request the Company's competent bodies to consider making adequate changes to the Company's internal instruments with an adequate recommendation.

### IV. General Meeting and shareholder relations

*IV. R.2. If this is justified due to the shareholding structure or due to the shareholders' expectations communicated to the company, as long as the company is able to ensure the technical infrastructure necessary for the efficient conducting of the general meeting with the use of electronic communication means, the company should enable its shareholders to participate in the general meeting with the use of such means, in particular through: 1) real-time transmission of the general meeting sessions, 2) two-way real-time communication where the shareholders can communicate in the course of the general meeting session while staying in a location other than the place of the general meeting session, 3) exercising, either personally or via a proxy, the voting rights at the general meeting.*

**The Company's comment:** The Company would like to explain that the Company's Statute does not provide for the option to participate in the General Meeting via electronic communication means. Notwithstanding the above, the Company's Management Board generally has a positive approach to enabling the Company's shareholders in the future to participate in the General Meeting with the use of the means ensuring real-time remote transmission of data, on condition that applicable legal regulations are adopted.

*IV.Z.2. If this is justified due to the company's shareholding structure, the company ensures the real-time transmission of the general meeting sessions available to the public.*

**The Company's comment:** The Company would like to explain that currently does not provide real-time transmission of the general meeting sessions. However, the image and sound recording of the general meeting sessions is each time made and it is subsequently rendered available by the Company via the corporate website.

### V. Conflict of interest and transactions with related entities

*V.Z.5. Before the conclusion by the company of a significant agreement with a shareholder holding at least 5% of the total number of votes in the company or a related entity, the management board shall request the supervisory board to grant a consent for such transaction. Before granting such consent, the supervisory board shall conduct the assessment of the impact of such transaction on the company's interest. The above obligation shall not refer to conventional transactions concluded on an arm's length basis as part of the operating activity carried on by the company with member entities of the company's capital group. In the case where a decision on the conclusion by the company of a significant agreement with a related entity is made by the general meeting, the company, before making such decision, shall ensure for all shareholders the access to such information as may be necessary to conduct the assessment of the impact of such transaction on the company's interest.*

**The Company's comment:** The Company would like to explain that pursuant to Enea SA's Statute, the powers of the Supervisory Board include, without limitation, granting a consent for the conclusion of a significant agreement with a related entity, provided that in order to pass a binding resolution in this respect it is necessary that the majority of the Supervisory Board members meeting the independence criteria vote for passing such resolution. The terms "related entity" and "significant agreement" are defined pursuant to the provisions of the Regulation of the Minister of Finance on current and periodical information. However, the Management Board declares that it considers the circumstances mentioned in the content of this rule as good corporate practice. Therefore, the Management Board declares that it may request the Company's competent bodies to consider making adequate changes to the Company's internal instruments with an adequate recommendation.

### VI. Remuneration

*VI.R.1. The remuneration of members of the company's bodies and of the key managers should result from the remuneration policy adopted.*

**The Company's comment:** The Company would like to explain that no remuneration policy has been adopted at Enea SA. *VI.R.2. The remuneration policy should be closely related to the company's strategy, its short- and long-term objectives, long-term interests, and results, and it should also take into account the solutions contributing to avoidance of discrimination on any grounds.*

**The Company's comment:** The Company would like to explain that no remuneration policy has been adopted at Enea SA. The Management Board declares to strive to ensure that the Company's remunerating practice takes into account the circumstances mentioned in the content of the recommendation, as far as possible.

*VI.R.3. If the remuneration committee operates in the supervisory board, the scope of its operation shall be governed by rule II.Z.7.*

**The Company's comment:** The Company would like to explain that with respect to the tasks and operation of the committees operating in the Supervisory Board, it applies the provisions of Annex I to the European Commission Recommendation referred to in the rule under analysis, with a proviso that the Company's internal instruments do not require the majority of members of these committees to meet the independence criteria. The Management Board declares that it considers the circumstances mentioned in the content of this rule as good corporate practice. Therefore, the Management Board declares that it may request the Company's competent bodies to consider making adequate changes to the Company's internal instruments with an adequate recommendation.

### Description of the key features of the issuer's internal control and risk management systems in relations to the process of preparing consolidated financial statements

Principles and procedures of preparing financial statements are in particular regulated by the International Financial Reporting Standards, Act on accounting and internal procedures functioning in Enea SA.

Establishment of systems of internal control and risk management as regards the process of preparation of consolidated financial statements aims particularly at guaranteeing the completeness and correctness of financial information included in financial statements and interim reports.

The Management Board of Enea SA is responsible for the internal control system in Enea Group and its effectiveness in the process of drawing up financial statements and periodic reports. The task of an effective internal control system in financial reporting is to ensure that the financial information set out in financial statements and periodic reports is complete and correct.

Financial statements and periodic reports and monthly management and operating reporting applied by Enea SA are based on data derived from the financial and bookkeeping system of the Company. After all the predetermined processes of closing the accounts books at the end of each month have been carried out, detailed management reports on financial and operational matters are drawn up. Those reports are drawn up by the Control Department, with the participation of middle and senior managers from individual organisational units. In relations to the completed reporting periods, not only financial results of the Company are subject to a detailed analysis, but also particular business areas.

The Company also carries out annual reviews of business and financial strategies and plans. Middle and senior management personnel are particularly engaged in the process of detailed planning and budgeting, which covers all the areas of Enea Group's operations. The Company's Board adopts the material and financial plan prepared by the Controlling Department, and the Supervisory Board approves that plan. During the year, the Company's Board supervises the realisation of goals specified in the approved material and financial plan. The management cockpit developed by the Controlling Department constitutes a valuable source of information for the Supervisory Board on the current financial situation, environment and the level of realisation of goals in the critical areas.

The Company applies coherent accounting principles and presents financial data in financial statements, periodic financial reports and other reports disclosed to the shareholders.

Enea Group regularly assesses the quality of its internal control and risk management systems with regard to the process of drawing up financial statements. On the basis of an assessment, the Management Board of Enea SA confirms that as at 31 December 2017 there were no irregularities that could significantly affect the effectiveness of internal control as it relates to financial reporting.

As part of the risk management process related to the procedure of preparing financial statements, one of the basic elements of the external control is verification of the financial statements by an independent auditor. The tasks of the auditor include in particular: a review of the mid-year financial statements and an audit of the non-consolidated and consolidated annual financial statements. The independent auditor is selected by the Supervisory Board. Once the auditor has completed auditing the financial statements, they are sent to the members of the Company's Supervisory Board, which assesses the non-consolidated and consolidated financial statements with regard to their compliance with the accounts book, documents and the factual status. Under the provisions of the Accountancy Act, the members of the Management Board and the Supervisory Board are obliged to ensure that the financial statements and the report on operations fulfil the requirements set out in that act.

The internal audit function, performer by the Audit Management Division is an important element of the internal control system. The internal audit in Enea Group is independent, and accountable to the Audit Committee acting as part of the Supervisory Board. The basic tasks of the internal audit include e.g. the audit and assessment of the control mechanism processes in Enea Group, supporting the internal control system effectiveness, risk management and Compliance system, through their independent and objective assessment and recommendation of improvements within the corporate governance and monitoring.

#### Information on shares and shareholding

The detailed description of the structure of the share capital, shareholding structure, changes in its structure in 2017 and potential changes within its structure is to be found in Chapter 4 – Shares and shareholding on page 95.

#### Securities with special control authorisation

Till the date of preparation of this report Enea SA has not issued any securities that could give special inspection rights with respect to the Issuer.

#### Restrictions on exercising vote rights

As at the date of preparation of this report there are no restrictions on exercising voting rights in the Company, other than those provided for in generally applicable provisions of law.

#### Restrictions on transferability of securities

As at the date of preparation of this report the Company has no limitations concerning transfer of the title to securities of the Issuer.





## The procedure and basic powers of the General Meeting of Shareholders and description of shareholders' rights and the procedure for exercising them

The General Meetings of Enea SA are held on the basis of the Commercial Companies Code and Enea SA's Statute and the Rules of Procedure of the General Meeting, taking into account the principles adopted by the Company through the application of the "Best Practices for WSE Listed Companies".

In accordance with Enea SA's Statute, the Management Board of the Company convenes the General Meeting in the cases specified in the law and the provisions of the Statute, as well as in the case of a written request submitted by the main shareholder, i.e. the State Treasury, which, as long as it remains a shareholder of the Company, regardless of its share in the Company's share capital, may request pursuant to Article 400 § 1 of the Commercial Companies Code that an Extraordinary General Meeting be convened, as well as to place certain matters on the agenda of the next General Meeting.

The State Treasury shall submit such a request in writing to the Management Board no later than one month prior to the proposed date of the General Meeting. If the request is submitted after the General Meeting, is convened, it shall be treated as a request to convene another Extraordinary General Meeting.

As stated in § 29(1)(a) of the Company's Statute, if the General Meeting is not convened within two weeks from the date of filing the request, the State Treasury shareholder may obtain the right to convene the General Meeting pursuant to Article 354 § 1 of the Commercial Companies Code.

Apart from the matters specified in the mandatory provisions of law and other provisions of the Company's Statute, the powers of the General Meeting include in particular:

- appointing and dismissing members of the Supervisory Board, subject to the provisions of the Company's Statute entitling the State Treasury shareholder to appoint and dismiss one member of the Supervisory Board (pursuant to Article 354 § 1 of the Commercial Companies Code), in a situation where the State Treasury ceases to be the sole shareholder of the Company
- adoption of the Rules of Procedure of the General Meeting setting forth detailed rules for conducting the meeting and for adopting resolutions
- issue of convertible or exchangeable bonds and other instruments entitling to purchase or subscribe the Company's shares

At the Ordinary General Meeting of Enea S.A. on 26 June 2017 resolutions were adopted introducing to the Statute of the Company requirements referred to in Articles 17-20, 22 and 23 of the Act of 16 December 2016 on the principles of management of state property, among others, the new activities have been introduced, which will require the consent of the General Meeting. On 6 March 2018, the competent court registered the above changes.

The acquisition or disposal of real property, perpetual usufruct or real property interest, i.e. activities specified in art. 393 item 4 of the Commercial Companies Code, do not require the consent of the General Meeting.

### Right to participate in GM

Pursuant to Article 406<sup>1</sup> § 1 of the Commercial Companies Code, the right to participate in the general meeting of the Company is vested in persons who are shareholders of the Company sixteen days prior to the date of the general meeting (date of registration of participation in the general meeting). Moreover, the right to participate in the General Meeting of Enea SA with the right to speak is vested in members of the Management Board and Supervisory Board in the number enabling them to provide substantial answers to questions asked during the General Meeting.

### Right to participate in GM by a proxy

A shareholder may participate in the General Meeting of Shareholders of Enea SA and exercise voting rights in person or by proxy.

### Shareholders' rights

A shareholder or shareholders of the Company representing at least one twentieth of the share capital shall have the right to demand that certain matters be included in the agenda of the General Meeting of Shareholders of Enea SA. This request, containing justification or a draft resolution concerning the proposed item of the agenda, shall be submitted to the Management Board of Enea SA not later than 21 days prior to the scheduled date of the meeting.

A shareholder or shareholders of the Company representing at least one twentieth of the share capital may, prior to the date of the General Meeting of Enea SA, submit draft resolutions concerning matters included in the agenda of the General Meeting or matters which are to be included in the agenda.

During the General Meeting, each shareholder may submit draft resolutions concerning matters included in the agenda. The projects should be presented in Polish.

## Rules on amendments to the Company's Statute

Pursuant to the provisions of the Commercial Companies Code, an amendment to the Company's Statute requires a resolution adopted by a specified majority of votes and an entry in the register.

The Company's Statute does not contain any provisions different from the provisions of the Commercial Companies Code governing amendments to the Statute.



## Enea SA's Management Board

### Personal composition

Pursuant to the Company's Statute, the Management Board of the Company is composed of 3 to 8 persons, including the President of the Management Board. The number of members of the Management Board shall be determined by the Supervisory Board.

Currently, the Management Board of Enea SA is composed of four members. The composition of the Management Board of the Company as at the date of release of this report, i.e. 23 March 2018, together with information on changes in this body in 2017 and as at the date of preparation of this report, is presented in Chapter 5 "Governing bodies" on page 98.

### Rules of appointing and dismissing members of managing bodies

Pursuant to the Company's Statute, members of the Management Board or the entire Management Board shall be appointed and dismissed by the Supervisory Board, subject to the possibility of election of one person by the Company's employees in accordance with the provisions of § 14 of the Company's Statute.

§ 14 of the Company's Statute stipulates that if the average annual employment in the Company exceeds 500 employees, the Supervisory Board shall appoint one person to the Management Board elected by the Company's employees for the term of the Management Board.

When appointing Members of the Management Board, the Supervisory Board shall comply with the rules set forth in the Regulation of the Council of Ministers of 18 March 2003 on the conduct of qualification procedures for the position of Member of the Management Board in certain commercial companies (Journal of Laws No. 55, item 476, as amended). At the Ordinary General Meeting of Enea S.A. on 26 June 2017 resolutions were adopted introducing to the Company's Statute the requirements referred to in Articles 17-20, 22 and 23 of the Act of 16 December 2016 on the principles of management of state property, among others in the scope concerning the qualification procedure for the member of the management body in the Company, its rules and procedure. On 6 March 2018, the competent court registered the above changes.

### Competences and powers of the Management Board

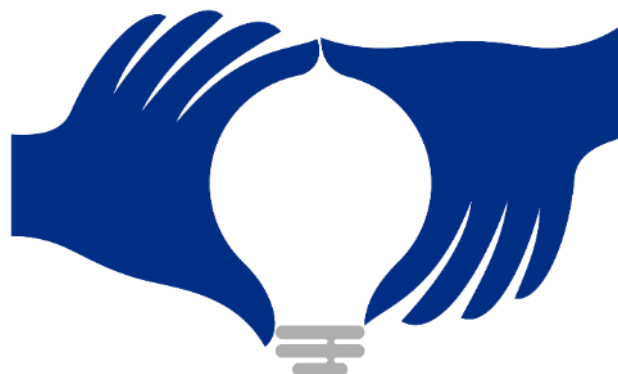
The Management Board manages and represents the Company. The powers, organisation and principles of operation of the Management Board are defined by the provisions of the Commercial Companies Code, the Company's Statute and the Regulations of the Management Board. Resolutions of the Management Board shall be required for all matters exceeding the scope of the Company's ordinary activities, in particular :

- adoption of the organisational regulations of the Company's enterprise, subject to approval by the Supervisory Board
- establishment and winding-up of branches
- appointment of an authorised signatory or an authorised representative, except for an attorney ad litem, where appointment of an authorised signatory requires consent of all members of the Management Board
- taking out loans and credit facilities
- adoption of annual material and financial plans, including investment plans, as well as strategic long-term plans, subject to approval by the Supervisory Board
- incurring contingent liabilities, including granting by the Company guarantees, sureties and issuing bills of exchange

- purchase, sale or encumbrance of real estate, perpetual usufruct or shares in real estate, based on one or more legal transactions during a period of 12 consecutive months, with a value equal to or exceeding the equivalent of EUR 50,000
- leasing, renting, hiring, lending, using or any other use of the Company's real estate
- leasing, renting, hiring, use or acceptance for any other use of immovable property, on the basis of one or more legal transactions during a period of 12 consecutive months, the rental value of which for a period of 12 consecutive months is equal to or greater than the equivalent of EUR 50,000
- purchase, sale or encumbrance of a fixed asset, except for real property, perpetual usufruct or shares in real property, based on one or more legal transactions during a period of 12 consecutive months, with a value equal to or exceeding the equivalent of EUR 50,000
- leasing, renting, hiring, lending, using or any other use of fixed assets, with the exception of real estate
- leasing, renting, hiring, use or any other use of a fixed asset, except real estate, under one or more legal acts for a period of 12 months, the rental value of which for a period of 12 consecutive months is equal to or exceeds the equivalent of EUR 50,000
- matters which the Management Board requests the Supervisory Board or the General Meeting to consider
- determination of the manner of exercising the voting right by the Company at the general meeting or at the meeting of shareholders of Major Subsidiaries, subject to § 20 Sec. 2. 6 point 5 of the Company's Statute

### Management Board's principles of operation

The Management Board represents the Company in all court and out-of-court activities and conducts the Company's affairs.



The Management Board operates on the basis of the provisions of the Commercial Companies Code, the Company's Statute and the Regulations of the Management Board of Enea SA. The Regulations of the Management Board are adopted by a resolution of the Management Board and approved by the Supervisory Board. Currently, the Company has in force the Regulations of the Management Board of Enea SA, adopted by the resolution of the Management Board on 22 June 2010, as amended.

Two members of the Management Board acting jointly or one member of the Management Board acting jointly with a proxy shall be authorised to make declarations of will on behalf of the Company.

According to the Regulations of the Management Board, meetings of the Management Board are held on Tuesdays at the Company's registered office, unless the President of the Management Board or a Management Board Member appointed by him decides otherwise.

Meetings of the Management Board of the Company shall be convened by the President of the Management Board or by a Management Board Member appointed by him, on his own initiative or at the request of two Management Board Members. Participation in the meetings of the Management Board is obligatory. A member of the Management Board shall give reasons for his/her absence at a meeting of the Management Board in writing or by means of remote communication. Absence from a Management Board meeting shall be excused by the Chairperson of the meeting. The Management Board may invite the Company's employees, experts and external advisors to its meetings. The programme and necessary documents for the Management Board meeting shall be delivered by the Service Office for the Company's Bodies at least two business days prior to the Management Board meeting. For important reasons, the meeting may be convened immediately and without any materials being handed over. In order to hold an ad hoc meeting, all members of the Management Board must be effectively notified of the meeting.

Decisions of the Management Board related to the management of the Company's affairs, referred to in § 11 Sec. 1, shall be adopted by the Management Board in accordance with the procedure laid down in § 11 Sec. 2. The resolutions adopted by the Management Board pursuant to Art. 2 of the Company's Statute shall be adopted by the Company's Management Board. The Management Board adopts resolutions if at least half of its members are present at the meeting and all members have been properly notified of the meeting. In the case of equal number of votes, the President of the Management Board has the casting vote at the adoption of a resolution by the Management Board.

The Management Board may adopt resolutions in writing or using means of direct remote communication. Adoption of a resolution in this manner requires justification and prior presentation of a draft resolution to all members of the Management Board. Resolutions adopted in writing or using means of direct remote communication shall be presented at the next meeting of the Management Board with the result of voting.

The full text of the Statute and the Regulations of the Management Board of Enea SA with the detailed description of the Management Board is available at [www.enea.pl](http://www.enea.pl) in the "Investor Relations" – "Corporate Governance" tab.

## Enea SA's Supervisory Board

### Personal composition

In accordance with the Company's Statute, the Supervisory Board is composed of 6 to 15 members appointed by: (i) the General Meeting of Shareholders, (ii) the Company's employees, and (iii) the State Treasury. The Supervisory Board should be composed of at least one person appointed by the General Meeting from among persons meeting the independence criteria specified in the corporate governance rules adopted by the WSE Supervisory Board.

Currently, the Supervisory Board of Enea SA is composed of ten members and is the Supervisory Board of the 9th term of office. The composition of the Company's Supervisory Board as at the date of release of this report, together with information on changes in 2017 and as at the date of preparation of this report, is presented in Chapter 5 "Governing bodies" on page 99.

### Operation

The Supervisory Board acts on the basis of the provisions of the Commercial Companies Code, the Company's Statute and the Regulations of the Supervisory Board of Enea SA adopted by resolution of the Supervisory Board on 15 December 2009, as amended. as amended. During the Ordinary General Meeting of Shareholders of Enea S.A. held on 26 June 2017, resolutions were adopted introducing to the Company's Statute the requirements referred to in Articles 17-20, 22 and 23 of the Act of 16 December 2016 on the principles of management of state property; among others, new actions have been introduced, which will require the consent of the Company's supervising authority. On 6 March 2018, the competent court registered the above changes.

The Supervisory Board shall exercise permanent supervision over the Company's operations in all areas of its activity. Special duties of the Supervisory Board include evaluation of the Management Board's report on the Company's operations and the financial statements for the previous financial year in terms of their compliance with the books and documents as well as with the actual state of affairs.

Furthermore, the Supervisory Board is responsible for evaluating the Management Board's motions concerning profit distribution or loss coverage, as well as for submitting an annual written report on the results of such assessment to the General Meeting.

The Supervisory Board shall hold its meetings at least once every two months. Meetings of the Supervisory Board shall be convened by the Chairman or Vice Chairman, who shall present a detailed agenda. A meeting of the Supervisory Board should be convened at the request of any member of the Supervisory Board or at the request of the Management Board.

Participation in a meeting of the Supervisory Board shall be the duty of a member of the Supervisory Board. A member of the Supervisory Board shall state in writing the reasons for his/her absence. An excuse for the absence of a Supervisory Board member shall require a resolution of the Supervisory Board.

A meeting of the Supervisory Board shall be convened within two weeks of the date of receipt of the request. In order to convene a meeting of the Supervisory Board it is required to invite in writing all members of the Supervisory Board at least 7 days prior to the meeting of the Supervisory Board. For important reasons, the Chairman of the Supervisory Board may shorten this period to 2 days, specifying the manner of issuing the invitation. In the invitation to a Board meeting, the Chairman shall specify the date of the meeting, the place of the meeting and a detailed draft agenda. The invitation shall be accompanied by materials relating to the items on the agenda.

In cases indicated in the Supervisory Board Bylaws, meetings of the Supervisory Board may also be held without being formally convened.

Meetings of the Supervisory Board shall be chaired by the Chairman of the Supervisory Board, and in his absence by the Vice Chairman or another member of the Supervisory Board elected at the meeting. The Chairman of the Supervisory Board, and in his absence the Vice-Chairman or another member of the Supervisory Board presiding over the meeting, shall ensure efficient and correct course of the meetings of the Supervisory Board, in accordance with the adopted agenda, the provisions of law, the Statute and the Regulations of the Supervisory Board of Enea SA, and in particular shall have an exclusive right to do so:

- opening, managing and closing the meetings of the Supervisory Board
- granting and withdrawing the right to speak to members of the Supervisory Board
- to issue housekeeping orders
- order votes, ensure that they are taken properly and announce their results
- the settlement of points of order
- managing breaks in the meetings of the Supervisory Board
- issue instructions to the person recording the course of the Supervisory Board meeting
- distribution of written resolutions of the Supervisory Board
- take other actions necessary for the efficient operation of the Supervisory Board

While considering each submitted matter, Board members have the right to evaluate draft resolutions and propose amendments to their content in the form of discussion, and the discussion should take place in accordance with the following rules:

- A member of the Supervisory Board may take the floor only in matters included in the agenda within the scope of the currently considered item of the agenda.
- when considering each issue on the agenda, depending on its subject, the Chairman may determine the amount of time per a speaker
- The Chairman may draw the attention of a speaker who departs from the subject under consideration, exceeds the speaking time allowed to him or speaks in an unauthorised manner.
- The Chairman shall have the right to deprive speakers who do not follow the Chairman's remarks or who take the floor in a manner inconsistent with the Rules of Procedure of the right to speak.
- The Chairman shall decide on the conclusion of the discussion after having heard the members of the Council who have requested to speak.

The proposed agenda may be amended if all members of the Supervisory Board are present at the meeting and no one objects to the agenda. An item other than those appearing on the agenda shall be placed on the agenda of the next meeting.

The Board adopts resolutions if at least half of its members are present at the meeting and all its members have been invited. The Supervisory Board adopts resolutions by an absolute majority of votes cast. In the case of equal number of votes, the Chairperson has the casting vote at the adoption of a resolution by the Supervisory Board.

Subject to the cases described in the Commercial Companies Code, the Supervisory Board may adopt resolutions without holding a meeting by placing signatures on the same copy(s) of the draft resolution or on separate documents of the same content, or by telephone or other means of remote communication, in a manner enabling direct communication between all the Members participating in it.

Adoption of a resolution in this mode requires prior preparation of its justification and presentation of a draft resolution to all members of the Supervisory Board together with the justification. Resolutions adopted in writing or using means of direct remote communication shall be presented at the next meeting of the Supervisory Board with the result of voting. Members of the Supervisory Board may participate in adopting resolutions of the Supervisory Board by casting votes in writing through another Member of the Supervisory Board (subject to Article 388 § 2 and 4 of the Commercial Companies Code).

The full text of the Statute and the Regulations of the Supervisory Board of Enea SA, which contain a detailed description of the operation of the Supervisory Board, is available at [www.enea.pl](http://www.enea.pl) in the "Investor Relations" -> "Corporate governance" tab.

### Supervisory Board's Committees

Pursuant to the provisions of the Regulations of the Supervisory Board, the following standing committees operate within the Board:

- Audit Committee
- Nominations and Remuneration Committee

The committee consists of at least three members appointed by the Board from among its members for a period corresponding to the term of office of the Board. The members of the committee shall elect the chair of the committee from among themselves. The chairman of the committee manages the work of the committee and supervises the work of the committee, in particular the organization and course of the committee's meetings.

**Composition of the Committees**

As at the day of publication of this Statement i.e. 23 March 2018 the Audit Committee and the Nomination and Remuneration Committee operate in the following compositions:

Audit Committee	
Name	Position
Piotr Kossak <sup>1)</sup>	Chairman
Roman Stryjski <sup>2)</sup>	Member
Piotr Mirkowski <sup>2)</sup>	Member
Rafał Bargiel <sup>2)</sup>	Member
Stanisław Kazimierz Hebda	Member
Sławomir Brzeziński	Member
Wojciech Klimowicz	Member

1) Independent Member within the meaning of Article 129 Section III. 1 point 3 of the Act of 11 May 2017 on Statutory Auditors of Audit Firms and Public Supervision and within the meaning of corporate governance principles included in the Code of Best Practice for WSE Listed Companies 2016  
 2) Independent Member within the meaning of Article 129 Section III. 1 point 3 of the Act of 11 May 2017 on Statutory Auditors of Audit Firms and Public Supervision

**Description of the Audit Committee operation**

A detailed description of the powers of the Audit Committee is included in the Act of 11 May 2017 on certified auditors, audit companies and public supervision (Journal of Laws item 1089) and the Regulations of Enea SA Supervisory Board.

The majority of the Audit Committee members, including the Audit Committee chairperson, should meet the independence criteria within the meaning of Article 129.3 of the Act of 11 May 2017 on certified auditors, audit companies and public supervision; moreover, at least one member of the Audit Committee should have the knowledge and skills in the scope of accountancy or auditing financial statements.

The audit committee members have the knowledge and skills in the field of the industry in which the Issuer operates. This condition is deemed met, if at least one member of the audit committee has the knowledge and skills in the field of this industry or if individual members in specific scopes have the knowledge and skills in the field of this industry.

The responsibilities of the Audit Committee include advising the Supervisory Board on the internal policy and budget procedures adopted by the Company and their control, and advising on the Company's contacts with a certified auditor, including, without limitation:

1. monitoring of:
  - a. the Company's financial reporting process,
  - b. the effectiveness of internal audit systems and risk management systems and the internal audit, including in the scope of financial reporting,

- c. performing the financial revision operations, including, without limitation, conducting the audit by an audit company, taking into consideration any conclusions and findings of the Audit Supervision Commission resulting from the control conducted in the audit company;
2. controlling and monitoring of independence of the certified auditor and the audit company, also in the case where any services other than audit are provided by the audit company for the Company;
3. informing the Supervisory Board of the audit results and explaining how the audit contributed to the reliability of financial reporting in the Company and what was the Audit Committee's role in the audit process;
4. performing the assessment of the certified auditor's independence and granting a consent for the provision by such auditor of permitted services other than audit services in the Company;
5. developing the policy of selecting the audit company to conduct the audit;
6. developing the policy of provision of permitted services other than auditing by the audit company conducting such audit, by the entities related to such audit company, and by a member of the audit company's network;
7. determining the procedures for selecting audit company by a public interest unit;
8. presenting to the Supervisory Board the recommendation on the appointment of certified auditors or audit companies, pursuant to the policies referred to in items 5 and 6;
9. making the recommendations aimed to ensure the reliability of the financial reporting process in the Company;
10. monitoring the reliability of financial information presented by the Company, including, without limitation, by way of the review of adequacy and consequences of applying the accountancy methods adopted by the Company and its group (including the criteria for consolidation of financial statements of companies in the group);
11. providing an opinion on and submitting to the Supervisory Board for approval the annual internal audit plan;
12. providing an opinion on and submitting to the Supervisory Board for approval the annual budget of internal audit subunit;
13. providing an opinion on and submitting to the Supervisory Board for approval the changes to the scope of operations of the internal audit unit;
14. discussing any problems or reservations which may result from the financial statements auditing;
15. discussing with the Company's certified auditors, before commencement of each audit of the annual financial statements, the character and scope of the audit and monitoring coordination of works among the Company's certified auditors;
16. reviewing, at least once a year, the internal audit and risk management systems in terms of ensuring that key risks (including those related to compliance with applicable laws and regulations) are correctly identified, managed, and disclosed;

17. ensuring the effectiveness of the internal audit function by way of expressing an opinion on selecting, appointing and recalling the head of the internal audit department, as well as monitoring the Company's Management Board reaction to its findings and recommendations;
18. expressing an opinion on termination of the remuneration conditions (salary reduction) to the Control and Audit Bureau Manager;
19. analysing the reports of the Company's internal auditors and key comments of other internal analysts and the Management Board's response to such comments, including the audit of the degree of internal auditors' independence;
20. controlling the character and scope of extra-auditing services, including, without limitation, the control on the basis of disclosure by the external auditor of the sum total of all fees paid by the Company and its group to the audit company and its network, in terms of preventing any significant conflict of interest in this respect;
21. conducting the review of effectiveness of the external control process and monitoring the Company's Management Board reaction to the recommendations given by external auditors in the letter to the Management Board;
22. examination of the issues being the reasons for resignation from the external auditor's services and giving instructions on the required operations;
23. cooperation with the Company's organisational subunits in charge for the audit and control and periodical assessment of their work;
24. review of the Company's managerial accountancy system.

Nominations and Remuneration Committee	
Name	Position
Rafał Szymański	Chairman
Rafał Bargiel	Member
Piotr Kossak	Member
Tadeusz Mikłosz	Member
Piotr Mirkowski	Member

**Description of the Nominations and Remuneration Committee operation**

The Nominations and Remuneration Committee should be composed of at least one independent member in the meaning of the European Commission's recommendation, but in the case of nomination to the Board of more than one person fulfilling the above independence criteria, the committee should be composed of possibly the largest number of independent members.

The responsibilities of the Nominations and Remuneration Committee is to promote the achievement of the Company's strategic objectives by presenting opinions and motions to the Board regarding the structure of employment and the remuneration paid to the Company's personnel, particularly management personnel. The description of the Nominations and Remuneration Committee's responsibilities was specified in the Rules of the Supervisory Board of Enea SA.

The responsibilities of the Committee include:

1. analysing the Management Board's policy concerning the nomination, election and appointment of senior managerial personnel;
2. presenting proposals to the Board concerning the remuneration and forms of employment of members of the Management Board, taking into account their previous achievements;
3. presenting opinions to the Supervisory Board on the justification for awarding performance-based remuneration and on incentives based on realisation of tasks and goals of the Company and proposals in that respect;
4. evaluation of the human resources management system in the Company;
5. periodical assessment of the skills, knowledge and experience of individual members of the Management Board and management personnel, and presenting the results of the assessment to the Board.

### Activities of the Committees in 2017

#### Audit Committee

The Audit Committee held 7 meetings and adopted 15 Resolutions, regarding i.a.:

- positive evaluation of the methods of auditing financial statements of Enea SA and Enea Group for the financial year ended on 31 December 2016 and methods of reviewing Interim financial statements of Enea SA and Enea Group for the period of 1 January 2017 to 30 June 2017
- approval of the service provision of a private investor test by an entity related to the auditor of the financial statements of Enea SA
- approval of the provision of advisory services within an acquisition project by a an entity related to the auditor of the financial statements of Enea SA
- approval of the provision of advisory services related to the implementation of the latest versions of IAS 15 and 16 by a an entity related to the auditor of the financial statements of Enea SA
- approval of Enea SA's Supervisory Board's Audit Committee's Report on operations in 2016 and its submission to the Supervisory Board
- approval of Enea SA's Supervisory Board's Audit Committee's Report on operations in H1 2017 and its submission to the Supervisory Board
- positive assessment of the Annual Audit Plan for 2018 for Enea Group and Budget of the Audit Management Department for 2018
- election of the Chairman of the Audit Committee of Enea SA's Supervisory Board
- approval of the protocol of the procedure for the selection of an audit firm for Enea SA and subsidiaries of the Enea Group for the years 2018-2020, recommendation, approval of the provision of authorized services not audited and transmission of the approved protocol together with the recommendation to the Supervisory Board of Enea S.A. for the purpose of the decision-taking by the Supervisory Board of Enea S.A. on the selection of an audit firm.

#### Nominations and Remuneration Committee

The Nominations and Remuneration Committee held 6 meetings and adopted 19 Resolutions. The subject matter of the meetings of the Committee was i.a. development of a recommendation for the Supervisory Board, regarding:

- adopting a resolution concerning the establishment of remuneration of Members of Enea SA's Management Board
- concluding agreements for the provision of management services with Members of the Management Board, containing provisions on non-competition applicable after the termination of their functions and annexes to the aforementioned agreements
- approval of the Management Goals (KPIs) for Members of Enea SA's Management Board for 2017
- confirmation of the realisation of the KPIs for Members of Enea SA's Management Board for 2016 financial year
- granting consent to a Member of Enea SA's Management Board to hold the position of a Member of the Supervisory Board of Enea Group's Company
- proposition of changes to the Management Goals for Members of Enea SA's Management Board for 2017



## 7. Non-financial statement of Enea Group for 2017



1. The legal basis of this Statement being a separate part of the document “Directors’ Report on the business activity of Enea SA and Enea Group in 2017” is the Accounting Act, in particular Article 49b and 55 of the Accounting Act.
2. Since 2011, the Group has followed the practice of reporting on sustainable development and responsible business. The Group’s previous CSR reports are available online at: <https://www.enea.pl/pl/grupaenea/odpowiedzialny-biznes/raportowanie-csr>. Apart from this 2017 Statement, Enea Group intends to publish a separate paper entitled “2017 Sustainable development report of Enea Group”.
3. This “Non-financial statement of Enea Group for 2017” has been created using the guidelines of global standards for reporting GRI Standards. That means, among other things, that:
  - the stage of defining the scope of the reported non-financial information and so-called “important aspects of reporting” has been extended to include the perspective of Stakeholders (by means of a survey),
  - in the Statement, the indicators were used according to the approach recommended by the reporting standard “GRI Standards”,
  - according to the guidelines of the reporting standard “GRI Standards”, the indicators relating to the number of Employees include data as of the last day of the reporting period, that is as of 31.12.2017
4. The “Non-financial statement of Enea Group for 2017” includes:
  - all Enea Group subsidiaries included in the “Consolidated financial statements of Enea Group for the financial year ended on 31 December 2017”
  - the following two subsidiaries of Enea Group have been additionally included: Enea Innovation Sp. z o.o. and Enea Badania i Rozwój Sp. z o.o. not included (due to their irrelevance from the point of view of financial performance) in the “Consolidated financial statements of Enea Group for the financial year ended on 31 December 2017”

A subsidiary of Enea Group included neither in the “Consolidated financial statements of Enea Group for the financial year ended on 31 December 2017” nor in the “Non-financial statement of Enea Group for 2017” is Engo-Tour Sp. z o.o. in liquidation.



The main objects of business activity of Enea Group are as follows:

1. **Electricity and heat generation** (Enea Wytwarzanie sp. z o.o., Enea Elektrownia Połaniec SA (Połaniec Power Plant), Przedsiębiorstwo Energetyki Ciepłej sp. z o.o. in Oborniki, Miejska Energetyka Ciepła Piła sp. z o.o., Enea Ciepło sp. z o.o. in Białystok)
2. **Electricity trading** (Enea SA, Enea Trading sp. z o.o.)
3. **Electricity distribution** (Enea Operator sp. z o.o., Enea Pomiary sp. z o.o., Enea Serwis sp. z o.o., Annacond Enterprises sp. z o.o.)
4. **Heat distribution** (Enea Wytwarzanie sp. z o.o., Przedsiębiorstwo Energetyki Ciepłej sp. z o.o. in Oborniki, Miejska Energetyka Ciepła Piła sp. z o.o., Enea Ciepło sp. z o.o.)
5. **Mining and enrichment of bituminous coal** (Capital Group Lubelski Węgiel „Bogdanka” SA – abbreviated as GK LW Bogdanka).

**GENERATION**

- Electricity generation based on bituminous coal, biomass, gas, wind, water and biogas
- Heat generation
- Heat supply and distribution
- Electricity trading



**BUSINESS AREAS OF ENEA GROUP**

**MINING**

- Bituminous coal production
- Bituminous coal sale
- Securing of raw material base for the Group



**DISTRIBUTION**

- Supply of electricity
- Planning and ensuring of distribution network development
- Operation, maintenance and repairs of the distribution network
- Measurement data management



**TRADING**

Retail trading:

- Trading in electricity and fuel gas on the retail market
- Product and service offer
- Comprehensive Customer Service

Wholesale trading :

- Optimisation of wholesale contracts portfolio for electricity and fuel gas
- Operations on product markets
- Ensuring access to wholesale markets



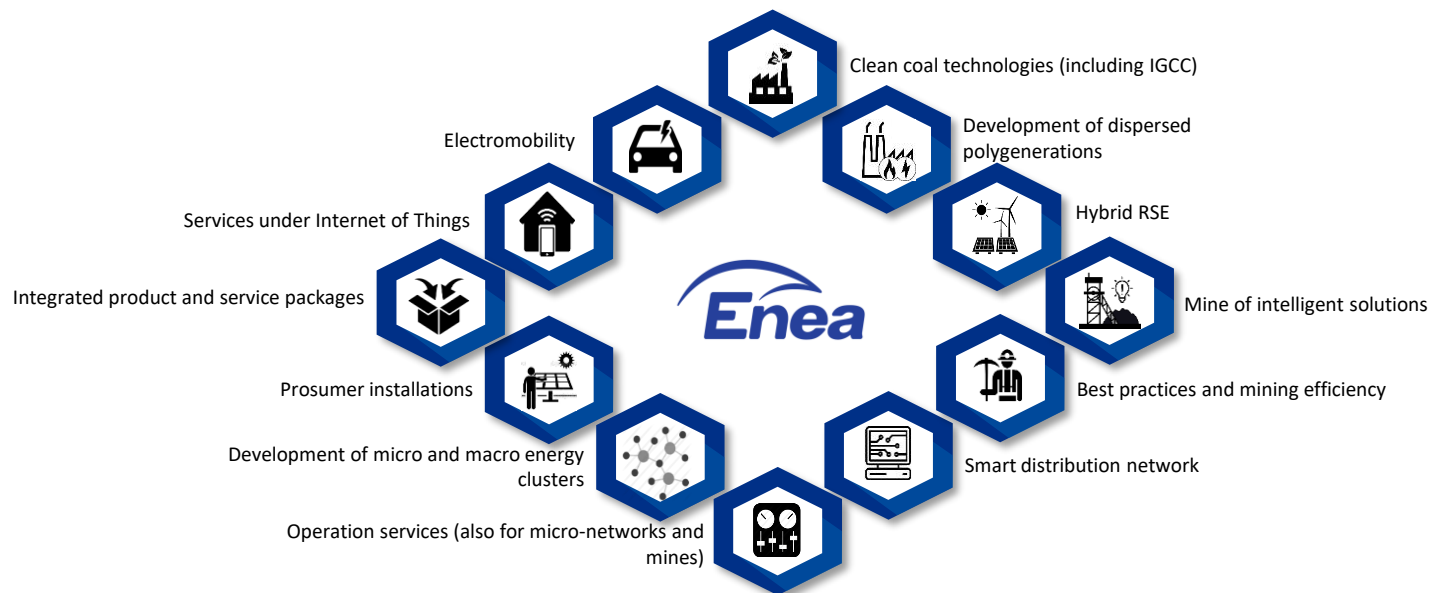


**MISSION:** Enea supplies constantly improved products and services, anticipating expectations of the Customers thanks to motivated teams working in a friendly, safe and innovative organisation

**VISION:** Enea is a leading supplier of integrated raw material and energy products and services and of other innovative services for a wide range of Customers, and it is valued for its quality, comprehensiveness, and reliability.

**Enea Group has been implementing the “Development Strategy of Enea Group in the 2030 perspective”.**

Within the Strategy, 60 strategic initiatives have been adopted, more than half of which is of innovative nature. Implementation of initiatives increasing business potential will support, among other things, development of innovative products, services and business lines of Enea Group. Some of the initiatives will significantly affect environmental and social issues relating to the business activity of Enea Group (for example, electromobility, hybrid RSE, clean coal technologies).



More information on the “Development Strategy of Enea Group in the 2030 perspective” has been presented at page 27: „Directors’ Report on the Operations of Enea SA and Enea Group in 2017” and in the presentation available online at: <https://ir.enea.pl/pl/ir/relacje-inwestorskie/prezentacje/prezentacje-2016>.

## Significant trends in the Distribution area

Emerging new technologies, growing customer expectations and dynamically changing economic environment in Poland and worldwide anticipate changes in the way ODSs operate, and in particular draw attention to the need to implement innovative solutions in the area of distribution, leading to the modernization and expansion of the distribution network allowing for the absorption of leading trends in the power industry.

Key trends are related to:

- the development and implementation of smart grids
- the development and implementation of modern IT systems supporting network management
- the emergence of new institutional arrangements and technical issues, such as clusters, energy cooperatives, the prosumer market, energy storage, electromobility
- conducting research and development (R&D) projects.

## Tariff for electricity distribution services

The new model of qualitative regulation came into force on 1 January 2016, but it translates into the finances of Enea Operator (and other ODSs) from 2018. The President of the Energy Regulatory Office has made part of the regulated revenue dependent on the quality of services provided by these entities. The quality of services will be assessed by measuring a number of indicators, in particular the reliability of power supply and the time taken to establish connections to the power grid.

From the perspective of the tariffs for electricity distribution services approved for 2018, it should be noted that for the year in question, the impact of quality regulation on the revenues generated by the Company is insignificant.

## Expansion of generation portfolio

Irrespective of the fact that the 1,075 MW unit was commissioned at Kozienice Power Plant, Enea plans to engage in the construction of new sources or acquisition of existing ones. It will carry out some of these activities through partnerships with other energy groups. The implementation of this strategy will mean a significant increase in the significance of Enea in the generation of electricity for the needs of the National Power System. The total installed capacity of conventional generation sources is expected to increase to 5.8-6.3 GW in 2025. This will allow the Group to produce 20.7-22.8 TWh of electricity from its own sources, which will mean balancing the production and sale of electricity.

## Continued cooperation in the construction of Poland's first nuclear power plant

On 3 September 2014, a Shareholder Agreement was concluded between PGE Polska Grupa Energetyczna and Tauron Polska Energia, Enea and KGHM Polska Miedź (Business Partners). On April 15, 2015, pursuant to the Shareholder Agreement, an agreement was signed for the sale of shares in PGE EJ 1 sp. z o.o. Following the disposal by PGE Polska Grupa Energetyczna to its Business Partners of shares in PGE EJ 1, PGE Polska Grupa Energetyczna holds 70% of the share capital of PGE EJ 1, and the other Business Partners (Tauron Polska Energia, Enea and KGHM Polska Miedź) hold 30%, i.e. 10% each.

According to the assumptions of PGE Polska Grupa Energetyczna, it plays a leading role in the project of construction and operation of the first Polish nuclear power plant, and PGE EJ 1 is to act as the operator of the power plant in the future.

Pursuant to the Shareholder Agreement, the Parties undertake to finance jointly, in proportion to their shares, the activities of the Project Preliminary Phase (Development Phase). The financial involvement of Enea during the Development Phase will not exceed approximately PLN 107 million. In 2017, PGE EJ 1 continued to work on the programme to prepare for the construction of a nuclear power plant in Poland.

The Parties to the Shareholder Agreement foresee that the decision regarding the declaration of further participation of the individual Parties in the next stage of the Project will be taken after the end of the Development Phase.

## Demand for electricity

According to forecasts included in the document "Updated forecast of demand for fuels and energy by 2030", the demand for electricity will grow in the coming years in all sectors of the economy. According to the document, net electricity production will increase to 193.3 TWh by 2030. At the same time, according to the document "Conclusions from forecast analyses for the needs of Poland's Energy Policy until 2050", in the perspective until 2050, electricity generation will increase by approx. 40% - from 158 TWh in 2010 to 223 TWh in 2050<sup>1)</sup>.

Regardless of the above, the Ministry of Energy is currently working on a new energy policy for Poland (PEP), which will define a long-term vision of the government for the energy sector.

## Collective bargaining

There are no collective disputes in any of the key companies of the Enea Group. In order to eliminate the threat and the possible emergence of a collective dispute, the management boards of the companies conduct regular dialogue with the social side. We adjust individual provisions of Corporate Governance taking into account the specific nature of LW Bogdanka as a company listed on the Warsaw Stock Exchange.

## Judicial and administrative proceedings

As at the date of submitting this report, no proceedings were pending concerning any liabilities or receivables to which Enea SA or its subsidiary would be a party, whose single or aggregate value would account for at least 10% of the equity of Enea SA.

A detailed description of the proceedings is presented in Note 47 to the consolidated financial statements of the Enea Group for 2017.

## Long-term development of the energy market

On 16 February 2016, the Polish government adopted the "Plan for Responsible Development of Poland"<sup>2)</sup>. The document defines the main directions of the state's activities and new impulses that will ensure its stable development in the future.

The plan assumes that the development of the Polish economy will be based on five pillars: reindustrialisation, innovation, capital, foreign expansion and social and regional development.

According to the provisions of the "Permit to Use" document In order to increase energy efficiency and unblock investments beyond 2020 (including avoiding blackout and becoming independent of energy imports), the State intends i.a. to support the development of energy infrastructure (power bridges, power storage technologies), to free up market areas and to introduce a power market mechanism that would stimulate investment in the conventional energy segment.

## Electromobility and Alternative Fuels Act

On 28 December 2017, the Council of Ministers adopted a draft law on electro-mobility and alternative fuels, submitted by the Minister of Energy. The proposed draft regulations is aimed at stimulating the development of electro-mobility in Poland and the use of alternative fuels, including electricity, in transport.

## Establishment of ElectroMobility Poland SA

PGE Polska Grupa Energetyczna, Energa, Enea and Tauron Polska Energia established ElectroMobility Poland SA on 19 October 2016. The activity of the new company is to contribute to the establishment of the electro-mobility system in Poland and to the implementation of the programme aimed at the construction of the Polish electric vehicle and its introduction on a mass sale.

<sup>1)</sup> [bip.me.gov.pl/files/upload/21394/Wnioski%20z%20analiz%20prognostycznych\\_2014-08-11.pdf](http://bip.me.gov.pl/files/upload/21394/Wnioski%20z%20analiz%20prognostycznych_2014-08-11.pdf)

<sup>2)</sup> [www.mr.gov.pl/media/14840/Plan\\_na\\_rzecz\\_Odpowiedzialnego\\_Rozwoju\\_prezentacja.pdf](http://www.mr.gov.pl/media/14840/Plan_na_rzecz_Odpowiedzialnego_Rozwoju_prezentacja.pdf)

## Directive 2015/2193 of the European Parliament and of the Council of 25 November 2015 on the limitation of emissions of certain pollutants into the air from medium-sized combustion plants

On 27 November 2017, the provisions of the MCP Directive for medium combustion plants came into force, introduced into the Environmental Protection Law by the Act of 15 September 2017 amending the Environmental Protection Act and certain other acts (JoL of 2017, item 1999). The key scope of regulation of the above mentioned directive is to define the emission standards for three types of air pollutants - sulphur dioxide (SO<sub>2</sub>), nitrogen oxides (NO<sub>x</sub>) and dust for existing and new medium-sized combustion plants, to establish the obligation of periodic monitoring of SO<sub>2</sub>, NO<sub>x</sub>, dust and CO<sub>2</sub> and to indicate the dates of required adjustment of the installations. Currently, the legislative process of the Regulation of the Minister of the Environment on emission standards for certain types of installations, fuel combustion sources and waste incineration or co-incineration plants is in progress, taking into account the provisions of the MCP Directive.

The new legal regulations are important from the point of view of companies in which Enea Wytwarzanie sp. z o.o. holds shares and in which so-called "medium-sized combustion plants", as defined directly in the MCP Directive, are located. These companies include: Przedsiębiorstwo Energetyki Ciepłej sp. z o.o. in Oborniki (PEC Oborniki), Miejska Energetyka Ciepła Piła sp. z o.o. in Piła (MEC Piła) and Miejskie Przedsiębiorstwo Energetyki Ciepłej sp. z o.o. in Białystok (Enea Ciepło sp. z o.o.).

In order to meet the requirements of the MCP Directive in PEC Piła and MEC Oborniki, it will be necessary to take measures to adapt to the reduction of emissions:

- dust - construction of flue gas dust extraction systems
- SO<sub>2</sub> - coal combustion with sulphur content below 0.6% or construction of flue gas desulphurisation plants.

The required deadline for adapting the installation to the new requirements is:

- for installations ≤ 5 MW - until 01.01.2030
- for installations > 5 MW - until 01.01.2025.

In Enea Ciepło sp. z o.o. no adaptation measures are planned due to the possibility of obtaining a derogation for emission sources operating below 500 h per year.

### Regulation on the protection of personal data (RODO)

RODO is an EU legal act which will come into force on 25 May 2018. It introduces new rules for the processing of personal data and imposes new obligations on data controllers. RODO provides for high administrative fines for non-compliance with the provisions of the Regulation and the right to compensation for persons whose right to the protection of personal data has been infringed. Enea SA is currently preparing for the upcoming changes and is implementing the obligations for data controllers laid down in RODO.

### CO<sub>2</sub> emission allowances

An important element on the cost side which determines the profitability of electricity generation is the allocation of free emission allowances for carbon dioxide and other gases and substances in a given settlement period. Receiving a free allocation of CO<sub>2</sub> emission is a condition for the implementation of dedicated investments in Enea Group submitted to the National Investment Plan (NIP). The value of actual expenses incurred is the basis for receiving allowances.

In 2017, work was carried out on the possibility of using the unallocated allowances due to lower investments than planned. The Ministry of the Environment conducts talks with the EC on extending the list of investment tasks, closed in 2012, to include new projects in the area of renewable energy sources, low-carbon investments, energy efficiency investments, investments in transmission or heating networks.

In 2017, the rules of functioning of Phase IV of the EU ETS, starting from 2021, were also established. The most important changes that may have a significant impact on the market situation include:

- increase of the linear index to 2.2%
- the lack of free allowances for sectors not classified as exposed to the risk of carbon leakage
- doubling of the number of allowances drawn from the auction pool to the reserve for the first 4 years of IAS operation to the level of 24% surplus of allowances
- permanent removal from the market of 800 million allowances from IAS

According to the plan, Poland met the target of selling 85.88 million CO<sub>2</sub> emission allowances in 2017. 14.99 million came from allowances not sold in 2016, and 70.89 million was the volume originally planned for sale in 2017. The place of sale of the Polish EUA units is the auction platform of the EEX exchange, with which Poland has again signed an agreement for the sale of emission allowances. Auctions take place every second Wednesday, with EUA 4,857 million being auctioned on each of them, with the exception of the first and last auction, and in August. In 2018, political developments in the EU will be important elements affecting the valuation of CO<sub>2</sub> emission allowances, in addition to macroeconomic factors and changes in the prices of energy raw materials and electricity. The negotiations on Brexit and the parliamentary elections in Italy on 4 March will be particularly important for price developments.

In 2017, the emission standards specified in the integrated permit for Enea Wytwarzanie were not exceeded.

Enea Połaniec SA benefits from the derogation resulting from the IED Directive - a natural derogation of 17,500 hours, which covers boiler No. 1. 4,736 hours were used out of the limit of 17,500 hours, of which 2,547 hours were used in 2017 alone. There are 12,764 hours left to run. In 2017, the emission standards specified in the integrated permit were not exceeded.

### Amendments to the Act on Renewable Energy Sources

On 14 August 2017, the President of the Republic of Poland signed an amendment to the Act of 20 February 2015 on renewable energy sources. As indicated in the explanatory memorandum to the draft Act, the purpose of the Act is to introduce a solution facilitating sustainable development in the area of renewable energy sources by changing the amount of the unit fee, which is an element allowing for flexibility of the green certificates market, and - in the long term - reducing the oversupply of certificates in this market. The above objective is to be achieved in particular by "marketing" the level of the so-called substitution fee.

By virtue of the amendment, the fixed value of the substitution fee was abandoned, and instead it was linked to the market prices of property rights resulting from the certificate of origin. Additionally, the fee (manner of its designation) for entry into the register of certificates of origin was changed.

### Act of 20 July 2017 - Water Law

On 2 August 2017, the President of the Republic of Poland signed the Water Law Act. The Act replaces the 2001 Act, which regulates water management, including water resources shaping and protection, water use and water resources management, issues of ownership of water and land covered with water, as well as the rules of management of these components with respect to State Treasury assets. The amendment is related to the implementation of the requirements of the Directive of the European Parliament and of the Council establishing a framework for Community action in the field of water policy. The Act removes exemptions from charges for economic use of water for energy purposes and introduces additional charges for this purpose as of 2018.

### Reduction of pollutant emissions

On 17 August 2017, the so-called BAT conclusions (kBAT) for large combustion plants (Commission Implementing Decision (EU) 2017/1442 of 31 July 2017 laying down BAT conclusions for large combustion plants in accordance with Directive 2010/75/EU of the European Parliament and of the Council) were published in the Official Journal of the European Union. Published kBATs introduce, among other things, stricter requirements (than in the IED) for pollutants such as sulphur dioxide, nitrogen oxides and dust. The emission limit values (BATs) also cover the additional substances mercury, hydrogen chloride, hydrogen fluoride and ammonia. In accordance with the requirements of the CNS, a 4-year adjustment period started on 17 August 2017.

More information on the "Events which may affect future results" has been presented at „Enea Group organisation and operations” pages 64-70 of „Report on the Operations of Enea SA and Enea Group in 2017”

Non-financial key performance indicators relating to the business activity of Enea Group include:

KPIs for Enea Group	2016	2017
Electrical power installed [MW <sub>e</sub> ]	3,307.8 MW <sub>e</sub> <sup>1)</sup>	6,256.6 MW <sub>e</sub> <sup>2)</sup>
Total (net) electricity generation	13,567 GWh	22,728 GWh including: Enea Wytwarzanie (excluding Unit 11) - 12,715 GWh Unit 11 of Kozenice Power Station - 844 GWh Enea Elektrownia Połaniec <sup>3)</sup> - 9,129 GWh
Trading Segment: number of energy purchasers (Power Delivery Points - as of the end of the reporting period)	2,405 thousand	2,422.4 thousand
Trading Segment: Sales of electricity and fuel gas to retailers	17,989 GWh	18,916 GWh
Distribution Segment: number of Customers/energy purchasers (as of the end of the reporting period)	2 520,2 tys.	2 553,7 tys.
Distribution Segment: length of distribution lines together with connections	121.3 thousand km	122.37 thousand km
SAIDI – System Average Interruption Duration Index <sup>4)</sup>	241.76 minutes	618.71 minutes
SAIFI - System Average Interruption Frequency Index <sup>4)</sup>	3.72	4.31

<sup>1)</sup> Not taking into account Enea Elektrownia Połaniec, taken over by Enea in March 2017.

<sup>2)</sup> In 2017, as a result of launching a new power unit at Enea Wytwarzanie Sp. z o.o. in Kozenice and the takeover of Elektrownia (Power Station) Połaniec, Enea Group significantly enhanced its generation capacities. Elektrownia Kozenice, the second largest power station in Poland, provides 13 per cent of domestically produced energy.

<sup>3)</sup> Data for Enea Elektrownia Połaniec for the entire 2017, including the period prior to the acquisition of Enea Elektrownia Połaniec in March 2017 by Enea Group.

<sup>4)</sup> In 2017, SAIDI and SAIFI indices were significantly affected by extensive destruction of the system caused by hurricanes Xaver and Gregory. The SAIFI and SAIDE indices cover planned and unplanned interruptions, including catastrophic interruptions.

## Enea Group manages its business-related risks in a systemic manner:

1. The process of enterprise risk management (ERM) aims at maximum protection of the Group against the effects of materialisation of the identified risks.

The concept of risk management organisation within Enea Group is based on a coordinated model. The key principle of its functioning is coordination of risk management processes within the Group by Enea SA.

Key features of the coordinated model:

- The Group's companies manage the risk pursuant to uniform standards defined in the Policies and Procedures.
- Operating companies manage the risk within the limits granted and in accordance with principles approved by the Risk Committee of Enea Group.
- Individual companies report to the parent Company on the activities performed in the field of risk management.
- Enea SA performs a coordinating role within the Group.
- There is an organisational division within the Companies into Front-, Middle- and Back Office.

The structure of Enea SA includes the Risk Management Department which consists of two offices responsible for, respectively:

- financial risk management,
- enterprise risk management, business continuity management and insurance management.

The role of the Risk Management Department is to coordinate the process of risk management within Enea Group.

2. Enterprise risk management (ERM) within the companies consists of 3 stages:
  - identification and evaluation of new risks,
  - monitoring of existing risks,
  - reporting of risks.

3. Due to particularities of activity conducted by the individual Enea Group companies, the risks identification takes place at the company level. The Group's companies have, as part of their structure, units responsible for risk management.

4. Risk Management Process is divided into specific segments for which documentation has been prepared in the form of Policies, Procedures and Methodologies. These include among other things:

- Enterprise Risk Management Policy of Enea Group (ERM Policy)
- Enterprise Risk Management Methodology of Enea Group
- Liquidity Management and Liquidity Risk Management Policy of Enea Group
- Liquidity Management and Liquidity Risk Management Procedure of Enea Group
- Foreign Exchange Risk Management and Interest Rate Risk Management Policy of Enea Group
- Credit Risk Measurement Methodology of Enea Group
- Foreign Exchange Risk Management and Interest Rate Risk Management Procedure of Enea Group
- Credit Risk Management Policy of Enea Group
- Credit Risk Management Procedure of Enea Group
- Commodity Risk Management Policy of Enea Group
- Commodity Risk Management Procedure of Enea Group
- Business Continuity Management Policy of Enea Group
- Business Continuity Management Methodology of Enea Group

Risk management model is further described in the "Directors' Report on the Operations of Enea SA and Enea Group in 2017", at pages 51-52.

Apart from financial risks, Enea Group identifies and manages non-financial risks. Issues key to the operations of Enea Group include issues relating to the capacity market, to the shape of the European energy market in the context of so-called winter package or specific arrangements of the European emissions trading system, just to name a few.

Detailed financial risks are presented at page 54 of the “Directors’ Report on the Operations of Enea SA and Enea Group in 2017”.

Furthermore, as part of risk mapping, the following risks, which may have significant negative impact on social, labour, environmental, anti-corruption or human rights issues, have been identified:

### Identified non-financial risks, which are managed with special care by Enea Group:

- The risk of infringement of provisions of law and internal regulations pertaining to personal data protection, (the risk of the infringement of provisions of law and internal regulations pertaining to personal data protection caused by human error/intentional action/system error resulting in allowing unauthorised individuals or entities to access personal data and consequently in the loss of reputation, of Customers and in fines. Partners’ unfamiliarity or non-compliance with internal procedures + system failures/errors resulting in the infringement of provisions of law or internal regulations pertaining to personal data protection).
- The risk of infringement of provisions of law and internal regulations pertaining to information processing and security.
- The risk of losing brand reputation due to imprecise communication of Enea’s position.
- The risk of improper information management in a crisis situation.
- The risk of hackers’ attacks on social media channels used for communication with Customers.
- The risk of increase in the number of claims of third parties (property owners) pertaining to the payment of due amounts for transmission easement/tenancy of immovable property.
- The risk of disputes with Employees, groups of Employees, union organisations, caused by claims to pay bonuses from company’s income (Employer’s non-compliance with the provisions of Corporate Collective Labour Agreement or social agreements signed).
- Generation gap risk.
- The risk of granting financial or organisational assistance by Enea Foundation to entities which fail to comply with the law.
- The risk of failure to adjust technology to the requirements of environmental protection provisions (the IED Directive) delays in the schedule of projects’ implementation. Failure to adjust technology to the requirements arising out of implemented provisions may result in the limitation of possibilities to use generation capacities.
- The risk of impossibility to dispose sewage from the 2x500 MW units and unit 11 in compliance with law, caused by the lack of Integrated Permit for sewage treatment plants, resulting in the impossibility to start unit 11 and in increased fees.
- The risk of a decrease of water level in the Vistula river caused by prolonged drought or ice dam and of high temperatures of water in the Vistula, resulting in decreased efficiency of units’ operation.
- The risk of non-compliance with enhanced environmental requirements (BAT conclusions) from 17 August 2021; atmospheric emissions of nitrogen oxides; atmospheric emissions of sulphur dioxide; atmospheric emissions of HCl, HF, NH<sub>3</sub>; atmospheric emissions of mercury; atmospheric emissions of particles; of non-compliance of sewage standards with FGD.

Potential significant negative impact of identified risks on social, labour, environmental, human rights and anti-corruption issues:

Identified risks	Potential significant negative impact on the following issues:				
	S	L	E	HR	AC
The risk of infringement of provisions of law and internal regulations pertaining to personal data protection. (The risk of infringement of provisions of law and internal regulations pertaining to personal data protection, the risk of the infringement of provisions of law and internal regulations pertaining to personal data protection caused by human error/ intentional action/system error resulting in allowing unauthorised individuals or entities to access personal data and consequently in the loss of reputation, of Customers and in fines. Partners' unfamiliarity or non-compliance with internal procedures + system failures/errors resulting in the infringement of provisions of law or internal regulations pertaining to personal data protection).	✓			✓	
The risk of losing brand reputation due to imprecise communication of Enea's position.	✓	✓			
The risk of infringement of provisions of law and internal regulations pertaining to information processing and security.	✓			✓	
The risk of improper information management in a crisis situation.	✓	✓			
The risk of hackers' attacks on social media channels used for communication with Customers.	✓				
The risk of increase in the number of claims of third parties (property owners) pertaining to the payment of due amounts for transmission easement/tenancy of immovable property.	✓				
The risk of disputes with Employees, groups of Employees, union organisations, caused by claims to pay bonuses from company's income (Employer's non-compliance with the provisions of Corporate Collective Labour Agreement or signed social agreements).		✓			
Generation gap risk.	✓	✓			
The risk of granting financial or organisational assistance by Enea Foundation to entities which fail to comply with the law.	✓				✓
The risk of failure to adjust technology to the requirements of environmental protection provisions (the IED Directive) delays in the schedule of projects' implementation. Failure to adjust technology to the requirements arising out of implemented provisions may result in limitation of possibilities to use generation capacities.				✓	
The risk of impossibility to dispose sewage from the 2x500 MW units and unit 11 in compliance with law, caused by the lack of Integrated Permit for sewage treatment plants, resulting in the impossibility to start unit 11 and in increased fees.			✓		
The risk of a decrease of water level in the Vistula caused by prolonged drought or ice dam and of high temperatures of water in the Vistula, resulting in decreased efficiency of units' operation.			✓		
The risk of non-compliance with enhanced environmental requirements (BAT conclusions) from 17 August 2021; atmospheric emissions of nitrogen oxides; atmospheric emissions of sulphur dioxide; atmospheric emissions of HCl, HF, NH3; atmospheric emissions of mercury; atmospheric emissions of particles; of non-compliance of sewage standards with FGD.			✓		

S - social, L - labour, E - environmental, HR - human rights, AC- anti-corruption..

### Description of the policies of Enea Group (1)

The companies of Enea Group, due to diversity in the particularity and scale of their business activity, implement separate policies governing environmental issues. We have established the concern for the natural environment as one of the ground rules of the “Code of Ethics of Enea Group”.

#### **GROUND RULES set forth in the “Code of Ethics of Enea Group”:**

We care for the natural environment, regardless of the place and type of work performed.

In our day-to-day work, we diligently follow the internal regulations of Enea Group and provisions of law on environmental protection.

We join actions and actively participate in educational campaigns for environmental protection.

By generating, distributing energy and heat, we affect the natural environment on a daily basis. We have implemented a number of solutions and technologies which allow to monitor and restrict these of our activities which could affect the environment. Major ones concern an operational activity of the companies of Generation Segment, Mining Segment and Distribution Segment.

Key to the operations of Enea Group are issues relating to the risks set forth in section 3 hereof of potential negative impact on environmental issues, and also issues relating to the capacity market and to the shape of the European energy market in the context of so-called winter package or specific arrangements of the European emissions trading system.



## Description of the policies of Enea Group (2)

The most important policies and standards being implemented in the field of environmental management by the companies of Enea Group include:

Company name	Names of environmental policies, procedures and/or standards being implemented by a entity
Enea SA	Environmental policy of Enea SA
Enea Wytwarzanie Sp. z o.o.	<p>Guiding document: Policy of the Integrated System of Quality, Environment and OSH Management, which is compliant with the requirements of norms PN-EN ISO 9001:2009, PN-EN ISO 14001:2005, PN-N-18001:2004, OHSAS 18001:2007 in terms of generation of and trading in electricity and generation and supply of heat. It sets forth objectives and commitments relating to, among other things, compliance with provisions governing environmental protection and OSH.</p> <p>Detailed procedures and instructions, including:</p> <ul style="list-style-type: none"> <li>Procedure "Management overview, analysis and improvement"</li> <li>Procedure "Identification and evaluation of environmental aspects"</li> <li>Procedure "Environmental monitoring"</li> <li>Procedure "Identification of potential accidents and emergency situations and responding in cases of their occurrence at Enea Wytwarzanie Sp. z o.o. in Świerże Górne"</li> <li>Procedure "Identification of threats and determining how to respond to environmental emergencies at Elektrociepłownia Białystok"</li> <li>Procedure "Prevention and reduction of the impact of emergency situations on the environment at Elektrociepłownia Białystok"</li> <li>Facility's policy on preventing serious industrial accidents</li> <li>Serious industrial accidents prevention programme</li> <li>Rescue plan in case of a threat to life and human health and property or the environment at Enea Wytwarzanie Sp. z o.o. in Świerże Górne.</li> <li>Procedure for risk management in the process of CO<sub>2</sub>emissions monitoring at Enea Wytwarzanie Sp. z o.o. - at Świerże Górne</li> <li>Procedure pp-5.5 of CO<sub>2</sub> emissions monitoring at Elektrociepłownia Białystok</li> <li>Instruction "Environmental monitoring in the open water cooling system at Enea Wytwarzanie Sp. z o.o. in Świerże Górne"</li> <li>Principles on the management of trees and bushes intended for logging at Enea Wytwarzanie Sp. z o.o. - in Świerże Górne</li> <li>Waste management principles at Enea Wytwarzanie Sp. z o.o. - in Świerże Górne</li> <li>Instruction on waste management at the premises of Elektroownia Białystok</li> <li>Waste management principles at Enea Wytwarzanie Sp. z o.o. – RSE Segment</li> <li>Water management instruction for a cascade of hydroelectric power plants on the river Brda (Koronowo, Trzuszczyn, Smukała)</li> <li>Water management instruction for hydroelectric power plants on the river Wda (Żur and Gródek).</li> <li>Water management instructions for all hydroelectric power plants on the river Rega</li> <li>Water management instruction for EW Oborniki</li> </ul>
Enea Ciepło Sp. z o.o.	<p>Integrated policy on quality, environment and occupational safety and health</p> <p>Book of integrated management system</p> <p>Detailed procedures and instructions, including:</p> <ul style="list-style-type: none"> <li>Procedure "Environmental aspects identification" PŚ-4.3-01</li> <li>Procedure "Responding to hazardous situations and emergencies"</li> <li>Procedure "Waste management"</li> <li>Procedure "System of monitoring and measurement of parameters affecting the environment"</li> <li>Quality instruction QI.7.5-11 "The programme for prevention of serious industrial accidents relating to hazardous substances and materials at the premises of Ciepłownia Zachód"</li> <li>Internal instructions on monitoring and reporting CO<sub>2</sub>emissions</li> <li>Instruction "Preparation of fuel samples and combustion waste samples for laboratory tests"</li> <li>Instruction "Analysis of the risk of monitoring CO<sub>2</sub>emissions"</li> <li>Instruction "Supervision of measuring equipment intended for monitoring CO<sub>2</sub> emissions"</li> </ul>

## Description of the policies of Enea Group (3)

Company name	Names of environmental policies, procedures and/or standards being implemented by a entity
Miejska Energetyka Ciepła Piła Sp. z o.o.	Waste management instruction Procedures referred to in the monitoring plan of CO <sub>2</sub> emissions
Przedsiębiorstwo Energetyki Ciepłej Sp. z o.o. in Oborniki	Environmental policy ISO 14001 Norm
Enea Ciepło Serwis Sp. z o.o.	Integrated policy on quality, environment and occupational safety and health Book of integrated management system Detailed procedures and instructions, including: Procedure “Environmental aspects identification” Procedure “Responding to hazardous situations and emergencies” Procedure “Waste management” Procedure “System of monitoring and measurement of parameters affecting the environment” Internal instructions on monitoring and reporting CO <sub>2</sub> emissions
Enea Operator Sp. z o.o.	Zakładowy Bank Zanieczyszczeń Środowiska (Company Bank of Environmental Pollutions) SOZAT Procedure for fulfilment of obligations towards entities financing the investments of Enea Operator Sp. z o.o. Procedure for registration of power devices containing SF6 gas in a quantity of at least 3 kg and for operations performed on them.
Enea Oświetlenie Sp. z o.o.	Waste management at Enea Oświetlenie Sp. z o.o.
Enea Elektrownia Połaniec SA and Enea Bioenergia Sp. z o.o.	Procedure for identification and evaluation of environmental aspects Environmental monitoring procedure Environmental management programme
Lubelski Węgiel "Bogdanka" SA (abbreviated as LW Bogdanka SA). <sup>1)</sup>	Policy of the Integrated System of Quality, Environment and OSG Management and related detailed procedures and environmental instructions Identification of legal requirements and evaluation of their compliance Identification and evaluation of environmental aspects, monitoring of the key characteristics of environmental aspects

<sup>1)</sup> Environmental issues pertaining to the Mining Area – LW “Bogdanka” SA are further described at page 61 of the “Directors’ Report on the Operations of Enea SA and Enea Group in 2017

### Description of the Enea Group's results regarding environmental issues (1)

Compliance: In 2017, **no significant non-financial fines or sanctions were imposed** on the companies of Enea Group for non-compliance with laws or regulations pertaining to environmental protection. An additional fee of PLN 1,700.60 was imposed on Enea Ciepło sp. z o.o. for violation of the conditions of sewage discharge into sewage system.

#### Energy generation from renewable energy sources (RES) :

Energy generation from RES of Enea Group	2016	2017
Generation from renewable energy sources (GWh), including:	539 GWh	2,263 GWh
Biomass combustion – Enea Wytwarzanie	256 GWh	69 GWh
Enea Wytwarzanie - RES Segment (hydroelectric power plants)	113 GWh	173 GWh
Enea Wytwarzanie - RES Segment (wind power plants)	160 GWh	190 GWh
Enea Wytwarzanie - RES Segment (biogas plants)	10 GWh	10 GWh
Biomass co-combustion – Enea Elektrownia Połaniec <sup>1)</sup>	-	529 GWh
Biomass combustion – Enea Elektrownia Połaniec (green unit) <sup>1)</sup>	-	1,292 GWh

#### Level of energy consumption by Enea Group in 2017

	2017
Total electricity consumption by Enea Group companies <sup>2)</sup>	3,768,785.601 MWh <sup>3)</sup>

#### One of the priorities relating to energy efficiency are measures aimed at reducing electricity losses generated in the process of its distribution.

Enea Operator has been implementing “Strategy of Distribution Area of Enea Capital Group - initiative: Implementation of comprehensive actions contributing to the reduction of balance difference<sup>4)</sup>” and “Balance difference reduction programme at Enea Operator Sp. z o.o.”. In 2017, the level of company’s electricity consumption was lower compared to 2016. It results, among other things, from expenditure incurred on new investments and upgrades of networks, connection of new electricity sources as well as exploitation and operation activities.

Thanks to network upgrades, changes in diameters and changes in operating configuration, networks allow for reduction of losses of transmitted electricity. It has significantly positive environmental impact, as it reduces electricity consumption relating to energy losses in the course of its distribution.

<sup>1)</sup> Data for Enea Elektrownia Połaniec have been presented solely for 2017 (including the period prior to the takeover of Enea Elektrownia Połaniec by Enea Capital Group), as in 2016 Enea Elektrownia Połaniec did not belong to Enea Group.

<sup>2)</sup> The total energy consumption does not include data for administrative buildings/office buildings used by the companies which make lump-sum payments for energy under a contract with administrators of such buildings and for which there is no detailed data on energy consumption in such buildings.

<sup>3)</sup> Including Enea Operator: network losses amounted to 1,249,860 MWh and company’s needs amounted to: 40,075 MWh.

<sup>4)</sup> Balance difference is a difference between electricity introduced to the network and registered electricity taken back (taken from) this network.

## Description of Enea Group's results regarding environmental issues (2)

Level of water consumed by the companies of Generation Segment :

Processes of electricity and heat generation entail the need to use significant water resources. Enea Group companies of Generation Segment attach importance to water consumption in the generation processes.

Mapping of material risks identified by Enea Group involve “the risk of a decrease of water level in the Vistula caused by prolonged drought or ice dam and of high temperatures of water in the Vistula, resulting in decreased efficiency of units’ operation”, which is directly linked to ensuring continuity of energy production at Kozienice Power Plant. An important project relating to the aim of ensuring efficiency and continuity of energy generation is upgrade of cooling water inlet – a temporary stabilising threshold on the Vistula river near Kozienice Power Plant which belongs to Enea Wytwarzanie sp. z o.o.

The largest power plant of Enea Group, that is Kozienice Power Plant, does not use groundwater for generation purposes. For this purpose, it uses water from the Vistula, with 99.4% of the power plant’s uptake of water being reversible uptake.

Generation Segment - Company name	Water consumption level in 2016 [m <sup>3</sup> ]	Water consumption level in 2017 [m <sup>3</sup> ]
Enea Wytwarzanie Sp. z o.o.	1,775,004,528	1,663,050,763
Enea Ciepło Sp. z o. o.	7,936	16,347 <sup>1)</sup>
Miejska Energetyka Ciepła Piła Sp. z o.o.	5,680	6,781
Przedsiębiorstwo Energetyki Ciepłej Sp. z o.o.	2,512	1,716
Enea Elektrownia Połaniec SA	The company did not belong to the Enea Group	1,289,784,219
Enea Bioenergia Sp. z o.o.	The company did not belong to the Enea Group	120.96

In 2017, the total water consumption level for all Enea Group companies amounted to **2,960,475,332 m<sup>3</sup>**.<sup>2)</sup>

<sup>1)</sup>The difference in the level of the reported water uptake for the company as compared to 2016 results from generation of treated water for boilers at the water treatment plant. In 2017, treated water generation amounted to 3,088 m<sup>3</sup>.

<sup>2)</sup>Enea Oświetlenie does not have on uptake of data water for work premises rented for the purpose of: Rejon Oświetleniowy Bydgoszcz (ul. Oplawiec 154, 85-469 Bydgoszcz), Rejon Oświetleniowy Gorzów Wielkopolski (ul. Sikorskiego 37, 66-400 Gorzów Wielkopolski), Rejon Oświetleniowy Kościan (ul. Północna 3, 64-000 Kościan), Rejon Oświetleniowy Piła (al. Poznańska 34, 64-920 Piła), Rejon Oświetleniowy Zielona Góra (ul. Zacisze 15, 64-775 Zielona Góra). Water uptake costs are included in the rent for rented premises.

### Description of Enea Group's results regarding environmental issues (3)

Carbon dioxide emissions in the Generation Area connected with the energy generation processes :

	CO <sub>2</sub> emission level [Mg] 2016	CO <sub>2</sub> emission level [Mg] 2017
Enea Wytwarzanie Sp. z o.o.	12,372,636	12,663,362.31 <sup>1)</sup>
Enea Ciepło Sp. z o.o.	5,434	17,973 <sup>2)</sup>
Przedsiębiorstwo Energetyki Ciepłej Sp. z o.o. in Oborniki	14,274.40	15,190.22
Miejska Energetyka Ciepła Piła Sp. z o.o.	82,481	84,345
Enea Elektrownia Połaniec SA <sup>3)</sup>	7,733,638	7,029,514

More information on the emissions to the atmosphere for Enea Wytwarzanie Sp. z o.o., including the CO<sub>2</sub> emissions, is included at page 55 of the "Directors' Report on the Operations of Enea SA and Enea Group in 2017", and on the emissions for Enea Wytwarzanie for the Heat Segment - at page 60 of the aforementioned document.

#### Examples of important actions aimed at limiting emission at the Elektrownia Koźienice Power Plant

In 2017 at Koźienice Power Plant:

- actions aiming at adjustment of Enea Wytwarzanie sp. z o.o. to the requirements of the BAT conclusions were continued,
- SCR installations were installed on two more units – 200 MW units 4 and 8 (with achievable concentrations below 100 mg/Nm<sup>3</sup>), in order to significantly reduce nitrogen oxides,
- the SCR installation on 500 MW unit no 10 is near completion. Assembly of the SCR installation on the last 500 MW unit no 9 is planned for 2018,
- the SCR installations being installed successively up to 2019 ensure meeting by the Company the requirements of the IED directive and the future requirements resulting from BAT.

#### Examples of important actions aimed at limiting emissions in the Heat segment

Enea Wytwarzanie has implemented the following investment projects in the Heat Segment (Białystok Heat and Power Plant) resulting in a change of emission levels:

- conversion of the coal-fired OP-140 boiler 5 into a fluid biomass OFB-105 boiler,
- conversion of the coal-fired OP-140 boiler 6 into a fluid biomass OFB-105 boiler,
- assembly of the SCR installation on OFB-105 boilers 5 and 6,
- assembly of the SCR installation on OP-230 boilers 7 and 8,
- heat recovery installation on the K6 boiler,
- assembly of the FGD installation for OP-230 boilers 7 and 8.

The upgrade of the OP-230 boiler 8 electrofilter is planned for 2019.

<sup>1)</sup> Total CO<sub>2</sub> emissions for units 1-10, 11 and the start boiler plant at Świerże Górne (Koźienice Power Plant), Białystok and Koronowo.

<sup>2)</sup> The higher carbon dioxide emission level is a result of burning a larger quantity of coal by the company. In 2016 2,500.41 Mg of coal was burned, and in 2017 – 9,204.76 Mg.

<sup>3)</sup> In 2016, this Company did not belong to Enea Group.

### Description of the policies of Enea Group (1)

At Enea Group the “Code of Ethics of Enea Group” is in force. It determines the values and rules of conduct that impact workplace management and the organisational culture of Enea Group. In 2017, there was a separate “Code of Ethics of LW Bogdanka” in force, applying to the employees of the Lubelski Węgiel Bogdanka SA.. The “Compliance Policy of Enea Group” implemented at Enea Group also impacts workplace management.

The nature and scope of activity of Enea Group companies is very varied, so individual companies implement separate, internal detailed policies and procedures concerning workplace management and relations with Employees.

Some of Enea Group companies implement guidelines set out in the Internal Collective Bargaining Agreement.

Examples of important HR policies implemented at Enea Group companies with the largest numbers of employees :

Company name	Names of implemented policies/procedures regarding employees
ENEA Wytwarzanie Sp. z o.o.	Rules of Work Intercompany Collective Bargaining Agreement Internal Collective Bargaining Agreement of Elektrownia Kozienice S.A.; Social Agreement Internal Collective Bargaining Agreement for the Employees of Elektrownie Wodne Sp. z o.o. w Samociążku 86-010 Koronowo Rules of the Company Social Benefits Fund (ZFSS) Rules of Remuneration Rules of Bonuses Anti-mobbing Procedure
ENEA Operator Sp. z o.o.	Rules of Work Intercompany Collective Bargaining Agreement Internal Collective Bargaining Agreement Rules of the Company Social Benefits Fund (included in the ICBA) Anti-mobbing policy Generational Change Programme
ENEA Centrum Sp. z o.o.	Rules of Work in Enea Centrum Sp. z o.o. Intercompany Collective Bargaining Agreement Internal Collective Bargaining Agreement Rules of the Company Social Benefits Fund Rules of Remuneration Anti-mobbing policy
Lubelski Węgiel "Bogdanka" SA	Rules of Work Internal Collective Bargaining Agreement Rules of the Company Social Benefits Fund Code of Ethics of LW Bogdanka

### Description of Enea Group’s results regarding labour issues

Enea Group employs under employment contracts **16,193 people**<sup>1)</sup>, including **2,777 women** and **13,416 men**.

	The number of employees employed at Enea Group under employment contracts (status as at 31.12.2017)	Women	Men
	16,193	2,777	13,416

Enea Group manages the risk of emergence of generation gap at the workplace, including by cooperation with schools and institutions of higher education; this risk has been identified as significant.

#### Examples:

- Cooperation between the companies and local vocational and technical schools, including schools preparing for work in power industry.
- Patronage agreements and cooperation between Enea Operator Sp. z o.o. and schools preparing for work in the area of distribution. Schools under patronage of Enea Operator are as follows: Zespół Szkół Elektrycznych im. Mjr Henryka Sucharskiego in Gorzów Wilkp., Zespół Szkół Elektryczno-Elektronicznych in Szczecin, Technikum Energetyczne im. H. Zygalskiego in Poznań, Zespół Szkół nr 12 im. Jana II Sobieskiego in Bydgoszcz, Centrum Kształcenia Zawodowego i Ustawicznego "ELEKTRYK" in Nowa Sól, Centrum Kształcenia Zawodowego i Ustawicznego in Złotów.
- Programme "Kuznia Kadr i Motywacji" ("Personnel and Motivation Breeding Ground") – a placement programme implemented by Enea Wytwarzanie Sp. z o.o. in cooperation with the Labour Office, dedicated mainly to young people entering the labour market.
- Generational Change Programme including: Voluntary Resignation Programme, Competence Supplementing and working out the new remuneration policy. This programme aims at undertaking long-term actions preventing negative effects of natural economic and demographic changes and at implementing constructive systemic solutions in this regard.
- Placement and Traineeship Programme "Install yourself at Enea"

In order to prevent negative effects of natural economic and demographic changes Enea Group undertakes actions regarding promotion of the employer and recruiting young candidates for jobs through implementation of the paid placement and traineeship programme "Install yourself at Enea". Opening possibilities for new, young personnel will enable us to continuously and fluently build the potential of our organisation and to prepare it for the changing environment.

In January 2017, Enea Group companies initiated the paid placement and traineeship programme "Install yourself at Enea". The placement programme is a proposal for young, ambitious people who want to gain extraordinary experience at the market leader. We offer a one-year paid placement to students and graduates, in various business areas. We offer an opportunity for development with proficient experts' help and for implementing independent projects at various Enea Group companies. Apart from one-year placements, we also offer 3-month paid summer traineeships. 10 people participated in the 1<sup>st</sup>, pilot edition of the program, 7 of them were offered jobs.

Enea Group plans to continue the implementation of the paid placement and traineeship programme "Install yourself at Enea".

During the next, 3<sup>rd</sup> edition, the Group plans to reach out to the ablest students and graduates and to encourage them to stay in its structures.

Multimedia content regarding the programme "Install yourself at Enea" is available online at: <https://www.enea.pl/pl/grupaenea/o-grupie/kariera-enea/zainstaluj-sie-w-enei>

<sup>1)</sup> In accordance with the GRI Standards (reporting standard guidelines), the number of employees employed under employment contracts includes all persons employed at Enea Capital Group companies under employment contracts – status as at 31.12.2017 (including suspended workers: parental leave, rehabilitation benefits, long unpaid leaves).

Total number of new Employees hired under employment contracts in 2017: <sup>1)</sup>		Women	Men	Employees under 30	Employees between age 30 and 50	Employees over 50
Enea Group	1,895	488	1,407	965	844	86

Total number of employees employed under employment contracts who left in 2017: <sup>2)</sup>		Women	Men	Employees under 30	Employees between age 30 and 50	Employees over 50
Enea Group	1,457	353	1,104	251	410	796

Total number of Employees employed under employment contract who left during 2017, including:	1,457
terminations of employment contracts under the Voluntary Redundancy Scheme (VRS)	545
retirements	214

<sup>1)</sup>The Statement includes presentation of the number of employees newly hired by the companies (both through external and internal recruitments). In the main contents of the „Directors’ Report on the Operations of Enea SA and Enea Group in 2017”, at page 62 the total number of events regarding personnel contributing to an increase of the number of employees of Enea Group companies is indicated, including acquisitions of new companies, external recruitments and returns from suspension.

<sup>2)</sup>The Statement includes presentation of the number of terminations of employment contracts between companies and their employees. Moreover, in the main contents of the „Directors’ Report on the Operations of Enea SA and Enea Group in 2017”, at page 62 all events which led to employment reduction were enumerated, including retirements.



## Description of policies regarding social issues

Enea Group's activity impacts social issues in two areas. The key area is **responsibility for energy security of Poland and of Enea Group's Customers**. Issues and Enea Group's objectives connected with these responsibilities are described in the document "Development Strategy of Enea Capital Group in the 2030 perspective". It includes 4 important issues: Domestic Energy security and policy, the document "Plan for Responsible Development" set out for Poland by the Ministry of Development, Climate policy, Customers' expectations and technological progress.

One of the 5 priority development directions of Enea Capital Group, as expressed in the Development Strategy, reads: "Enea Capital Group shall be RELIABLE: an important contribution to Poland's energy security".

Objectives set in the Development Strategy for Enea Capital Group directly connected with the issue of ensuring Poland's energy security include:

- SAIDI Index: 144 min.
- SAIFI Index: 1.69
- Conventional generation capacities installed: 5.8–6.3 GW in 2025.

In 2017, a new, modern power unit in Kozienice was started, resulting in an increase of Enea Group's generation capacities up to 6.2 GW.

The second area of the social issues are **the objectives and the character of Enea Group's community investment** and the role of the Group in local communities' life..

Enea SA has founded Enea Foundation (Fundacja Enea). Enea Foundation was founded in April 2014, with the objective of implementing Enea Capital Group's community investment policy and of supporting valuable social initiatives and projects. The Foundation is the main Enea Group's entity supporting social purposes.

Key areas of Enea Foundation's activity are education of children and youth, culture and art development, encouraging and supporting sports activities and promoting healthy lifestyle, local communities' development. Enea Foundation implements Enea Group's corporate social responsibility, including by:

- supporting social projects and programs implemented by actors engaging in socially beneficial activities, by way of providing financial and material support and also engagement of Foundation's volunteers,
- implementing own projects supporting social campaigns, educational programs, training, conferences important for the Foundation's objectives, scholarship/grant programs, educational, sports, recreational or cultural events,
- supporting current and former Employees of Enea Group companies as well as their families, especially if these persons find themselves in circumstances resulting in imminent threat to their lives or health.

More detailed information on Enea Foundation's purposes and its actions is available online at: <https://www.enea.pl/pl/grupaenea/odpowiedzialny-biznes/dzialalnosc-fundacji> and in the Non-financial statement Report of Enea Group for 2016 available at: <http://raportcsr.enea.pl/2016/en/community-0>.

Entities conducting social and charity activity separately from the Enea Foundation include the Foundation "Solidarni Górnicy" ("Solidary Miners") founded by the Lubelski Węgiel „Bogdanka” SA now belonging to Enea Group. Foundation "Solidarni Górnicy" started its activity in 2014. Its purpose is to render financial support to the company's employees injured in accidents, ill, being in a difficult financial situation and to their families, as well as supporting extraordinarily talented people and cultural, health-oriented, ecological and other projects of high local or regional significance. More information on the Foundation is available online at: [http://www.lw.com.pl/pl,2,s415,o\\_fundacji.html](http://www.lw.com.pl/pl,2,s415,o_fundacji.html).

Description of Enea Group’s results regarding social issues

1. Key actions aiming at ensuring Poland's energy security:

Enea Operator Sp. z o.o. implements many installation upgrades and invests in new power lines aiming at ensuring customers’ energy security and providing energy without any failures. The most important investment projects implemented by Enea Operator in the area of grid projects started or continued in 2017 included:

- upgrading of the 110 kV power line between Glinki and Żelechowo,
- upgrading of the 110 kV overhead power line between Dąbie and Morzyczyn,
- upgrading of the 110 kV overhead power line between Krzęcin and Dolice,
- construction of a 110 kV overhead power line between Nowogród Bobrzański and Żary Zakładowa,
- upgrading of the 110 kV overhead power line between Górzycza and Słubice,
- upgrading of the 110 kV overhead power line between Śmigiel and Leszno Gronowo,
- modernisation of substations Kostrzyn, Jachcice and Pakość.

In 2017, Enea Group completed the construction of a new 1,075 MW power unit at the Kozienice Power Plant and started the unit. The most modern generation unit in Poland strengthens its energy security and Enea Group’s market position. This unit is one of the world’s largest and most efficient installations of its type. Thanks to implementing advanced solutions of the supercritical parameters technology, the efficiency of the unit reaches 45.6%, which enables the reduction of carbon dioxide emissions by around 25% in comparison to emissions from the existing bituminous coal-fired units.

2. Scale and scope of Enea Group’s community investment activities:

	2017
Total Enea Group expenses for all its community investment activities	PLN 2,397,632.35
Number of Employees who engaged in Enea Group’s employee voluntary work at least once in a year	60 persons
Total number of hours committed to voluntary work by Employees in 2017	301 hours
Number of beneficiaries of the employee voluntary work (including participants of actions/trainings performed within employee voluntary work) <sup>1)</sup>	5,018 persons

<sup>1)</sup>This indicator does not include beneficiaries of the employee voluntary work performed during public events, for example emergency response demonstrations performed by volunteer rescuers at fairs, picnics etc.

### Examples of community investment programs and initiatives implemented in 2017:

1. Project **“Enea Talent Academy”**: within its framework, the following programmes were initiated: a scholarship program for able primary school and middle school students from the Group’s companies area of activity as well as a grant program for public primary schools and middle schools from the Group’s companies area of activity, implementing own projects aimed at developing and fostering students’ talents.
2. Project **“We run – we collect – we help”**: Employees of Enea Group companies participated in selected running events and scored points that were converted into money (1 point = PLN 100). Funds collected in this way were donated by the Enea Foundation to Kamila Skolimowska Foundation which implements projects aimed at promoting sports.
3. Grant program **“Potęga poMocy”** (“The Power of Help”): it is aimed at promoting social-oriented ideas for the benefit of local communities among Enea Group’s employees. The employees have an opportunity to submit valuable social initiatives, which according to them are worth supporting. During every edition of that grant program the Enea Foundation Board chooses 3 winning projects and grants them financial support.
4. **“Enea Sports Academy”**: project aimed at supporting physical activity and healthy lifestyle of children and youth. In 2017, as part of this initiative, over 3,000 children participated in volleyball matches and general physical development activities. Around 1,000 children and youth coming from 30 schools in Poznań and its surroundings participated in the Enea Mini Volleyball League.
5. **Helping communes ravaged by storms**: The Enea Foundation donated almost 1 million PLN to communes ravaged by storms. The funds were transferred for purposes indicated by local governments, including for repairs and restoration of infrastructure and public buildings as well as for local Voluntary Fire Brigades. It will allow the Voluntary Fire Brigades to buy some special equipment necessary for dealing with the results of disasters.
6. The longest-running, permanent employee voluntary work programs:
  - a. Civil rescue program **“First Aid”** – demonstrations and trainings in first aid interventions, by teams of civil rescuers including Enea Group’s employees.
  - b. Lessons on energy for young children **“Electricity is not so scary”**. The Group’s Employees-volunteers teach children where does energy come from and what are the dangers of wrong ways of using electricity.
  - c. Other employee voluntary work includes: renovation of the garden of Pallium Hospice in Poznań, painting of the **“Oratorium Świątełko”** community club in Poznań, renovation of the garden of Centrum Wspierania Rodzin (Centre for Family Support) in Poznań, renovation of the garden of Warsztat Terapii Zajęciowej (Occupational Therapy Workshop) in Kozienice with participation of its patients, participation in Children’s Day celebrations at children’s hospitals in Poznań and Kozienice, Christmas Carols concert for the patients of the Fundacja Pomocy Dzieciom z Chorobami Nowotworowymi (Foundation for Aiding Children Suffering from Cancer) in Poznań.



### Description of the policies of Enea Group

Enea Group has not prepared a separate policy document dedicated solely to the issue of human rights, however issues related to observance of human rights at the workplace are included in the binding “Code of Ethics of Enea Group”. Also the separate “Code of Ethics of LW Bogdanka” covers issues related to observance of human rights at the workplace, including preventing mobbing, harassment and any discrimination within the company.

A separate “Internal policy of proceeding in cases of notification or identification of unacceptable behaviour at Enea SA” is in force within the Enea SA company. Its implementation aims at fulfilment of the employer’s obligation regarding preventing mobbing and other unacceptable behaviours, including discrimination and/or harassment. Some of the companies implement their own, additional anti-mobbing policies. (for example Enea Centrum Sp. z o.o. and Enea Wytwarzanie Sp. z o.o.).

### Description of Enea Group’s results regarding human rights issues

1. One of the human rights is the right to associate. Trade unions function in all Enea Group companies. Separate collective bargaining agreements are in force within individual companies of the Group (in all of them with the exceptions of Miejska Energetyka Ciepła Piła Sp. z o.o., Enea Bioenergia Sp. z o.o. and Enea Innovation Sp. z o.o.). The trade unions functioning at Enea Group companies include: Międzyzakładowy Związek Zawodowy Pracowników GK Enea, Międzyzakładowy Związek Zawodowy Energetyków w Enea Wytwarzanie Sp. z o.o., Międzyzakładowy Związek Zawodowy Pracowników Grupy Kapitałowej Enea „Synergia”, Międzyzakładowa Organizacja Związkowa Związku Zawodowego Inżynierów i Techników przy Enea SA, Międzyzakładowy Związek Zawodowy Pracowników Grupy Energetycznej Enea SA „Kadra”, Organizacja Międzyzakładowa NSZZ Solidarność Enea, Międzyzakładowy Związek Zawodowy Pracowników Ruchu Ciągłego Grupy Energetycznej Enea SA, OM NSZZ "Solidarność", KZZ Ciepłowników MOZ, Związek Zawodowy Pracowników Zmianowych, Samodzielny Związek Zawodowy Pracowników Inżynierji - Technicznych, Administracyjnych i Obsługi Elektrociepłowni Białystok, Międzyzakładowy Związek Zawodowy Energetyków Zakładowa Organizacja Związkowa w Enea Operator, Międzyzakładowy Związek Zawodowy Pracowników Dozoru przy Elektrowni w Połańcu.
2. In 2017, no incidents of discrimination at the workplace were confirmed in the Enea SA company as well as in the whole Enea Group.
3. In 2017, Enea Group took actions aiming at countering unacceptable behaviours such as mobbing, discrimination, harassment and other irregularities related to protection of human dignity and human rights at the workplace. These actions focused on the following issues: :
  - creating a friendly working environment,
  - performing just evaluations of employees,
  - ensuring the employees can speak freely,
  - ensuring clear information flow,
  - using constructive methods of managing conflicts,
  - building positive relations between Employees.

In order to increase the Employees’ awareness of the importance of issues covered by the “Code of Ethics of Enea Group”, including issues connected with countering all irregularities such as mobbing or discrimination at the workplace, the following communication actions were carried out:

- a cycle of interviews with Employees on the role of values in everyday work was published on the internal communication channels,
  - films featuring Employees presenting their attitudes and thoughts regarding observance of values at the workplace,
  - contests for Employees and their children on the subject of values at the workplace.
4. Employees can anonymously report all irregularities regarding human rights abuses at the workplace, for example mobbing or discrimination, directly to the Ethics Commission, using the website: <https://www.enea.pl/pl/grupaenea/odpowiedzialny-biznes/kodeks-etyki/kontakt-z-komisja-etyki>.

### Description of the policies of Enea Group

1. Enea Group companies are obliged to comply with the rules set out in the **“Code of Ethics of Enea Group”**. According to that document :
  - a. transparency and countering corruption is one of the fundamental **“Rules of Enea Group”**,”
  - b. Enea Group’s Employees can submit all questions and reports on irregularities regarding corruption directly to the Commission on the Code of Ethics of Enea Group, sending an email to: [etyka@enea.pl](mailto:etyka@enea.pl) or using the website: [www.kodeksetyki.enea.pl](http://www.kodeksetyki.enea.pl). The irregularities reporting form available through the website guarantees complete anonymity.
2. Enea Group also implemented anti-corruption regulations, including **“Rules of offering and receiving gifts at Enea Group”** and **“Compliance Policy of Enea Group”**.
3. Enea SA implemented unified organisation and management standards in the Group - a **new corporate governance**. The new corporate governance remodelled function management in the whole Group and divided these functions among the Companies. Decision-making competences were divided in a new way among the Management Boards of Enea SA, of other Enea Group companies and the Committees of Enea Group. The internal regulations of Enea Group Companies were adapted to the new competence map, pursuant to the new legal instruments of the corporate governance (especially to the **Code of Enea Group**). The Code of Enea Group introduced the concept of **Enea Group’s interest** and obliged all Enea Group companies to cooperate in order to implement the strategy and mission of the Group.
4. **Anti-corruption policies and measures are monitored by** the Enea Group’s Security, Compliance and Legal Services Management Unit (at Enea SA’s Operations Management Department) and by the Ethics Commission.
5. **Effects of the implemented policies and measures are analysed and presented**, including in the following documents: „Compliance Policy of Enea Group” Implementation Report (Enea SA), Ethics Commission reports, reports on conducted trainings, Ethics Spokesperson’s Activity Report for 2017 (for LW Bogdanka SA).
6. **Priorities of the Group include :**
  - eliminating of all possible cases of corruption,
  - ensuring compliance with the laws and regulations as well as with internal regulations,
  - implementing actions aimed at promoting knowledge of the anti-corruption regulations being in force within Enea Capital Group among the Employees of the Companies,
  - ensuring competitiveness and transparency in relations with business partners),
  - improving the quality of contacts with the Customers during provision of services by the company’s Employees and subcontractors and preventing unwanted behaviours within this area,
  - enabling Employees and business partners to report irregularities (also those concerning corruption).
7. **Actions taken in this area include:**
  - promoting knowledge of how to counter corruption, during meetings with Employees and by trainings,
  - conducting trainings for Employees on the **“Compliance Policy of Enea Group”** and the **“Rules of offering and receiving gifts at Enea Group”**,
  - conducting regular meetings of the Employees who directly contact Customers and discussing rules of conduct in contacts with Customers as well as cases of Customer’s complaints regarding Employees’ behaviour,
  - systematic perfecting of provisions of customer agreements aiming at setting standards of contacts with customers and at countering inappropriate behaviours and corruption,
  - implementing provisions of the **“Compliance Policy of Enea Group”**,
  - monitoring the legal environment and market standards in the area of building an anti-corruption system,
  - providing the companies with a form for reporting cases of corruption to Enea SA.

**Description of Enea Group's results regarding anti-corruption issues**

The companies inform their Employees of rules on corruption and possibilities of reporting cases of corruption, by various internal communication channels. This information is disseminated during direct meetings of Employees with their superiors, meetings of Employees with members of the management boards, in the companies' intranet and by way of e-learning. It applies especially to newly hired Employees. The management is obliged to accept a key role in creating the organisational culture that does not allow for corruption.

**Example:** At Enea SA, Enea Wytwarzanie Sp. z o.o., Enea Operator Sp. z o.o. and other companies of the Group where Employees have access to the common e-learning platform, all newly hired persons who use a business email address are obliged to complete a set of e-learning trainings within three months of the date they were hired. These trainings are repeated every three years or sooner (if a document regarding anti-corruption issues is amended or introduced) for all Employees. In some of the companies, newly hired Employees on their first day of work are trained to adapt to regulations involving, among other things, anti-corruption measures..

**Example:** In May 2017, Polski Instytut Kontroli Zewnętrznej (Polish Institute of External Control) conducted a two-day training on "Risks of corruption" at LW Bogdanka SA. 82 people completed this training.

PERFORMANCE INDICATORS FOR THE IMPLEMENTED POLICIES	2017
Number of confirmed cases of corruption at Enea Group companies in 2017	0
Number of Employees of the companies who completed anti-corruption trainings in 2017 <sup>1)</sup>	Enea SA – 80 people (23% of Employees) Enea Operator Sp. z o.o.– 333 people (15% of Employees) Enea Centrum Sp. z o.o. – 378 people (25% Employees) Enea Oświetlenie Sp. z o.o. – 21 people (24% Employees) Enea Serwis Sp. z o.o. – 40 people (16% Employees) Enea Pomiary Sp. z o.o. – 5 people (9% Employees) Enea Trading Sp. z o.o.– 25 people (24% Employees) Enea Wytwarzanie sp. z o.o. – 298 people (46% Employees) LW Bogdanka SA – 82 people (1,8% Employees)
% of the companies' Employees who were informed on the anti-corruption rules in force	100%
% of Enea Group management boards' members who were informed on the anti-corruption policies and procedures in the organisation	100%

<sup>1)</sup>The indicated percentage share (%) applies only to the employees who have access to the e-learning platform. Direct superiors are responsible for educating other employees regarding these issues.

Thematic section	Pages
Business model of Enea Group	112-115
Non-financial key performance indicators of Enea Group	116
Risks management and non-financial risks relating to the business activity of Enea Capital Group	117-119
Environmental issues – description of the policies of Enea Group and of the results relating to them	120-125
Labour issues – description of the policies of Enea Group and of the results relating to them	126-128
Social issues – description of the policies of Enea Group and of the results relating to them	129-131
Human rights issues – description of the policies of Enea Group and of the results relating to them	132
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**Annexes**





## Profit and loss account of Enea Operator sp. z o.o. – 2017

[PLN k]	2016	2017	Change	% change
Revenue from the sale of distribution services to end users	2,882,157	3,103,968	221,811	7.7%
Revenue from additional fees	5,485	5,733	248	4.5%
Revenues from the non-invoiced sale of distribution services	5,815	5,986	171	2.9%
Clearing of the Balancing Market	9,334	13,485	4,151	44.5%
Fees for connection to the grid	67,564	64,258	-3,306	-4.9%
Revenue from illegal electricity consumption	5,741	6,265	524	9.1%
Revenue from services	31,154	28,080	-3,074	-9.9%
Sale of distribution services to other entities	24,936	15,923	-9,013	-36.1%
Sales of goods and services and other revenues	2,777	2,980	203	7.3%
<b>Sales revenue</b>	<b>3,034,963</b>	<b>3,246,678</b>	<b>211,715</b>	<b>7.0%</b>
Depreciation of power, plant and equipment and intangible fixed assets	473,120	490,035	16,915	3.6%
Costs of employee benefits	400,741	415,930	15,189	3.8%
Consumption of materials and raw materials and the value of goods sold	31,803	29,209	-2,594	-8.2%
Purchase of energy for own needs and grid losses	242,181	228,790	-13,391	-5.5%
Costs of transmission services	819,144	1,022,283	203,139	24.8%
Other third party services	247,536	272,940	25,404	10.3%
Taxes and levies	174,208	189,147	14,939	8.6%
<b>Sales tax deductible costs</b>	<b>2,388,733</b>	<b>2,648,334</b>	<b>259,601</b>	<b>10.9%</b>
Other operating revenue	50,080	38,605	-11,475	-22.9%
Other operating costs	66,622	56,331	-10,291	-15.4%
Profit/ loss on the sale and liquidation of property, plant and equipment	-16,538	-12,830	3,708	22.4%
<b>Operating profit/ (loss)</b>	<b>613,150</b>	<b>567,788</b>	<b>-45,362</b>	<b>-7.4%</b>
Financial revenue	4,997	1,995	-3,002	-60.1%
Financial costs	41,304	53,543	12,239	29.6%
<b>Gross profit/ (loss)</b>	<b>576,843</b>	<b>516,240</b>	<b>-60,603</b>	<b>-10.5%</b>
Income tax	109,453	101,176	-8,277	-7.6%
<b>Net profit/(loss)</b>	<b>467,390</b>	<b>415,064</b>	<b>-52,326</b>	<b>-11.2%</b>
<b>EBITDA</b>	<b>1,086,270</b>	<b>1,057,823</b>	<b>-28,447</b>	<b>-2.6%</b>

**2017:****Factors behind the change of EBITDA of Enea Operator sp. z o.o. (decrease by PLN 28 million):**

- (+) higher revenue from the sale of distribution services to end users by PLN 222 million arises mainly from higher transfer costs - an increase in the transitional fee and the RES fee (introduced as of 1 July 2016) and a higher sales volume of distribution services to end users by 517 GWh
- (+) lower costs of purchase of energy to cover the balance difference by PLN 13 million result from the 44 GWh decrease in volume and lower average price of electricity
- (+) higher revenue from the settlement of electricity on the balancing market by PLN 4 million results from the higher sales volume by 26 GWh
- (-) higher costs of purchase of transmission services by PLN 203 million result mainly from higher transfer costs - an increase of the transitional fee and the RES fee (introduced as of 1 July 2016) and an increase of the fixed transmission fee rate in the PSE tariff
- (-) lower revenue from the sale of distribution services to other entities by PLN 9 million results from a lower volume of energy released to neighbouring ODSs
- (-) lower revenue from fees for connection to the grid by PLN 3 million - mainly for RES
- (-) higher costs of other third party services by PLN 25 million, mainly in the following areas: IT, customer service, measurements, building administration
- (-) higher employee benefit costs by PLN 15 million result mainly from higher actuarial provisions and increased salaries
- (-) higher tax and levy costs by PLN 15 million - effect of investments made in the grid assets
- (-) lower revenues from sales of services by PLN 3 million - mainly of non-licenced services to external customers
- (-) lower other operating revenue by PLN 11 million results mainly from the performance of agreements for the removal of collisions and the transfer of power equipment to assets in 2016 (one-off events)
- (+) lower other operating costs by PLN 10 million result mainly from lower regulatory costs for the grid assets

## Profit and loss account of Enea Operator sp. z o.o. – Q4 2017

[PLN k]	Q4 2016	Q4 2017	Change	% change
Revenue from the sale of distribution services to end users	741,224	792,386	51,162	6.9%
Revenue from additional fees	1,276	1,647	371	29.1%
Revenues from the non-invoiced sale of distribution services	5,658	7,657	1,999	35.3%
Clearing of the Balancing Market	7,626	9,208	1,582	20.7%
Fees for connection to the grid	19,845	16,197	-3,648	-18.4%
Revenue from illegal electricity consumption	1,724	1,376	-348	-20.2%
Revenue from services	8,500	7,220	-1,280	-15.0%
Sale of distribution services to other entities	6,400	3,898	-2,502	-39.1%
Sales of goods and services and other revenues	812	939	127	15.6%
<b>Sales revenue</b>	<b>793,065</b>	<b>840,528</b>	<b>47,463</b>	<b>6.0%</b>
Depreciation of power, plant and equipment and intangible fixed assets	116,621	123,820	7,199	6.2%
Costs of employee benefits	126,980	118,554	-8,426	-6.6%
Consumption of materials and raw materials and the value of goods sold	9,496	7,965	-1,531	-16.1%
Purchase of energy for own needs and grid losses	60,592	60,488	-104	-0.2%
Costs of transmission services	215,134	258,448	43,314	20.1%
Other third party services	73,301	82,098	8,797	12.0%
Taxes and levies	41,152	43,459	2,307	5.6%
<b>Sales tax deductible costs</b>	<b>643,276</b>	<b>694,832</b>	<b>51,556</b>	<b>8.0%</b>
Other operating revenue	11,592	15,507	3,915	33.8%
Other operating costs	20,383	6,736	-13,647	-67.0%
Profit/ loss on the sale and liquidation of property, plant and equipment	-10,453	-9,825	628	6.0%
<b>Operating profit/ (loss)</b>	<b>130,545</b>	<b>144,642</b>	<b>14,097</b>	<b>10.8%</b>
Financial revenue	2,371	842	-1,529	-64.5%
Financial costs	11,494	14,556	3,062	26.6%
<b>Gross profit/ (loss)</b>	<b>121,422</b>	<b>130,928</b>	<b>9,506</b>	<b>7.8%</b>
Income tax	24,232	24,289	57	0.2%
<b>Net profit/(loss)</b>	<b>97,190</b>	<b>106,639</b>	<b>9,449</b>	<b>9.7%</b>
<b>EBITDA</b>	<b>247,166</b>	<b>268,462</b>	<b>21,296</b>	<b>8.6%</b>

**Q4 2017:****Factors behind the change of EBITDA of Enea Operator sp. z o.o. (increase by PLN 21 million):**

- (+) higher revenue from the sale of distribution services to end users by PLN 53 million arises mainly from higher transfer costs - an increase in the transitional fee and RES fee rates and a higher sales volume of distribution services to end users by 120 GWh
- (+) higher revenue from the settlement of electricity on the balancing market by PLN 2 million results from the higher sales volume of electricity by 8 GWh
- (-) higher costs of purchase of transmission services by PLN 43 million result mainly from higher transfer costs (increase in the transitional fee and RES fee rates) and an increase in the fixed transmission fee rate in the PSE tariff
- (-) lower revenue from the sale of distribution services to other entities by PLN 3 million arises from a lower volume of energy released to neighbouring ODSs
- (-) lower revenue from fees for connection to the grid by PLN 4 million - mainly for RES
- (+) lower costs of employee benefits by PLN 8 million result mainly from lower employee provisions
- (-) higher costs of other third party services by PLN 9 million, mainly in the following areas: IT, customer service, measurements, building administration
- (-) higher tax and levy costs by PLN 2 million - effect of investments made in the grid assets
- (+) higher other operating revenue by PLN 4 million results mainly from positive result on insurance and fortuitous damages
- (+) lower other operating costs by PLN 14 million result mainly from lower regulatory costs for the grid assets

## Profit and loss account of Enea Wytwarzanie sp. z o.o. – 2017

[PLN k]	2016	2017	Change	% change
Revenue from the sale of electricity	2,899,395	2,545,822	-353,573	-12.2%
<i>generation licence</i>	2,548,594	2,371,161	-177,433	-7.0%
<i>trading licence</i>	350,801	174,661	-176,140	-50.2%
Revenue from certificates of origin	37,493	27,224	-10,269	-27.4%
Revenue from the sale of CO <sub>2</sub> emissions allowances	32,713	17,786	-14,927	-45.6%
Revenue from the sale of heat	169,227	161,734	-7,493	-4.4%
Revenue from services	12,138	12,731	593	4.9%
Sale of goods and materials and other revenue	11,680	12,257	577	4.9%
Excise tax	206	226	20	9.7%
<b>Net sales revenue</b>	<b>3,162,440</b>	<b>2,777,328</b>	<b>-385,112</b>	<b>-12.2%</b>
Depreciation of power, plant and equipment and intangible fixed assets	222,557	234,430	11,873	5.3%
Costs of employee benefits	262,817	255,377	-7,440	-2.8%
Consumption of materials and raw materials and the value of goods sold	1,690,178	1,568,038	-122,140	-7.2%
Purchase of energy for sale purposes	414,606	246,145	-168,461	-40.6%
Transmission services	2,273	2,054	-219	-9.6%
Other third party services	138,851	143,749	4,898	3.5%
Taxes and levies	77,113	79,685	2,572	3.3%
<b>Sales tax deductible costs</b>	<b>2,808,395</b>	<b>2,529,478</b>	<b>-278,917</b>	<b>-9.9%</b>
Other operating revenue	26,389	19,766	-6,623	-25.1%
Other operating costs	142,933	7,621	-135,312	-94.7%
Profit/ loss on the sale and liquidation of property, plant and equipment	1,448	545	-903	-62.4%
Impairment loss on non-financial non-current assets	90,808	0	-90,808	-100.0%
<b>Operating profit/ (loss)</b>	<b>148,141</b>	<b>260,540</b>	<b>112,399</b>	<b>75.9%</b>
Financial revenue	7,383	2,227	-5,156	-69.8%
Financial costs	18,359	33,739	15,380	83.8%
Revenue from dividends	2,740	1,013	-1,727	-63.0%
<b>Gross profit/ (loss)</b>	<b>139,905</b>	<b>230,041</b>	<b>90,136</b>	<b>64.4%</b>
Income tax	53,727	76,025	22,298	41.5%
<b>Net profit/(loss)</b>	<b>86,178</b>	<b>154,016</b>	<b>67,838</b>	<b>78.7%</b>
<b>EBITDA</b>	<b>461,506</b>	<b>494,970</b>	<b>33,464</b>	<b>7.3%</b>

**2017:****Factors behind the change of EBITDA of Enea Wytwarzanie sp. z o.o. (increase by PLN 33.4 million):****Kozienice Systemic Power Plant – a decrease in EBITDA by PLN 108.7 million**

- (-) a decrease in the margin on trading and on the Balancing Market by PLN 64.6 million
- (-) a decrease in the margin on generation by PLN 54.8 million
- (-) a decrease in other factors by PLN 26.5 million: inventory deficit of production fuel PLN -20.5 million, result on other operating activities PLN -3.8 million
- (+) higher revenue from Regulatory System Services by PLN 24.6 million
- (+) a decrease in overheads by PLN 12.6 million

**Heat Segment – a decrease in EBITDA by PLN 5.5 million**

- (-) a decrease in revenue from the sale of electricity by PLN 15.1 million
- (-) higher costs of coal consumption by PLN 13.2 million
- (-) higher costs of CO<sub>2</sub> emission allowances by PLN 9.8 million
- (-) a decrease in revenue from certificates of origin by PLN 8.3 million
- (-) a decrease in revenue from the sale of heat by PLN 7.4 million
- (-) higher overheads by PLN 7.6 million
- (-) in 2016 fuel inventory surplus PLN 1.7 million
- (+) lower costs of biomass consumption by PLN 59.1 million

**Segment OZE – an increase in EBITDA by PLN 147.6 million**

- (+) in 2016 the provision related to the estimation of the value of shares in Eco-Power sp. z o.o. for the amount of PLN 129.0 million
- (+) Water area (PLN +12.3 million): an increase in revenues from electricity by PLN 11.1 million,
- (+) Biogas area (PLN +6.8 million): release of the provision for claims for damages (PLN +3.6 million); an increase in revenues from certificates of origin (PLN +1.9 million); a decrease in variable costs (PLN -0.9 million),
- (-) Wind area (PLN -0.5 million): an increase in overheads by PLN 5.6 million (greater scope of real estate taxation - change of regulations); a decrease in revenues from certificates of origin by PLN 1.8 million; an increase in revenues from electricity by PLN 4.6 million; in 2016 costs of sale and liquidation of property, plant and equipment PLN 2.0 million

## Profit and loss account of Enea Wytwarzanie sp. z o.o. – Q4 2017

[PLN k]	Q4 2016	Q4 2017	Change	% change
Revenue from the sale of electricity	724,916	587,153	-137,763	-19.0%
<i>generation licence</i>	642,718	534,879	-107,839	-16.8%
<i>trading licence</i>	82,198	52,274	-29,924	-36.4%
Revenue form certificates of origin	7,589	8,974	1,385	18.3%
Revenue from the sale of CO <sub>2</sub> emissions allowances	10,642	3,551	-7,091	-66.6%
Revenue from the sale of heat	53,442	47,076	-6,366	-11.9%
Revenue form services	2,961	3,166	205	6.9%
Sale of goods and materials and other revenue	3,038	2,971	-67	-2.2%
Excise tax	51	61	10	19.6%
<b>Net sales revenue</b>	<b>802,537</b>	<b>652,830</b>	<b>-149,707</b>	<b>-18.7%</b>
Depreciation of power, plant and equipment and intangible fixed assets	57,117	59,134	2,017	3.5%
Costs of employee benefits	72,832	77,506	4,674	6.4%
Consumption of materials and raw materials and the value of goods sold	414,689	392,840	-21,849	-5.3%
Purchase of energy for sale purposes	100,827	62,573	-38,254	-37.9%
Transmission services	577	512	-65	-11.3%
Other third party services	42,667	43,314	647	1.5%
Taxes and levies	20,106	16,619	-3,487	-17.3%
<b>Sales tax deductible costs</b>	<b>708,815</b>	<b>652,498</b>	<b>-56,317</b>	<b>-7.9%</b>
Other operating revenue	12,422	9,996	-2,426	-19.5%
Other operating costs	133,449	4,124	-129,325	-96.9%
Profit/ loss on the sale and liquidation of property, plant and equipment	909	-210	-1,119	-123.1%
Impairment loss on non-financial non-current assets	48,808	0	-48,808	-100.0%
<b>Operating profit/ (loss)</b>	<b>-75,204</b>	<b>5,994</b>	<b>81,198</b>	<b>108.0%</b>
Financial revenue	4,467	2,007	-2,460	-55.1%
Financial costs	3,839	21,490	17,651	459.8%
<b>Gross profit/ (loss)</b>	<b>-74,576</b>	<b>-13,489</b>	<b>61,087</b>	<b>81.9%</b>
Income tax	10,109	25,898	15,789	156.2%
<b>Net profit/(loss)</b>	<b>-84,685</b>	<b>-39,387</b>	<b>45,298</b>	<b>53.5%</b>
<b>EBITDA</b>	<b>30,721</b>	<b>65,128</b>	<b>34,407</b>	<b>112.0%</b>

**Q4 2017:****Factors behind the change of EBITDA of Enea Wytwarzanie sp. z o.o. (increase by PLN 34.4 million):****Kozienice Systemic Power Plant – a decrease in EBITDA by PLN 88.4 million**

- (-) a decrease in the margin on generation by PLN 55.7 million
- (-) a decrease in other factors by PLN 26.9 million: inventory shortage of production fuel PLN -20.5 million, result on other operating activities PLN -3.8 million
- (-) lower margin on trading and balancing market by PLN 18.5 million
- (+) lower overheads by PLN 2.6 million
- (+) higher revenue from Regulatory System Services by PLN 10.2 million

**Heat Segment – a decrease in EBITDA by PLN 19.9 million**

- (-) higher overheads by PLN 9.0 million
- (-) a decrease in revenues from the sale of heat by PLN 6.2 million
- (-) a decrease in revenues from the sale of electricity by PLN 4.5 million
- (-) higher costs of CO<sub>2</sub> emission allowances by PLN 3.4 million
- (-) in 2016 fuel inventory surplus PLN 1.7 million
- (-) a decrease in revenues from certificates of origin by PLN 0.7 million
- (+) lower costs of biomass consumption by PLN 7.2 million

**RES Segment – an increase in EBITDA by 142.7 million**

- (+) in 2016, the provision related to the estimation of the value of shares in Eco-Power sp. z o.o. for the amount of PLN 129.0 million
- (+) Water area (PLN +6.0 million): an increase in revenues from the sale of electricity by PLN 4.1 million; a decrease in overheads by PLN 1.1 million; an increase in revenues from certificates of origin by PLN 0.7 million
- (+) Biogas area (PLN +3.7 million): release of provision for claims for damages (PLN +3.6 million)
- (+) Wind area (PLN +4.0 million): an increase in revenues from the sale of electricity by PLN 1.2 million; an increase in revenues from certificates of origin by PLN 1.3 million; in 2016 costs of sale and liquidation of property, plant and equipment PLN 2.0 million

## Profit and loss account of Enea Elektrownia Połaniec Group– 14 March-31 December 2017

[PLN k]	14 Mar-31 Dec 2017
Sales revenue	1,644,008
Excise tax	46
<b>Net sales revenue</b>	<b>1,643,962</b>
Depreciation of power, plant and equipment and intangible fixed assets	47,333
Costs of employee benefits	65,241
Consumption of materials and raw materials and the value of goods sold	1,017,884
Purchase of energy for sale purposes	206,039
Transmission services	2,709
Other third party services	164,831
Taxes and levies	30,222
<b>Sales tax deductible costs</b>	<b>1,534,259</b>
Other operating revenue	18,780
Other operating costs	1,254
Profit/ loss on the sale and liquidation of property, plant and equipment	-23
<b>Operating profit/ (loss)</b>	<b>127,206</b>
Financial revenue	82,830
Financial costs	535
<b>Gross profit/ (loss)</b>	<b>209,501</b>
Income tax	18,774
<b>Net profit/(loss)</b>	<b>190,727</b>
<b>EBITDA</b>	<b>174,539</b>

**14 March -31 December 2017:****EBITDA GK Enea Elektrownia Połaniec:**

- revenue from the sale of electricity (including RUS) PLN 1,525 million (9,007 GWh of electricity sold)
- revenue from the sale of heat PLN 44 million with the sale volume of 1,866 TJ
- revenue from certificates of origin PLN 69 million - sales adjusted for revenue from recognition, cost of sales and revaluation of green certificate stock as at the balance-sheet date
- other revenues PLN 6 million - revenues from lease and management of by-products of combustion
- consumption of materials and raw materials and the value of goods sold PLN 1,018 million, including, i.a., consumption of fuels, repair materials, provision for the costs of CO<sub>2</sub> consumption
- purchase of energy for sales purposes PLN 206 million - purchase volume 1,633 GWh
- other third party services PLN 165 million - including repair services, IT and telecommunication services, transport services, waste management, property insurance, other services (including legal services, audits, rentals and leases, property protection)
- taxes and levies PLN 30 million - including, i.a., real estate tax, environmental protection fee
- result on other operating activities PLN 18 million - revenues from contractual penalties, inventory update, release of provisions

## Profit and loss account of Enea Elektrownia Połaniec Group – Q4 2017

[PLN k]	Q4 2017
Sales revenue	496,745
Excise tax	-4
<b>Net sales revenue</b>	<b>496,749</b>
Depreciation of power, plant and equipment and intangible fixed assets	23,877
Costs of employee benefits	23,082
Consumption of materials and raw materials and the value of goods sold	312,636
Purchase of energy for sale purposes	69,783
Transmission services	1,771
Other third party services	55,990
Taxes and levies	11,270
<b>Sales tax deductible costs</b>	<b>498,409</b>
Other operating revenue	15,805
Other operating costs	724
Profit/ loss on the sale and liquidation of property, plant and equipment	-
<b>Operating profit/ (loss)</b>	<b>13,421</b>
Financial revenue	79,773
Financial costs	-93
<b>Gross profit/ (loss)</b>	<b>93,287</b>
Income tax	3,961
<b>Net profit/(loss)</b>	<b>89,326</b>
<b>EBITDA</b>	<b>37,298</b>

**Q4 2017:****EBITDA of Enea Elektrownia Połaniec Group:**

- revenue from the sale of electricity (including RUS) PLN 470 million (sale of 2,747 GWh of electricity)
- revenues from the sale of heat PLN 14 million with the sale volume of 609 TJ
- revenue from certificates of origin PLN 11 million - sales adjusted for revenue from recognition, cost of sales and revaluation of green certificate stock as at the balance-sheet date
- other revenues PLN 2 million - revenues from lease and management of by-products of combustion
- consumption of materials and raw materials and the value of goods sold PLN 313 million, including: consumption of fuels, repair materials, provision for costs of CO<sub>2</sub> consumption
- purchase of energy for sales purposes PLN 70 million - purchase volume PLN 550 GWh
- other third party services PLN 56 million - including: repair services, IT and telecommunication services, transport services, waste management, property insurance, other services (including legal services, audits, rentals and leases, property protection)
- taxes and levies PLN 11 million - including: real estate tax, environmental protection fee
- result on other operating activities PLN 15 million - revenues from contractual penalties, inventory update, release of provisions

## Profit and loss account of LW Bogdanka Group – 2017

[PLN k]	2016	2017	Change	% change
<b>Net sales revenue</b>	<b>1,785,981</b>	<b>1,780,320</b>	<b>-5,661</b>	<b>-0.3%</b>
Depreciation of power, plant and equipment and intangible fixed assets	363,238	357,015	-6,223	-1.7%
Costs of employee benefits	540,254	416,172	-124,082	-23.0%
Consumption of materials and raw materials and the value of goods sold	296,583	304,056	7,473	2.5%
Other third party services	294,160	292,966	-1,194	-0.4%
Taxes and levies	45,437	47,337	1,900	4.2%
<b>Sales tax deductible costs</b>	<b>1,539,672</b>	<b>1,417,546</b>	<b>-122,126</b>	<b>-7.9%</b>
Other operating revenue	21,865	5,174	-16,691	-76.3%
Other operating costs	6,579	4,998	-1,581	-24.0%
Profit/ loss on the sale and liquidation of property, plant and equipment	-16,271	-10,982	5,289	32.5%
Impairment loss on non-financial non-current assets	7,352	1,284	-6,068	-82.5%
<b>Operating profit/ (loss)</b>	<b>237,972</b>	<b>350,684</b>	<b>112,712</b>	<b>47.4%</b>
Financial revenue	15,637	8,361	-7,276	-46.5%
Financial costs	31,105	26,862	-4,243	-13.6%
<b>Gross profit/ (loss)</b>	<b>222,504</b>	<b>332,183</b>	<b>109,679</b>	<b>49.3%</b>
Income tax	41,275	66,487	25,212	61.1%
<b>Net profit/(loss)</b>	<b>181,229</b>	<b>265,696</b>	<b>84,467</b>	<b>46.6%</b>
<b>EBITDA</b>	<b>608,562</b>	<b>708,983</b>	<b>100,421</b>	<b>16.5%</b>

**2017:****Factors behind the change of EBITDA of LW Bogdanka Group:**

- (+) an increase in revenues from coal sales: higher volume of sales (+10 thousand tonnes) and a slightly lower price (-0.85 PLN/t)
- (-) a decrease in revenues from the sale of other products and services: logistics and customs services of coal sold for export, lease of property, plant and equipment, sale of heat
- (+) a decrease in the unit cost of products, goods and materials sold without depreciation – release of provisions for the allowance for pensioners and the retirement allowance for current employees

**Significant one-off events:**

- lower costs of employee benefits – release of the provision for the retirement coal allowance in connection with the redemption of the right to free coal allowance from current and future pensioners (the total impact on the Company's result of all operations related to the coal allowance amounted to approximately PLN 115 million)
- lower other operating income - in 2016 the provision for damages for Budimex was released following a favourable judgment of the Court of Appeal
- loss on liquidation of property, plant and equipment - mainly net value of liquidated excavations

## Profit and loss account of LW Bogdanka Group – Q4 2017

[PLN k]	Q4 2016	Q4 2017	Change	% change
<b>Net sales revenue</b>	<b>471,878</b>	<b>473,190</b>	<b>1,312</b>	<b>0.3%</b>
Depreciation of power, plant and equipment and intangible fixed assets	92,472	97,383	4,911	5.3%
Costs of employee benefits	134,951	25,040	-109,911	-81.4%
Consumption of materials and raw materials and the value of goods sold	72,885	88,851	15,966	21.9%
Other third party services	81,961	86,736	4,775	5.8%
Taxes and levies	10,841	11,242	401	3.7%
<b>Sales tax deductible costs</b>	<b>393,110</b>	<b>309,252</b>	<b>-83,858</b>	<b>-21.3%</b>
Other operating revenue	8,165	2,201	-5,964	-73.0%
Other operating costs	3,100	3,391	291	9.4%
Profit/ loss on the sale and liquidation of property, plant and equipment	-1,583	-2,216	-633	-40.0%
Impairment loss on non-financial non-current assets	0	1,284	1,284	100.0%
<b>Operating profit/ (loss)</b>	<b>82,250</b>	<b>159,248</b>	<b>76,998</b>	<b>93.6%</b>
Financial revenue	2,697	1,957	-740	-27.4%
Financial costs	7,367	8,389	1,022	13.9%
<b>Gross profit/ (loss)</b>	<b>77,580</b>	<b>152,816</b>	<b>75,236</b>	<b>97.0%</b>
Income tax	15,887	30,411	14,524	91.4%
<b>Net profit/(loss)</b>	<b>61,693</b>	<b>122,405</b>	<b>60,712</b>	<b>98.4%</b>
<b>EBITDA</b>	<b>174,722</b>	<b>257,915</b>	<b>83,193</b>	<b>47.6%</b>

**Q4 2017:****Factors behind the change of EBITDA of LW Bogdanka Group:**

- (+) an increase in revenue from the sale of coal: higher sales volume (+51 thousand tonnes) and a lower price (-3.06 PLN/t)
- (-) a decrease in revenue from the sale of other LWB products and services - logistics and customs services of coal sold for export and lease of property, plant and equipment
- (+) a decrease in the unit cost of products, goods and materials sold without depreciation – release of provisions for the allowance for pensioners and the retirement allowance for current employees

**Significant one-off events:**

- lower costs of employee benefits – release of the provision for the retirement coal allowance in connection with the redemption of the right to free coal allowance from current and future pensioners (the total impact on the Company's result of all operations related to the coal allowance amounted to approximately PLN 115 million)
- loss on liquidation of property, plant and equipment - mainly net value of liquidated excavations
- lower other operating income - higher indemnities were received and higher provisions for indemnities were released in 2016



## Financial ratios

The following is a glossary of terms and a list of abbreviations used in this Report of the Management Board on the operations of Enea SA and Enea Group in 2017:

Ratio	Description
EBITDA	= Operating profit/ (loss) + depreciation
Return on equity (ROE)	= $\frac{\text{Net profit/ (loss) for the reporting period}}{\text{Equity}}$
Return on assets (ROA)	= $\frac{\text{Net profit/ (loss) for the reporting period}}{\text{Total assets}}$
Net profitability	= $\frac{\text{Net profit/ (loss) for the reporting period}}{\text{Net sales revenue}}$
Operating profitability	= $\frac{\text{Operating profit/ (loss)}}{\text{Net sales revenue}}$
EBITDA profitability	= $\frac{\text{EBITDA}}{\text{Net sales revenue}}$
Current liquidity ratio	= $\frac{\text{Current assets}}{\text{Short-term liabilities}}$
Coverage of fixed assets with equity	= $\frac{\text{Equity}}{\text{Fixed assets}}$
Total debt ratio	= $\frac{\text{Total liabilities}}{\text{Total assets}}$
Net debt/ EBITDA	= $\frac{\text{Interest-bearing liabilities - cash and cash equivalents}}{\text{EBITDA LTM}}$
Current receivables turnover in days	= $\frac{\text{Average trade and other receivables x number of days}}{\text{Net sales revenue}}$
Trade and other liabilities turnover in days	= $\frac{\text{Average trade and other receivables x number of days}}{\text{Cost of products, goods and materials sold}}$
Inventory turnover in days	= $\frac{\text{Average inventory x number of days}}{\text{Cost of products, goods and materials sold}}$
Cost of products, goods and materials sold	= Consumption of materials and raw materials and value of goods sold; Purchase of energy for sale purposes; Transmission services; Other third party services; taxes and levies; excise tax

## Industry terms and abbreviations

Abbreviation/term	Full name/description
<b>"Green" Property Rights</b>	Same as PMOZE
<b>"Light blue" Property Rights</b>	Property rights to certificates of origin confirming the production of electricity from agricultural biogas
<b>"Purple" Property Rights</b>	Property Rights to certificates of origin confirming the generation of electricity in a cogeneration unit fired with methane released and included in underground mining works or with gas obtained from biomass processing within the meaning of Article 2 (1) of the Act on biocomponents and liquid biofuels
<b>"Red" Property Rights</b>	Property rights to certificates of origin confirming the generation of electricity in other cogeneration sources
<b>"White" PM</b>	Property rights to certificates of origin resulting from energy efficiency certificates, the so called "white" certificates
<b>Yellow" PM</b>	Property rights to certificates of origin confirming the generation of electricity in a gas cogeneration unit or with a total installed capacity of up to 1 MW
<b>ACER</b>	Agency for the Cooperation of Energy Regulators – EU agency established pursuant to the third energy package. The objective of the Agency is coordination and support of the national regulatory authorities. A full list of duties is specified in Regulation No. 713/2009
<b>AMI</b>	Advanced systems measuring, collecting and analysing energy consumption and enabling two-way communication between the end user and central system. AMI includes both intelligent meters and smart power grids
<b>Backloading</b>	Suspension of some auctions of CO <sub>2</sub> emission allowances by EU to increase the price of allowances
<b>Balancing market</b>	Technical market operated by OTSs. Its objective is to balance in real time the demand for electricity with its production in the National Power System (NPS)
<b>BAT</b>	Best Available Techniques – a document drawing conclusions on best available techniques for the installations concerned and indicating the emission levels associated with the best available techniques
<b>CAPEX</b>	Capital expenditures

Abbreviation/term	Full name/description
<b>Carbon leakage</b>	Leakage of CO <sub>2</sub> from one country to another
<b>CER</b>	Certified Emission Reduction – the unit of certified emission reduction
<b>CO<sub>2</sub></b>	Carbon dioxide
<b>Cogeneration</b>	A technological process of simultaneous generation of electricity and usable thermal energy in a CHP plant
<b>DAP</b>	Delivered at Place – a situation where the seller of the goods is responsible for delivering the goods to a particular place and the buyer is responsible for unloading the goods
<b>EFX</b>	Index for session transactions, the subject of which are contracts for property rights resulting from Energy Efficiency Certificates, the so called "white" certificates
<b>Energy Law</b>	Act of 10 April 1997 - Energy Law (Journal of Laws of 1997 No. 54, item 348, as amended)
<b>EUA</b>	EU Emission Allowance - emission allowances under the European Emissions Trading System
<b>European Emission Trading System EU ETS</b>	A European scheme to promote the reduction of greenhouse gas emissions
<b>FGD installation</b>	Flue gas desulphurisation installation
<b>Forward market</b>	Electricity market where forward products are listed
<b>GPZ</b>	(Polish) Transformer/Switching Point – a transformer station, responsible for converting high or medium voltage into low voltage for end users in a specified area
<b>ICE</b>	Intercontinental Exchange – a trading platform for trading EU CO <sub>2</sub> Emission Allowances (EUA) and units of Certified Emission Reduction (CERs) in the futures market
<b>IGCC</b>	Integrated Gasification Combined Cycle – gas/steam block technology with integrated gasification of the fuel. Enables the construction of power plants with much higher efficiency compared to conventional coal-fired power plants

## Industry terms and abbreviations

Abbreviation/term	Full name/description
<b>KECX</b>	Index for session transactions, the subject of which are contracts for property rights resulting from certificates of origin for electricity generated in other cogeneration sources
<b>KGMX</b>	Index for session transactions, the subject of which are contracts for property rights resulting from certificates of origin for electricity generated in gas cogeneration units or with total installed capacity up to 1 MW.
<b>KMETX</b>	Index for session transactions concerning contracts for property rights resulting from certificates of origin for electricity generated in cogeneration units fired with methane released and accounted for during underground mining works or by gas obtained from biomass processing within the meaning of Article 1 (2) (a) of the Act on biocomponents and liquid biofuels
<b>MW<sub>e</sub></b>	Megawatogodzina (1 GWh = 1.000 MWh)
<b>MWh</b>	Megawatthour (1 GWh = 1.000 MWh)
<b>MW<sub>t</sub></b>	Megawatt of heating power
<b>NFOŚiGW</b>	(Polish) National Fund for Environmental Protection and Water Management
<b>NO<sub>x</sub></b>	Nitrogen oxides
<b>ODS</b>	Operator of the Distribution System
<b>OPR</b>	Operational Power Reserve
<b>OTS</b>	Operator of the Transmission System
<b>OZEX_A</b>	Index for session transactions concerning contracts for property rights resulting from certificates of origin for electricity generated from renewable energy sources, the production period of which (indicated in the certificate of origin) has started since 1 March 2009 (inclusive)
<b>PMOZE</b>	Property rights to certificates of origin for energy from renewable energy sources
<b>PPE</b>	Polish Power Exchange
<b>Price of baseload ("BASE")</b>	The contract price for delivery of the same volume of electricity in euro-peak (i.e. from 7:00 a.m. to 10:00 p.m. on business days)
<b>Price of euro-peak ("PEAK")</b>	The contract price for delivery of the same volume of electricity in each hour of the day
<b>REMIT Regulation</b>	Regulation on Wholesale Energy Market Integrity and Transparency which sets out a framework for monitoring wholesale energy markets in order to detect and prevent unfair practices at EU level.

Abbreviation/term	Full name/description
<b>RES</b>	Renewable Energy Sources
<b>SAIDI</b>	System Average Interruption Duration Index - indicator of the average system duration of a long and very long break (expressed in minutes per Customer)
<b>SAIFI</b>	System Average Interruption Frequency Index - indicator of the average system frequency of long interruptions in energy supply (expressed in the number of breaks per Customer)
<b>SCR installation</b>	Installation of catalytic flue gas denitrification
<b>SO<sub>2</sub></b>	Sulphur dioxide
<b>SPOT market</b>	Cash market (spot)
<b>Tariff group A</b>	Energy sold and supplied to customers connected to the high voltage grid
<b>Tariff group B</b>	Energy sold and supplied to customers connected to the medium voltage grid
<b>Tariff group C</b>	Energy sold and supplied to customers connected to the low voltage grid, excluding customers using electricity for household purposes
<b>Tariff group G</b>	Energy sold and supplied to household customers connected to the grid irrespective of the voltage level
<b>TFS</b>	Tradition Financial Services - an electricity trading platform designed to conclude various types of transactions, purchase and sale of conventional energy, property rights, renewable energy and CO <sub>2</sub> emission allowances
<b>TPA</b>	Third Party Access – the principle of third party access to the power grid, which enables the purchase of electricity and electricity distribution services on the basis of two separate agreements
<b>WACC</b>	Weighted average cost of capital
<b>WIBOR</b>	Warsaw Interbank Offered Rate - interest rate on loans on the Polish interbank market
<b>WRA</b>	Regulatory Value of Assets

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Signatures:

President of the Management Board and CEO      Mirosław Kowalik      .....

Commercial Vice-President of the Management Board      Piotr Adamczak      .....

Financial Vice-President of the Management Board      Piotr Olejniczak      .....

Corporate Vice-President of the Management Board      Zbigniew Piętka      .....



**Enea SA**

ul. Górecka 1

60-201 Poznań

 [gielda@enea.pl](mailto:gielda@enea.pl)