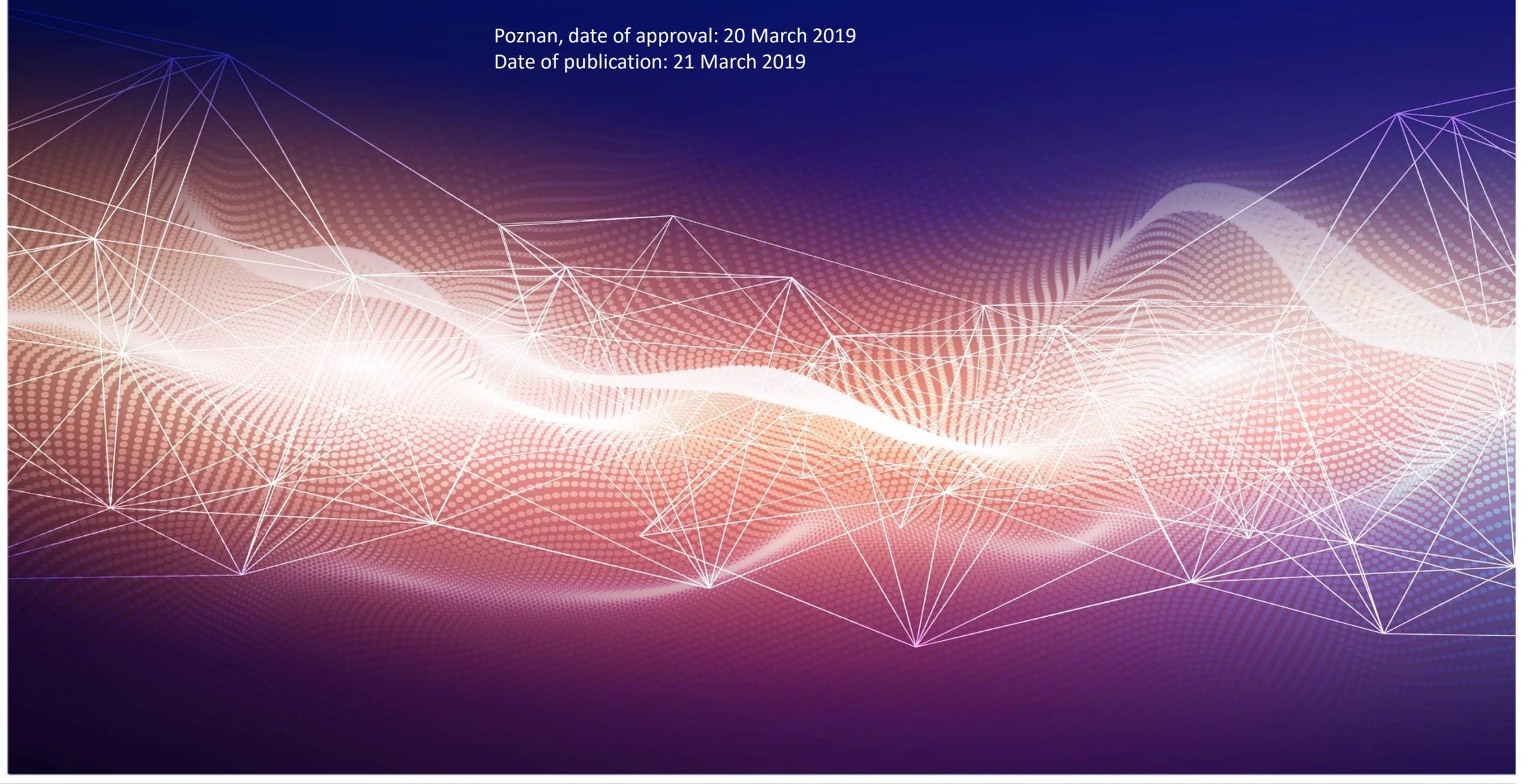




Report of the Management Board on the operations of ENEA S.A. and ENEA Group in 2018

Poznan, date of approval: 20 March 2019
Date of publication: 21 March 2019





Letter from President of the Management Board and CEO

Dear Sirs and Madams,

The past year was characterised by a high dynamics of market and regulatory changes in the environment of ENEA Group. A record-high increase in the price of CO₂ emission allowances, rising fuel and transport costs, as well as new regulations for the energy market are just a few of the factors which pressured companies from the power sector, including ENEA Group, to face new challenges and adapt to them, especially in the areas of generation and trading.

In such a demanding environment, in 2018 ENEA Group generated revenue of PLN 12.7 billion, i.e. over 11% greater than in 2017. Consistent implementation of our Development Strategy allows us to achieve increasingly better operating parameters. In 2018, ENEA Group generated 5.5 TWh more electricity than the year before, i.e. 26.4% year-on-year. In this period, there was also a significant increase in the total sales volume by over 2.5 TWh, i.e. 13.4%, driven primarily by sales of electricity to business customers. We also recorded an increase in sales of distribution services to end users which increased year-on-year by 618 GWh, i.e. by 3.2%.

The Group's financial situation is confirmed by external, independent financial institutions – on 1 October 2018, the Fitch Ratings agency affirmed ENEA's BBB long-term local and foreign currency ratings with a stable outlook. A net debt/EBITDA ratio remains at a safe level of 2.4.



Investments in the development of own generation capacity and the security of the national power system

ENEA Group is an essential actor, stabilising Poland's energy security. This strategic role inevitably entails large investments in the development of generation capacity and the modernisation of the existing power units, e.g. in terms of adjusting them to the BAT conclusions. In 2018, we spent over PLN 2.3 billion on investments.

In the previous year, a solution supporting Poland's energy security – the power market mechanism – was launched in Poland. It is intended to prevent electricity shortages and create favourable investment conditions for creating new and modernising the existing generation units. In the fourth quarter, ENEA Group participated in three capacity auctions. As a result of those auctions, a total of 3,663 MW of capacity obligation was contracted for our Group's units, including Unit No. 11 at Koźienice Power Plant, for the years 2021, 2022 and 2023. Multiannual contracts entered into during the first auction make it possible to estimate the potential revenue from the capacity market at PLN 6.6 billion over 15 years. The Group will be able to earmark these funds not only for modernisation, to meet the tighter environmental requirements and adjust its units in Koźienice and Połaniec. These funds should also be spent on new projects and investments, including those in the renewable energy sources (RES) segment.

In the first full year of its commercial operation, Unit No. 11 located at Koźienice Power Plant significantly contributed to the increase in the volume of electricity generated by the Group. It was also an important link in the national power system. Owing to the good operation of this unit despite the planned renovation works on other generation units, July 2018 was the month of record-breaking electricity generation in Koźienice from the beginning of operation of the power plant, i.e. over 50 years. We can confirm that the way our Unit No. 11 has been operating so far meets our design objectives in terms of operation and emissions.

ENEA, together with Energa, is involved in the Ostrołęka C Power Plant project with the capacity of 1,000 MW. At the end of 2018, having received the necessary corporate approvals, the company implementing the investment, Elektrownia Ostrołęka Sp. z o.o., issued the Notice to Proceed. A new power plant was designed so as to guarantee maximum operational flexibility and compatibility with renewable energy sources. The company implementing the project has successfully participated in the capacity market auction, securing additional revenue of PLN 2.6 billion for the years 2023-2038, which represents about 52% of the value of the contract with the project's General Contractor, exerting a significant impact on their expected profitability. Moreover, ENEA's financial involvement in the Construction Stage of the project of PLN 1 billion offers a potential for operational synergy between selected companies of the Group.

Customer in the spotlight

ENEA operates in a dynamic market environment, we change for our Customers to offer them increasingly better solutions. We actively develop sales channels and broaden our range of products and services. In 2018, we launched a new line of modern ENEA Eco products to support the fight against smog. We expanded the ENEA Smart product line by adding the Heating Package. When contacting our Customers, we focus on the level of service, that is why we are constantly working on improving the level of satisfaction with our services. To this end, we have launched a self-service platform for Customers using our helpline and introduced the possibility of arranging visits to our Customer Service Offices via a website and helpline, as well as some innovative solutions, such as on-line chatting available for the Customers on our website.

In 2018, our trading activity was influenced by the record expensive CO₂ emission allowances and increasing prices of energy origin certificates, which translated into higher electricity prices on the wholesale market. These trends became more prominent in the business performance of the entire energy industry. In the third quarter of last year, the number of Customers under reserve agreements on the market increased significantly due to the cessation of operations of some electricity suppliers. In order to ensure our Customers a continuous energy supply in such difficult situation, we proposed solutions that encourage them to take advantage of our offer without any additional charges.

Modern distribution infrastructure

In the area of distribution, we continued our work to improve our network reliability indices and increase the ability to react quickly to our users' needs. One of the many investments and modernisation projects that are worth mentioning is the 110 kV overhead high voltage line between Leszno Gronowo and Śrem in Greater Poland, which was put to operation in July. It is the last phase of the conversion of 110 km long line between Leszno and Września and the modernisation of the Main Power Supply Point Zdroje in Western Pomerania. The entire network modernisation programme in 2018 cost over PLN 1 billion.

Stable resource base for power plants

The main resource base for our power plants is Lubelski Węgiel Bogdanka S.A., which is a part of the Group. In 2018, sales revenues of Bogdanka amounted to PLN 1.76 billion. During that year, the company produced 9.01 million tonnes of commercial coal and sold 8.94 million tonnes. The production was lower than planned due to geological and hydrological difficulties that affected the full year results. Bogdanka incurred higher expenses on gallery works in order to increase extraction volumes in 2019.

10 years on the Stock Exchange

In November, we celebrated the 10-year anniversary of the ENEA's debut on the Warsaw Stock Exchange. Nowadays, ENEA is a public entity worth over PLN 4.1 billion and it is the second highest valued energy group on the Polish stock exchange. The company builds its value for the shareholders by implementing an ambitious strategy and development programmes. Moreover, last year ENEA and Bogdanka qualified for London's FTSE Russell's basket and as a result were included in the developed markets indices.

Social responsibility

Environmental protection initiatives, as well as educational, sport or ecological programmes with a focus on local communities are an important element of our strategy. In 2018, we developed two new original programmes which support specialist training: cooperation with industry and technical schools from the area in which the group operates and dual studies programme.

By supporting education, we are investing in the new workforce, which will strengthen Polish energy sector and economy in the future. In 2018, ten institutions from the area in which we operate joined the network of ENEA Group umbrella schools. In October, a group of students from Poznań University of Technology started the dual studies in ENEA Group. It is an innovative system of studying which combines acquiring academic knowledge and gaining practical experience.

In connection with the celebration of the 100th anniversary of Poland regaining independence and 100th anniversary of the Greater Poland Uprising, ENEA Group got involved in 100 initiatives to commemorate these special events. These are initiatives on national, regional and local level. Our employees were also involved in all these actions, for which I am very thankful to them.

Sustainable development of the Group with care for the environment

I would like to emphasise that we are committed to the sustainable development of all our business areas. ENEA Group, as a modern resource and energy holding, invests in environmental solutions and minimises the Group's impact on its surroundings. These efforts need time and large investments not only in terms of money but also in terms of our employees' involvement. It is a commitment to local communities and the entire country, which stems from ENEA Group Code of Ethics. Today, we can proudly share the results of some of our efforts to reduce specific CO₂ emission in electricity production. In 2016–2018, the CO₂ emission per 1 MWh of electricity generated in ENEA Group decreased by over 7%. Moreover, last year, in comparison to the previous period, our Group generated nearly 11% more renewable energy. In 2018, we allocated PLN 173 million to environmental initiatives.

According to the current Strategy, ENEA intends to significantly increase its share in particular market segments and focuses on the development of new innovative business lines and technologies. We believe that our projects will have a positive impact on the Polish economy and also shape the conditions for local communities development. Continuing the open and constructive dialogue with the society on the basis of our Group's values is an important element of the implementation of these plans.

Yours faithfully,

Mirosław Kowalik

President of the Management Board of ENEA S.A. and CEO



1. Operating summary

ENEA Group in numbers



Resources

- 6.3 GW of installed electrical capacity
- 384 million tonnes – extraction potential of 3 licenced areas
- 122.8 thousand km of distribution lines including connections
- 16.5 thousand Employees
- 2.5 million Customers
- 2.6 million Users of distribution services

2018 financials

- PLN 12,673 million of net sales revenue
- PLN 2,348 million of EBITDA
- PLN 719 million of net profit
- PLN 2,307 million of CAPEX

Targets until 2025

- 75% own coal consumption
- 5.8-6.3 GW of conventional electrical power installed
- 20.1 TWh of electricity sale
- EBITDA of PLN 2,939 million (an increase of 38% on 2015)

In 2018, ENEA Group generated an EBITDA result of PLN 2,348 million (down by PLN 335 million y/y). The highest EBITDA, amounting to PLN 1,111 million, was posted in the Distribution area, mainly on the back of the growth in the sales volume of distribution services and of the improved result on other operating activities. The Trading area posted an EBITDA of PLN -76 million. Higher costs of energy purchase and environmental obligations (mainly, the green obligation) in retail trading and higher prices of CO₂ emission allowances in wholesale trading contributed to a drop in EBITDA in this area (down by PLN 254 million y/y); moreover, this result also includes a provision of PLN 79 million established in connection with Act of 28 December 2018 amending the Excise Duty Act and certain other acts. The Mining area generated an EBITDA of PLN 470 million, which means a decrease of 33.7% y/y (i.e. by PLN 239 million). The area remains under pressure of the following factors: events in Q1 2018 and Q4 2018 (geological and hydrological difficulties) which led to lower commercial coal sales than the year before; the increase in production costs (i.e., higher costs of labour, external services, consumption of materials); and the extended scope of gallery works aimed at increasing output in the coming years. In the Generation area, the highest growth rate of EBITDA, up by 18.1% y/y or by PLN 133 million, was recorded. The increase in the volume of electricity generated did not counterbalance the negative impact of the increase in variable costs in this area. The volume of electricity generation was affected by two counterbalancing factors – on the one hand, these were better availability of Połaniec Power Plant and the usage record of the potential of Unit No. 11 at ENEA Wytwarzanie which is improving by the quarter, while, on the other hand, there were the protracted shutdowns of the company's Units No. 9 and No. 10, also related to the adjustment of the generation units to the BAT conclusions.



- Growth in revenues from electricity sales, including from RES generation
- Growth in the volume of heat sales
- Improved result on other operating activities



- Drop in revenues from sales of coal
- Drop in revenues from sales of natural gas
- Higher costs of purchase of electricity and gas
- Higher costs of consumption of materials and raw materials
- Higher costs of transport



- **In 2018, ENEA Group's CAPEX totalled PLN 2,306.8 million.**
- **Production and sales of commercial coal stood at approx. 9 million tonnes.**
- **ENEA Group generated 26.5 TWh of electricity, up by 26.4% on the corresponding period of the previous year, of which 24.5 TWh came from conventional sources. There was also an increase of 10.9% y/y in RES generation.**
- **Sales of heat increased and totalled 6,865 TJ, up by 7.4% y/y.**
- **Sales of distribution services to end users totalled 19.9 TWh, which means a growth of 3.2% on the corresponding period of the previous year.**
- **The sales volume of electricity and gaseous fuel to retail customers rose by 13.4% y/y, to 21.5 TWh.**



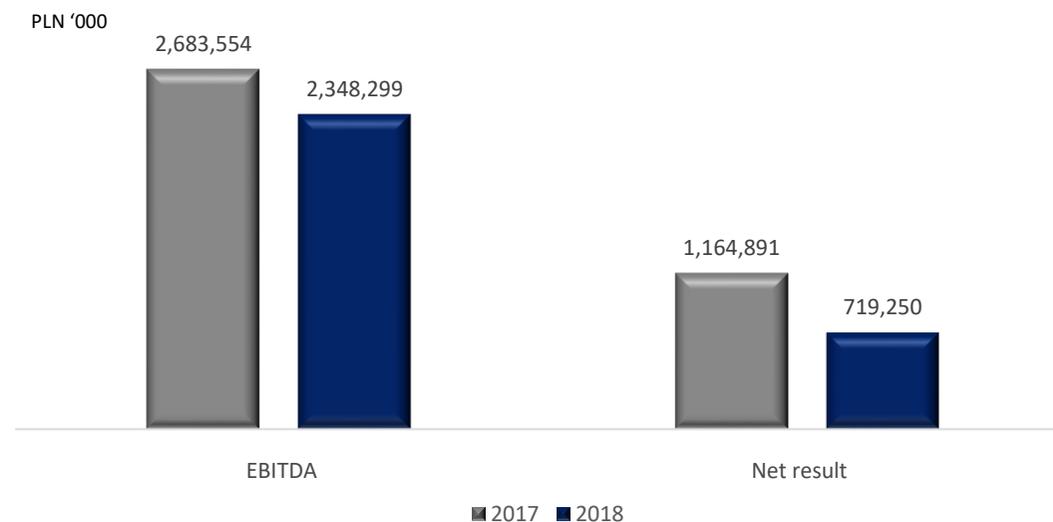
Selected consolidated financial data

[PLN k]	FY 2017	FY 2018	Change	% change
Net sales revenue	11,405,689	12,672,770	1,267,081	11.1%
Operating profit / (loss)	1,487,730	1,037,086	-450,644	-30.3%
Profit / (loss) before tax	1,466,567	868,701	-597,866	-40.8%
Net profit / (loss) for the reporting period	1,164,891	719,250	-445,641	-38.3%
EBITDA	2,683,554	2,348,299	-335,255	-12.5%
Net cash flows from:				
operating activities	2,579,644	2,435,239	-144,405	-5.6%
investing activities	(3,482,925)	(2,310,127)	1,172,798	33.7%
financial activities	1,250,190	(161,400)	-1,411,590	-112.9%
Balance of cash	2,687,126	2,650,838	-36,288	-1.4%
Net profit attributable to shareholders of the Parent	1,070,168	686,739	-383,429	-35.8%
Weighted average number of shares	441,442,578	441,442,578	-	-
Net profit per share [PLN]	2.42	1.56	-0.86	-35.5%
Diluted net per share [PLN]	2.42	1.56	-0.86	-35.5%

[PLN k]	31 Dec 2017	31 Dec 2018	Change	% change
Total assets	28,312,994	29,965,625	1,652,631	5.8%
Total liabilities	14,313,325	14,916,463	603,138	4.2%
Non-current liabilities	10,063,012	10,109,857	46,845	0.5%
Current liabilities	4,250,313	4,806,606	556,293	13.1%
Equity	13,999,669	15,049,162	1,049,493	7.5%
Share capital	588,018	588,018	-	-
Book value per share [PLN]	31.71	34.09	2.38	7.5%
Diluted book value per share [PLN]	31.71	34.09	2.38	7.5%

[PLN k]	Q4 2017	Q4 2018	Change	% change
Net sales revenue	3,043,491 ¹⁾	3,288,572	245,081	8.1%
Operating profit / (loss)	417,875	116,838	-301,037	-72.0%
Profit / (loss) before tax	430,537	104,921	-325,616	-75.6%
Net profit / (loss) for the reporting period	326,942	98,961	-227,981	-69.7%
EBITDA	736,299	374,960	-361,339	-49.1%
Net profit attributable to shareholders of the Parent	284,636	102,622	-182,014	-63.9%
Weighted average number of shares	441,442,578	441,442,578	-	-
Net profit per share [PLN]	0.64	0.23	-0.41	-64.1%
Diluted net profit per share [PLN]	0.64	0.23	-0.41	-64.1%

¹⁾ Presentation change in the scope of valuation and own sales cost of property rights

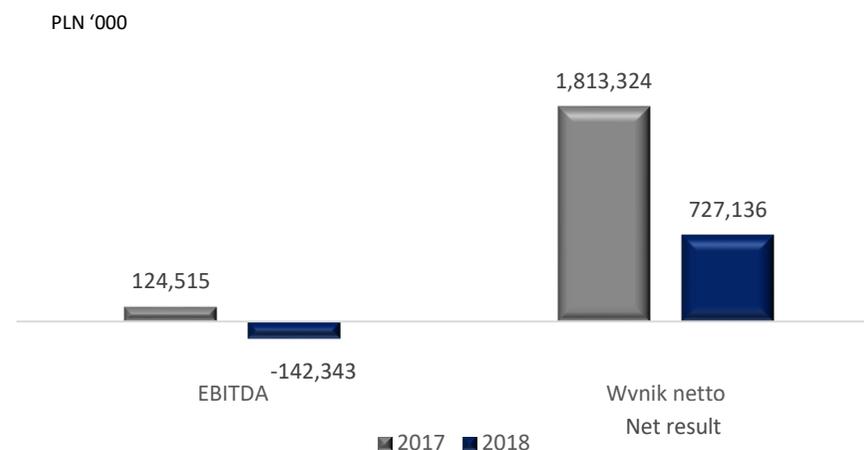


Selected non-consolidated financial data

[PLN k]	FY 2017	FY 2018	Change	% change
Net sales revenue	5,639,580	4,701,689	-937,891	-16.6%
Operating profit / (loss)	121,880	-144,577	-266,457	-218.6%
Profit / (loss) before tax	1,834,604	702,815	-1,131,789	-61.7%
Net profit / (loss) for the reporting period	1,813,324	727,136	-1,086,188	-59.9%
EBITDA	124,515	-142,343	-266,858	-214.3%
Net cash flows from:				
operating activities	591,748	(885,683)	-1,477,431	-249.7%
investing activities	(2,009,136)	142,485	2,151,621	107.1%
financial activities	1,548,992	142,750	-1,406,242	-90.8%
Balance of cash	1,746,426	1,114,978	-600,448	-34.4%
Net profit attributable to shareholders of the Parent	441,442,578	441,442,578	0	0.0%
Weighted average number of shares	4.11	1.65	-2.46	-59.9%
Net profit per share [PLN]	4.11	1.65	-2.46	-59.9%

[PLN k]	31 Dec 2017	31 Dec 2018	Change	% change
Total assets	22,452,921	22,943,794	490,873	2.2%
Total liabilities	9,820,944	9,647,948	-172,996	-1.8%
Non-current liabilities	7,695,443	7,976,020	280,577	3.6%
Current liabilities	2,125,501	1,671,928	-453,573	-21.3%
Equity	12,631,977	13,295,846	663,869	5.3%
Share capital	588,018	588,018	0	0.0%
Book value per share [PLN]	28.62	30.12	1.50	5.2%
Diluted book value per share [PLN]	28.62	30.12	1.50	5.2%

[PLN k]	Q4 2017	Q4 2018	Change	% change
Net sales revenue	1,464,729	1,279,173	-185,556	-12.7%
Operating profit / (loss)	36,628	-125,104	-161,732	-441.6%
Profit / (loss) before tax	90,293	21,817	-882,476	-97.6%
Net profit / (loss) for the reporting period	902,704	14,818	-887,886	-98.4%
EBITDA	37,190	-124,558	-161,748	-434.9%
Net profit attributable to shareholders of the Parent	441,442,578	441,442,578	0	0.0%
Weighted average number of shares	2.04	0.03	-2.01	-98.5%
Diluted net profit per share [PLN]	2.04	0.03	-2.01	-98.5%



Key operating data and ratios for ENEA Group

	Unit	FY 2017	FY 2018	Change	% change
Net sales revenue	PLN k	11,405,689	12,672,770	1,267,081	11.1%
EBITDA	PLN k	2,683,554	2,348,299	-335,255	-12.5%
EBIT	PLN k	1,487,730	1,037,086	-450,644	-30.3%
Net profit	PLN k	1,164,891	719,250	-445,641	-38.3%
Net profit attributable to shareholders of the Parent	PLN k	1,070,168	686,739	-383,429	-35.8%
Net cash flows from operating activities	PLN k	2,579,644	2,435,239	-144,405	-5.6%
CAPEX	PLN k	4,186,860	2,306,800	-1,880,060	-44.9%
Net debt / EBITDA ¹⁾	-	2.1	2.4	0.3	14.3%
Return on assets (ROA) ¹⁾	%	4.1%	2.4%	-1.7 pp	-
Return on equity (ROE) ¹⁾	%	8.3%	4.8%	-3.5 pp	-
Trading					
Sales of electricity and gas fuel to retail customers	GWh	18,916	21,457	2,541	13.4%
Number of customers (Power Delivery Points)	'000	2,422	2,486	64	2.6%
Distribution					
Sale of distribution services to end users	GWh	19,259	19,877	618	3.2%
Number of users (closing balance)	'000	2,553	2,589	36	1.4%
Generation					
Total generation of electricity, including:	GWh	20,973	26,503	5,530	26.4%
<i>from conventional sources</i>	GWh	19,147	24,478	5,331	27.8%
<i>from renewable energy sources</i>	GWh	1,826	2,025	199	10.9%
Gross heat generation	TJ	7,070	7,609	539	7.6%
Sale of electricity, including: ²⁾	GWh	24,526	35,938	11,412	46.5%
<i>from conventional sources</i>	GWh	19,486	24,658	5,172	26.5%
<i>from renewable energy sources</i>	GWh	1,487	1,845	358	24.1%
<i>from purchase</i>	GWh	3,553	9,435	5,882	165.6%
Sales of heat	TJ	6,392	6,865	473	7.4%
Mining					
Net production	'000 tonnes	9,050	9,007	-43	-0.5%
Coal sales	'000 tonnes	9,151	8,943	-208	-2.3%
Closing stocks	'000 tonnes	24	88	65	267.3%
Excavation works	km	31	37	6	20.4%

FY 2018 / FY 2017:

Increase in sales of electricity and gaseous fuel to retail customers by **2,541 GWh**

Increase in volume of electricity generated by **5,530 GWh**

Decrease in EBITDA by **PLN 335 million**

- an increase of 13.4% in sales of electricity and gaseous fuel to retail customers
- a decrease in CAPEX, mainly in the Generation Area, i. a. due to a large equity investment (acquisition of ENEA Elektrownia Połaniec in 2017) and the investment project implemented and completed that year (Unit No. 11)

¹⁾ Ratio definitions are presented on Page 179

²⁾ Presentation change

Consolidated data	Unit	Q4 2017	Q4 2018	Change	% change
Net sales revenue	PLN k	3 043,8491 ¹⁾	3 288,572	245,081	8.1%
EBITDA	PLN k	736,299	374,960	-361,339	-49.1%
EBIT	PLN k	417,875	116,838	-301,037	-72.0%
Net profit	PLN k	326,942	98,961	-227,981	-69.7%
Net profit attributable to shareholders of the Parent	PLN k	284,636	102,622	-182,014	-63.9%
Net cash flows from operating activities	PLN k	344,651	-399,009	-743,660	-215.8%
CAPEX	PLN k	1,063,989	851,997	-211,992	-19.9%
Net debt / EBITDA ³⁾	-	2.1	2.4	0.3	14.3%
Return on assets (ROA) ³⁾	%	4.6%	1.3%	-3.3 pp	-
Return on equity (ROE) ³⁾	%	9.3%	2.6%	-6.7 pp	-
Trading					
Sales of electricity and gas fuel to retail customers	GWh	4,877	5,595	718	14.7%
Number of customers (Power Delivery Points)	'000	2,422	2,486	64	2.6%
Distribution					
Sale of distribution services to end users	GWh	4,937	4,941	5	0.1%
Number of users (closing balance)	'000	2,553	2,589	36	1.4%
Generation					
Total generation of electricity, including:	GWh	5,795	6,563	768	13.3%
<i>from conventional sources</i>	GWh	5,313	5,987	675	12.7%
<i>from renewable energy sources</i>	GWh	482	576	94	19.4%
Gross heat generation	TJ	2,280	2,382	102	4.5%
Sale of electricity, including: ²⁾	GWh	6,850	8,976	2 126	31.0%
<i>from conventional sources</i>	GWh	5,373	6,056	683	12.7%
<i>from renewable energy sources</i>	GWh	414	507	93	22.4%
<i>from purchase</i>	GWh	1,063	2,413	1 350	127.0%
Sales of heat	TJ	2,066	2,163	97	4.7%
Mining					
Net production	'000 tonnes	2,338	2,187	-150	-6.4%
Coal sales	'000 tonnes	2,453	2,155	-298	-12.1%
Closing stocks	'000 tonnes	24	88	65	267.3%
Excavation works	km	8	8	0	1.7%

Q4 2018 / Q4 2017:

Increase in sales of electricity and gaseous fuel to retail customers by 718 GWh

Increase in volume of electricity generated by 768 GWh

Decrease in EBITDA by PLN 361 million

- a decrease in CAPEX, mainly in the Generation Area, i. a. due to the investment project implemented and completed in Q4 2017 (Unit No. 11)

¹⁾ Presentation change in the scope of valuation and own sales cost of property rights

²⁾ Presentation change

³⁾ Ratio definitions are presented on Page 179

Key events in 2018

Q1 2018

Coal supplies for ENEA Elektrownia Połaniec secured

On 3 January 2018, an agreement was concluded for purchase of coal in 2018–2021 from Polska Grupa Górnicza Sp. z o.o. for the needs of power units of ENEA Elektrownia Połaniec S.A. The total net value of the agreement is PLN 1.49bn. In January 2018, an agreement was also concluded under which PGG will deliver PLN 0.52bn of coal supplies to ENEA Wytwarzanie by the end of 2021.

More funds for electromobility and innovation

On 3 January 2018, the Extraordinary General Meeting of ElectroMobility Poland S.A. (a company in which ENEA holds 25% of shares) adopted a resolution on increasing the share capital of the company by PLN 20,000,000 up to the amount of PLN 30,000,000, by increasing the nominal value of existing shares from PLN 1,000 to PLN 3,000. The share capital increase was registered in the NCR on 23 April 2018. On 31 January 2018, the Extraordinary Shareholders Meeting of ENEA Innovation Sp. z o.o. adopted a resolution on increasing the share capital by the amount of PLN 3,500,000 (from PLN 305,000 to PLN 3,805,000) by creating 35,000 new shares of nominal value of PLN 100 each. The share capital increase was registered in the NCR on 23 April 2018. On 17 April 2018, the company name was changed in the NCR from ENEA Innovation Sp. z o.o. to ENEA Innowacje Sp. z o.o.

Completion of the extension of the strategic power station in Kostrzyn-nad-Odrą

In January 2018, ENEA Operator completed a multi-stage extension of the Main Transformer Station which ensures power supplies for Customers in the Kostrzyn-Słubice Special Economic Zone. The investment is a response to dynamic economic development of the frontier zone, which translates into the need of connecting new entities to the grid and a power demand which has been growing for a couple of years.

New offer supporting fight with smog

On 31 January 2018, ENEA extended its offer by launching a new product intended to promote increased consumption of electricity in night-time hours. The new product – ENEA Eco – is to encourage the Customers to use electrical heating and electric cars thanks to attractive prices. ENEA Eco is targeted to retail customers who consume energy for the needs of households connected to ENEA Operator grid. The product supports energy consumption increase between 10 p.m. and 6 a.m. It is intended as a supplementation of preferential solutions included in the tariff for distribution services of ENEA Operator.

Changes in Management Boards of subsidiaries

On 1 February 2018, the Extraordinary Shareholders Meeting of ENEA Wytwarzanie dismissed Dariusz Skiba, Economic and Financial Vice-President, as well as Stefan Pacyński, Development Strategy Vice-President, from the management board of the Company. On 16 February 2018, the Supervisory Board of ENEA Wytwarzanie adopted a decision on the appointment, as of 26 February, of Andrzej Wicik to act as Development Strategy Vice-President of ENEA Wytwarzanie, and Jarosław Ołowski to act as Economic and Financial Vice-President. The decision was preceded by a competition procedure and interviews. On 16 February 2018, Krzysztof Szlaga ceased to act as President of the Management Board of Lubelski Węgiel Bogdanka S.A. Until the appointment of his successor, duties of President of the Management Board shall be performed by Sławomir Karlikowski, Production Vice-President of the Management Board. On 19 March 2018, the Supervisory Board of LW Bogdanka adopted a resolution on appointing Artur Wasil to the position of President of the Management Board as of 21 March 2018. After the recruitment procedure, which ended on 27 March 2018, the Supervisory Board of ENEA Centrum adopted a resolution on the appointment, as of 28 March 2018, of Sławomir Jankiewicz to the position of president of the management board of ENEA Centrum and Krzysztof Kierzkowski to the position of IT and Development Management Board member of ENEA Centrum.

Positive evaluation of the funding application related to Jastrowie wind farm

In March 2018, the construction project of a photovoltaic farm of 1 MW connection capacity in the locality of Jastrowie was positively evaluated and granted funding amounting to PLN 1,470,231.75. The total project value amounts to PLN 4,679,063.91.

Changes in the Supervisory Board of ENEA S.A.

Upon request of the Minister of Energy, as of 22 March 2018 Ireneusz Kulka was appointed to the Supervisory Board of ENEA S.A. By decision of the Minister of Energy, as of 15 April 2018, Ireneusz Kulka was dismissed from his position, and then, on 16 April 2018, appointed once again to the Supervisory Board of ENEA S.A. by the Extraordinary General Meeting. By decision of the Company's Extraordinary General Meeting, the Supervisory Board was also joined by Paweł Jabłoński, upon obtaining a positive opinion of the Board for Companies with State Treasury Shareholding and State Legal Persons. Moreover, the EGM dismissed Rafał Bargiel and Piotr Kossak from their positions.

Construction of the power unit in Elektrownia Ostrołęka draws nearer

On 27 March 2018, Elektrownia Ostrołęka Sp. z o.o., controlled by ENEA S.A. and Energa S.A., granted its consent for the settlement of the tender "Construction of Elektrownia Ostrołęka C with the capacity of approx. 1000 MW" by selecting as the best offer the one presented by the Consortium of GE Power Sp. z o.o. and Alstom Power System S.A.S, acting as General Contractor. The offer amounts to PLN 5,049,729,000 net, which is PLN 6,023,034,950 gross.

Q2 2018

Another step towards the launch of the construction of Ostrołęka C

On 4 April 2018, Elektrownia Ostrołęka Sp. z o.o. resolved a public procurement award procedure entitled "Construction of Elektrownia Ostrołęka C with an approximate output of 1,000 MW" by selecting the a Consortium composed of GE Power Sp. z o.o. and Alstom Power System S.A.S as the General Contractor. The settlement of the procedure was not tantamount to granting consent to conclude a contract with the General Contractor – in order to grant such a consent, a prior agreement of the ENEA's Supervisory Board was necessary, among other things. The contract for the construction of Elektrownia Ostrołęka C with the consortium composed of GE companies (GE Power Sp. z o.o. and Alstom Power Systems SAS) was signed on 12 July 2018. Signing the agreement by the special purpose entity with the General Constructor is not tantamount to giving the consent for the notice to proceed.

Further actions for the development of electromobility

On 20 April 2018, at the headquarters of the Ministry of Energy, ENEA Serwis, Kolejowe Zakłady Łączności, Grupa LOTOS, Poczta Polska and Telewizja Polska signed agreements on the joint actions towards the development of electromobility. The aim of the signed documents is to develop electromobility and to strengthen the cooperation between the companies in this scope. The companies will support each other in their efforts to increase the efficiency of their fleets of vehicles by introducing alternative fuel cars and creating the necessary infrastructure for them.

Moreover, on 25 June 2018, the National Centre for Research and Development and energy companies: ENEA, Energa-Operator, PGE Dystrybucja and Tauron Dystrybucja signed a Letter of Intent relating to multilateral cooperation for the development of electromobility in Poland. The objective of the "e-VAN" programme is the development of innovative, zero emissions commercial vehicle. The vehicle will be aligned with the needs of the signatories of the letter of intent, so that it can be used, among other things, in the companies' fleets for the performance of daily tasks.

The warranty inspection of the new power unit in Koźienice Power Plant

From 7 to 27 May 2018, the warranty inspection of the new generation unit in Koźienice Power Plant, Unit No. 11 – the biggest and the most modern unit in this power plant – was being carried out. It is the largest, the most efficient and the most modern hard coal power unit in Poland. Unit No. 11 was put into operation on 19 December 2017.

Changes in Management Boards of the subsidiaries

On 10 May 2018, Krzysztof Figat left his office of the President of ENEA Wytwarzanie. As of 4 June 2018, after carrying out the qualification procedure, the Supervisory Board of ENEA Wytwarzanie company appointed Antoni Józwiłowicz as the CEO of ENEA Wytwarzanie. Antoni Józwiłowicz during his career held numerous management and executive positions, among other things, as the president of Polimex-Mostostal S.A., where he was responsible for the final stage of Unit No. 11 construction in ENEA Wytwarzanie.

Bogdanka of the ENEA Group applied for a concession to extract the “K-6 and K-7” deposit

On 11 May 2018, LW Bogdanka applied to the Minister of Environment for a concession to extract hard coal from the “K-6 and K-7” deposit in the region of Lublin. It borders directly with the “Puchaczów V” mining area, which is being currently exploited by Bogdanka. The operable resources covered by the Deposit Management Project in the period of validity of the concession requested by the company, which expires in 2046, are estimated at 66 million tonnes. Then, Bogdanka is planning to apply for the extension of this concession, which would ensure the increase of the level of resources by additional 60-70 million tonnes. The increase of resources by 66 million tonnes would result in the extension of the life of the mine approximately by nine years. The work on the first longwall of the K-6 and K-7 deposit may commence in 2022 – assuming that the concession will be granted this year.

ENEA supports vocational education...

ENEA developed a programme of cooperation between ENEA Group companies and vocational education schools and technical schools, which assumes providing the patronage for 14 vocational education schools and technical schools. These schools stand out as they provide their students with high quality education and skills development in the occupations which are in the highest demand in ENEA Group companies. The programme was launched on 17 May 2018 in Połaniec. ENEA and ENEA Elektrownia Połaniec signed the patronage agreement with Oddział Partyzancki AK “Jędrusie” School Complex in Połaniec.

... and higher education

In October 2018, in cooperation with Poznań University of Technology, ENEA Group is launching a pilot dual study programme for BA students of the Faculty of Electrical Engineering. After graduating from this type of studies, a graduate will have both a diploma and the proper professional experience. The dual studies are the innovative system of studying – they cover acquiring academic knowledge and gaining practical experience. The curriculum of these studies covers the necessary scope of the theoretical knowledge that is meant to be acquired during lectures, laboratory and practical classes, as well as workshops at Poznań University of Technology (3 days in a week) accompanied by practical classes – laboratory and project classes in the companies belonging to ENEA Group (2 days in a week).

ENEA Serwis is constructing the photovoltaic power plant in Szczecin

ENEA Serwis will construct the photovoltaic power plant with the rated power of 420 kW together with electro-energetic connections. In June, the company won the tender issued by the investor – West Pomeranian Oncology Centre in Szczecin. The construction of the plant was completed in Q3 2018. The power plant consists of two parts: freestanding part with the electrical power of 404.24 kW and the part installed on the roof of the administrative building with the electrical power of 18.60 kW.

Q3 2018

Ostrołęka C Project - next steps in the process

On 2 July 2018, the Management Board of ENEA S.A. received from the Management Board of Elektrownia Ostrołęka Sp. z o.o. a request for consent to conclude a public procurement agreement with the general contractor selected through the procedure for the award of a sectoral public procurement contract under the competitive dialogue entitled “Construction of Ostrołęka C Power Plant with a capacity of approx. 1,000 MW”. The Extraordinary Shareholders Meeting of Elektrownia Ostrołęka Sp. z o.o. expressed its consent to the conclusion of the aforementioned agreement on 6 July 2018, and 6 days later, i.e. on 12 July 2018, Elektrownia Ostrołęka Sp. z o.o. signed a public procurement agreement with the general contractor: Consortium of GE Power Sp. z o.o. - Leader of the Consortium and Alstom Power Systems S.A.S. Apart from ENEA S.A. and Energa S.A., the entity involved in financing the construction of the power plant will also be FIZAN Energia. On 4 September 2018, a memorandum of understanding was signed between Elektrownia Ostrołęka Sp. z o.o. and the aforementioned entities. The memorandum defines the preliminary structure of project financing. The next milestone in the process took place on 24 September 2018, when the Extraordinary General Meeting of ENEA S.A. granted a qualified consent to commence the Construction Stage within the Ostrołęka C Project. Earlier, on 3 September 2018, the same decision was announced by Energa S.A.

Changes in the Supervisory Board of ENEA S.A.

On 31 July 2018, Rafał Szymański handed in his resignation from the position of a member of the Supervisory Board of ENEA S.A. On 24 September 2018, Paweł Andrzej Korobłowski was appointed to the Supervisory Board of ENEA S.A.

Changes in the Management Boards of the subsidiaries

On 21 August 2018, Andrzej Wicik submitted a statement of resignation from the position of Vice-President of the Management Board for Development Strategy of ENEA Wytwarzanie Sp. z o.o. effective as of 31 August 2018. At a meeting on 4 September 2018, the Supervisory Board of ENEA Wytwarzanie decided to appoint, as of 10 September 2018, Tomasz Siwak to the position of Vice-President of the Management Board for Development Strategy of ENEA Wytwarzanie. On 10 August 2018, the Supervisory Board of ENEA Centrum dismissed from the Company's Management Board Ewa Troszczyńska - Member of the Management Board for Financial Affairs, Łukasz Pawłowski - Member of the Management Board for Customer Service and Krzysztof Kierzkowski - Member of the Management Board for IT and Development. On 12 September 2018, the Supervisory Board of ENEA Centrum decided to appoint, as of 13 September 2018, Dariusz Szymczak as Member of the Management Board for Customer Service and Józef Aleszczyk as Member of the Management Board for Operational Affairs. On 19 September 2018, the Supervisory Board of LW Bogdanka S.A. dismissed Stanisław Misterka from the position of Vice-President for Economic and Financial Affairs and Sławomir Karlikowski from the position of Vice-President for Production and Development.

Completion of investments in Greater Poland and Western Pomerania

In July, the 110 kV high voltage line between Leszno Gronowo and Śrem in Greater Poland was commissioned and the Main Power Supply Point Zdroje in Western Pomerania was comprehensively revamped. The section of the line from Leszno to Śrem is the last stage of redevelopment of over 110 km of the line from Leszno to Września. Both investments were carried out by ENEA Operator.

ENEA S.A. and LW Bogdanka S.A. in FTSE Russell index at LSE

Poland was promoted from Emerging Markets to the prestigious Developed Markets status by FTSE Russell. On 24 September, next to GPW S.A., 36 other Polish companies also debuted in the Global Developed category of the FTSE Global Equity Index Series, among them ENEA S.A. and LW Bogdanka S.A., which were included in the Small Companies category. Poland's quotations in the FTSE Global Developed Index started from Rank 23 among 25 developed capital markets.

Q4 2018

Affirmation by Fitch Ratings of ENEA S.A.'s ratings

On 1 October, Fitch Ratings affirmed ENEA S.A.'s long-term local- and foreign-currency Issuer Default Ratings at 'BBB' with stable outlooks. The affirmation reflects the Company's changed business profile with a higher contribution to EBITDA from riskier – according to Fitch – segments, i.e. electricity generation and coal mining. Still, the more predictable distribution of electricity remains an important part of the Company's operations.

First anniversary of commissioning Unit No. 11 at Kozenice Power Plant

On 19 December 2018, one year passed since Unit No. 11 with a capacity of 1,075 MW - the most modern and efficient production unit in the Polish power industry – had been commissioned at ENEA Wytwarzanie.

ENEA Ciepło and Elektrociepłownia Białystok join forces

On 30 November 2018, Elektrociepłownia Białystok, which thus far had been a part of ENEA Wytwarzanie, was incorporated into ENEA Ciepło. This is the next stage of the previously announced changes in ENEA Group, which will allow for optimisation of heat production in Białystok, the capital of Podlasie, under one recognisable brand.

LW Bogdanka S.A. for the 10th time in the RESPECT Index

The Warsaw Stock Exchange once again selected the participants of the prestigious RESPECT Index rating. Lubelski Węgiel Bogdanka was qualified to this group for the tenth time. The publication of the index in the new composition began on 27 December 2018.

Participation in the capacity market

In 2018, a solution supporting Poland's energy security, i.e. the capacity market mechanism, was launched in Poland. In Q4 2018, three capacity market auctions with the participation of ENEA Group took place. As a result, for the years 2021, 2022 and 2023 a total of 3,663 MW of capacity obligation was contracted for our generation units, including Unit No. 11 in Kozenice Power Plant. The estimated potential revenues from the capacity market under multiannual contracts concluded only during the first auction will reach PLN 6.6 billion over 15 years.

Ostrołęka C project – official commencement of construction works

On 28 December 2018, the Management Board of Elektrownia Ostrołęka C Sp. z o.o. issued an order to the general contractor to commence works on the construction of Ostrołęka C Power Plant. Earlier, a memorandum of understanding was signed, which defined new rules of cooperation between the investment partners, including ENEA's financial involvement in the Construction Stage for the amount of PLN 1 billion.

Changes in the management boards of subsidiaries

On 4 October 2018, the Supervisory Board of LW Bogdanka S.A. appointed Artur Wasilewski to the Management Board as Vice-President for Economic and Financial Affairs from 8 October 2018 and Dariusz Dumkiewicz as Vice President for Development from 15 October 2019.

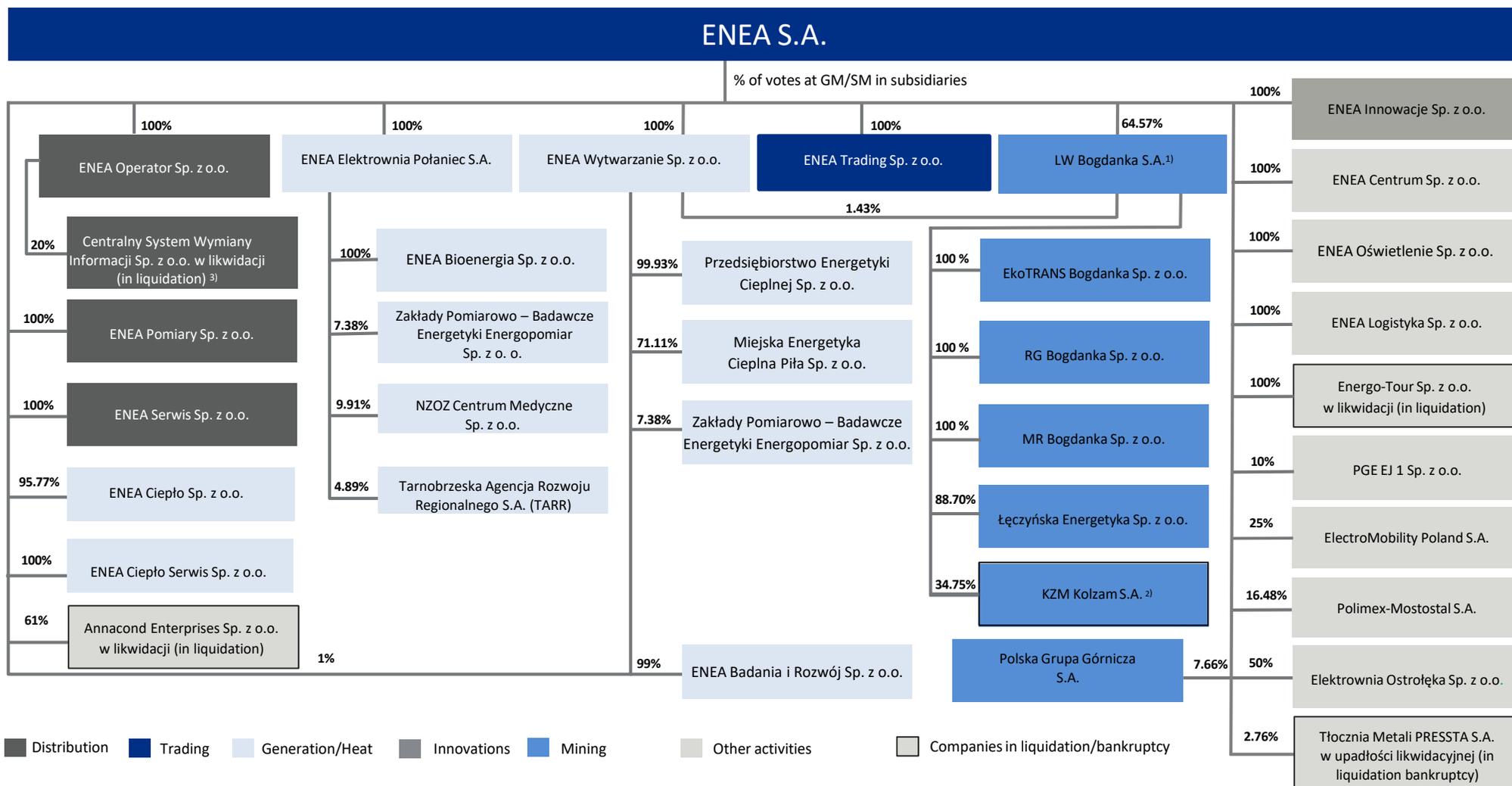




2. Organisation and operations of ENEA Group

ORGANISATION AND OPERATIONS OF ENEA GROUP

Structure of ENEA Group



There are 6 leading entities within ENEA Group, i.e. ENEA S.A. (electricity trading), ENEA Operator Sp. z o.o. (electricity distribution), ENEA Wytwarzanie Sp. z o.o. (distribution of energy), ENEA Wytwarzanie Sp. z o.o. and ENEA Elektrownia Połaniec S.A. (generation and sale of electricity and heat), ENEA Trading Sp. z o.o. (wholesale electricity trading) and LW Bogdanka S.A. (coal mining). The other entities render ancillary activities in relation to the aforesaid companies. The Group's structure includes also minority interests in entities owned by subsidiaries of ENEA S.A., i.e. in particular ENEA Wytwarzanie Sp. z o.o. and LW Bogdanka S.A.

¹⁾ ENEA S.A. together with ENEA Wytwarzanie Sp. z o.o. holds 65.999% of the votes at the company's General Meeting.

²⁾ Decision on discontinuance of bankruptcy proceedings / the company does not conduct business activity.

³⁾ On 4 December 2018, the Extraordinary Shareholders Meeting of Centralny System Wymiany Informacji Sp. z o.o. adopted a resolution on putting the company in liquidation.

Changes in the Group's structure

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 asset restructuring in 2018.

Capital divestments

In 2018, no significant capital divestments were effected.

Changes in the organisation of the Group

In 2018, ENEA Group continued activities aimed at the implementation of the Corporate Strategy of the Group.

Equity investments



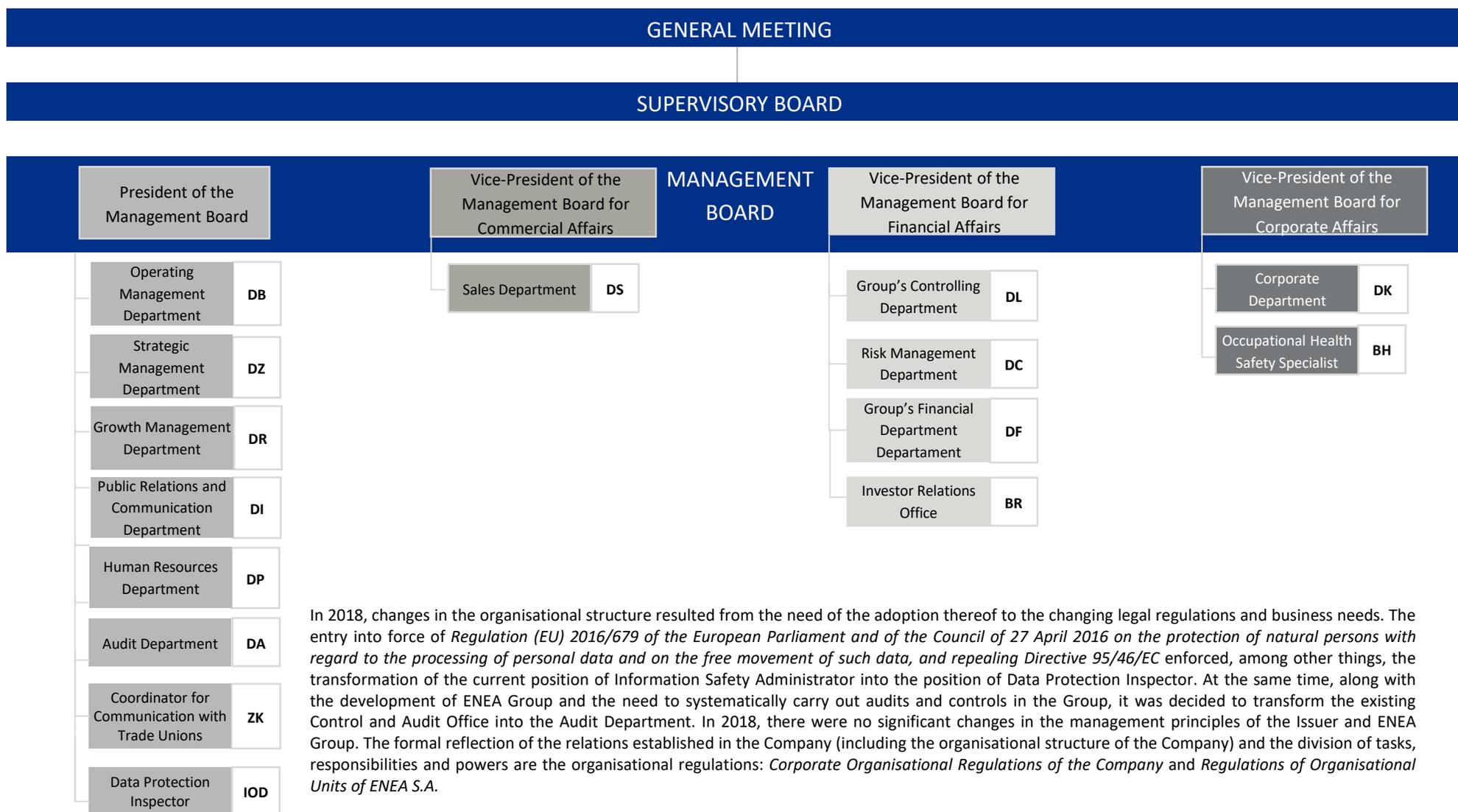
Area	Date	Company	Event
2018			
Other activities	3 January 2018	Electro-Mobility Poland S.A.	The Extraordinary General Meeting of ElectroMobility Poland S.A. adopted a resolution on increasing the share capital of the company by PLN 20,000,000.00, i.e. from PLN 10,000,000 to PLN 30,000,000, by increasing the nominal value of the existing shares from PLN 1,000.00 to PLN 3,000.00. The share capital increase was registered on 23 April 2018.
Innovation	31 January 2018	ENEA Innovation Sp. z o.o. (now: ENEA Innowacje)	On 31 January 2018, the Extraordinary Shareholders Meeting 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 – including the prior increase of the Company's share capital based on Resolution no. 1 of the Extraordinary Shareholders Meeting held on 2 August 2018 – to PLN 3,805,000.00, by creating 35,000 new shares of nominal value of PLN 100.00 each. The increase of the share capital was registered on 23 April 2018.
Mining	31 January 2018	PGG S.A.	On 31 January 2018, the EGM of PGG S.A. adopted a Resolution on increasing the share capital of PGG S.A. by PLN 300,000,000 through the issuance of 3,000,000 new series B shares within a private subscription, of nominal value of PLN 100 each and the total nominal value of PLN 300,000,000. On 31 January 2018, ENEA also entered into an agreement on taking up 900,000 registered B series shares paid-up in whole through a cash contribution of PLN 90,000,000, increasing thereby its share in the share capital of the Company from 5.81% to 7.66% (entry in the NCR of 06.04.2018). The above recapitalisation is the third and the last PGG S.A. recapitalisation tranche resulting from the implementation of the provisions of the Investment Agreement dated 31 March 2017, providing for a total recapitalisation of PGG by ENEA S.A. amounting to PLN 300,000,000. The increase of the share capital was registered in the NCR on 6 April 2018.
Generation	1 February 2018	ENEA Badania i Rozwój Sp. z o.o.	On 1 February 2018, in connection with the resolution on increasing the share capital of the Company from PLN 5,000 to PLN 2,005,000, adopted on 17 November 2017 by the Extraordinary Shareholders Meeting of ENEA Badania i Rozwój Sp. z o.o., ENEA S.A. signed a declaration on taking up 400 shares and covering them with cash contribution amounting to PLN 20,000. The increase of the share capital was registered in the NCR on 16 April 2018.
Other activities	28 February 2018	Annacond Enterprises Sp. z o.o.	The Extraordinary Shareholders Meeting of Annacond Enterprises Sp. z o.o. passed a resolution on putting the company into liquidation.
Other activities	23 March 2018	Elektrownia Ostrołęka Sp. z o.o.	The acquisition, by ENEA S.A. from Energa S.A., of 1,201,036 shares of Elektrownia Ostrołęka Sp. z o.o. - ENEA S.A. holds 50.00% of shares in the share capital of the Company in total.
Other activities	29 March 2018	Elektrownia Ostrołęka Sp. z o.o.	On 27 February 2018, the National Court Register registered the transformation of Elektrownia Ostrołęka S.A. into a limited liability company. On 29 March 2018, the Extraordinary Shareholders Meeting of Elektrownia Ostrołęka Sp. z o.o. adopted a resolution on increasing the share capital of the Company from PLN 229,100,000.00 to PLN 264,100,000.00, i.e. by PLN 35,000,000.00 through creation of 700,000 new equal and indivisible shares, preferred in terms of voting in such a way so as one share entitles to two votes; the said preference shall expire upon disposing the shares to another person than a Main Shareholder, i.e. ENEA S.A. or Energa S.A., with the nominal value of each of the new shares is PLN 50.00 and the total nominal value amounts to PLN 35,000,000.00. On 29 March 2018, ENEA S.A. signed a declaration on taking-up 350,000 shares and covering them with cash contribution of PLN 17,500,000.00. On 30 March 2018, ENEA S.A. made the cash contribution to the Company's account. The share capital increase was registered in the NCR on 30 July 2018.

Other activities	9 July 2018	ENEA Oświetlenie Sp. z o.o.	On 9 July 2018, the Extraordinary Shareholders Meeting of ENEA Oświetlenie Sp. z o.o. with its registered office in Szczecin adopted a resolution on increasing the share capital of the Company by the amount of PLN 16,000,000, from PLN 166,127,000 to PLN 182,127,000, by creating 32,000 new shares of the total value of PLN 16,000,000 (the nominal value of each share totalled PLN 500). On 11 July 2018, ENEA S.A. signed a declaration on taking-up 32,000 shares and covering them with cash contribution of PLN 16,000,000. On 12 July 2018, ENEA S.A. made the cash contribution to the Company's account. The share capital increase was registered in the NCR on 5 November 2018.
Other activities	27 July 2018	Elektrownia Ostrołęka Sp. z o.o.	On 27 July 2018, the Extraordinary Shareholders Meeting of Elektrownia Ostrołęka Sp. z o.o. adopted a resolution on increasing the Company's share capital to PLN 551,100,000, i.e. by PLN 287,000,000 through the creation of 5,740,000 new equal, indivisible shares, privileged as to vote in such a way that one share will carry two votes, and this privilege will expire in the event of disposal of shares to a person other than a Main Shareholder, i.e. ENEA S.A. or Energa S.A. with a nominal value of PLN 50.00 each and with a total nominal value of PLN 287,000,000. As a result of the increase in the share capital of Elektrownia Ostrołęka Sp. z o.o., on 30 July 2018, ENEA S.A. acquired 2,870,000 shares in the share capital with the value of PLN 143,500,000. On 2 August 2018, the Company acquired 2,870,000 shares with a value of PLN 143,500,000. ENEA S.A. made a cash contribution to the Company's account. The share capital increase was registered in the National Court Register on 16 October 2018.
Other activities	9 August 2018	PGE EJ 1 Sp. z o.o.	On 9 August 2018, the Extraordinary Shareholders Meeting of PGE EJ 1 Sp. z o.o. adopted a resolution on increasing the Company's share capital from PLN 310,858,470 to PLN 370,858,200, i.e. by PLN 59,999,730. As a result of increasing the share capital of PGE EJ 1 Sp. z o.o., on 21 August 2018 ENEA S.A. acquired 42,553 shares in the share capital of the Company with a value of PLN 5,999,973. On 23 August 2018, ENEA made a cash contribution to the Company's account. The share capital increase was registered in the NCR on 11 September 2018.
Other activities	4 October 2018	ElectroMobility Poland S.A	The Extraordinary General Meeting of ElectroMobility Poland S.A. adopted a resolution on increasing the company's share capital by PLN 40,000,000, i.e. from PLN 30,000,000 to PLN 70,000,000 by increasing the face value of the existing shares from PLN 3,000.00 to PLN 7,000.00. The share capital increase was registered in the NCR.
Generation	20 December 2018	ENEA Badania i Rozwój Sp. z o.o.	On 20 December 2018, the Extraordinary Shareholders Meeting of ENEA Badania i Rozwój Sp. z o.o. adopted a resolution to increase the Company's share capital by PLN 5,850,000.00 to PLN 7,855,000.00 through the creation of 117,000 new shares with a nominal value of PLN 50. 1. ENEA Wytwarzanie Sp. z o. o. - took up 115,830 shares in the increased capital with the total value of PLN 5,791,500.00. 2. ENEA S.A. - ENEA S.A. took up 1,170 shares in the increased capital of the total value of PLN 58,500.00.
Events after the reporting period			
Other activities	4 January 2019	Elektrownia Ostrołęka Sp. z o.o.	On 4 January 2019, the Extraordinary Shareholders Meeting of Elektrownia Ostrołęka Sp. z o.o. adopted a resolution on increasing the Company's share capital to PLN 912,482,100, i.e. by PLN 361,382,100 through the creation of 7,227,642 new equal, indivisible shares, privileged as to vote in such a way that one share will carry two votes, and this privilege will expire in the event of disposal of shares to a person other than the Main Shareholder, i.e. ENEA S.A. or Energa S.A., with a nominal value of PLN 50.00 each and with a total nominal value of PLN 361,382,100. As a result of the increase in the share capital of Elektrownia Ostrołęka Sp. z o.o., on 4 January 2019 ENEA S.A. acquired 3,613,821 shares in the share capital with the value of PLN 180,691,050. ENEA S.A. made a cash contribution to the Company's account. The share capital increase of Elektrownia Ostrołęka Sp. z o.o. was registered in the NCS on 1 March 2019.

Heat Segment Reorganisation

As part of the Project's implementation, ENEA Wytwarzanie Sp. z o.o. was divided by separating the organised part of the enterprise – Elektrociepłownia Białystok (Białystok Heat and Power Plant) – and transferring it to ENEA Ciepło Sp. z o.o., and, moreover, by purchasing of shares in ENEA Ciepło Sp. z o.o. and ENEA Ciepło Serwis Sp. z o.o. by ENEA S.A. from ENEA Wytwarzanie Sp. z o.o. As a result of corporate activities related to the above-mentioned project, ENEA S.A. currently holds 95.77% of the share capital of ENEA Ciepło Sp. z o.o. and is a sole (100%) shareholder of ENEA Ciepło Serwis Sp. z o.o.

ENEA S.A. AS THE PARENT COMPANY IN THE GROUP



In 2018, changes in the organisational structure resulted from the need of the adoption thereof to the changing legal regulations and business needs. The entry into force of *Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC* enforced, among other things, the transformation of the current position of Information Safety Administrator into the position of Data Protection Inspector. At the same time, along with the development of ENEA Group and the need to systematically carry out audits and controls in the Group, it was decided to transform the existing Control and Audit Office into the Audit Department. In 2018, there were no significant changes in the management principles of the Issuer and ENEA Group. The formal reflection of the relations established in the Company (including the organisational structure of the Company) and the division of tasks, responsibilities and powers are the organisational regulations: *Corporate Organisational Regulations of the Company* and *Regulations of Organisational Units of ENEA S.A.*

The organisational structure of the Company as at 31 December 2018 is presented above.

Business areas of ENEA Group

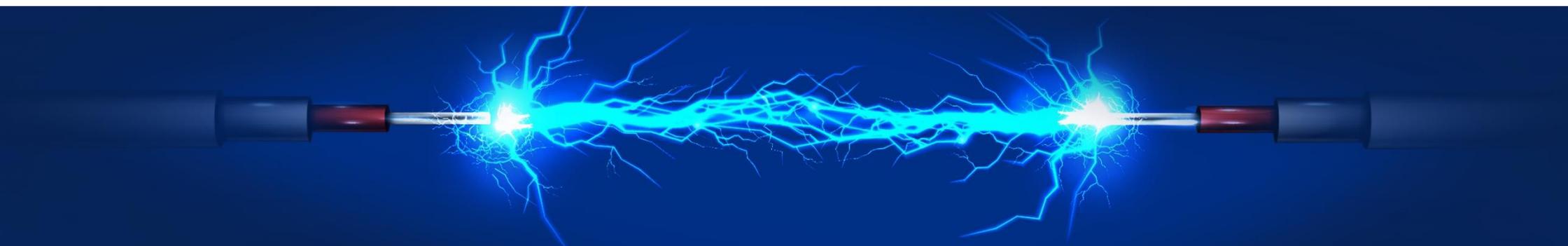
MINING

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



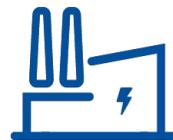
DISTRIBUTION

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



GENERATION

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



TRADING

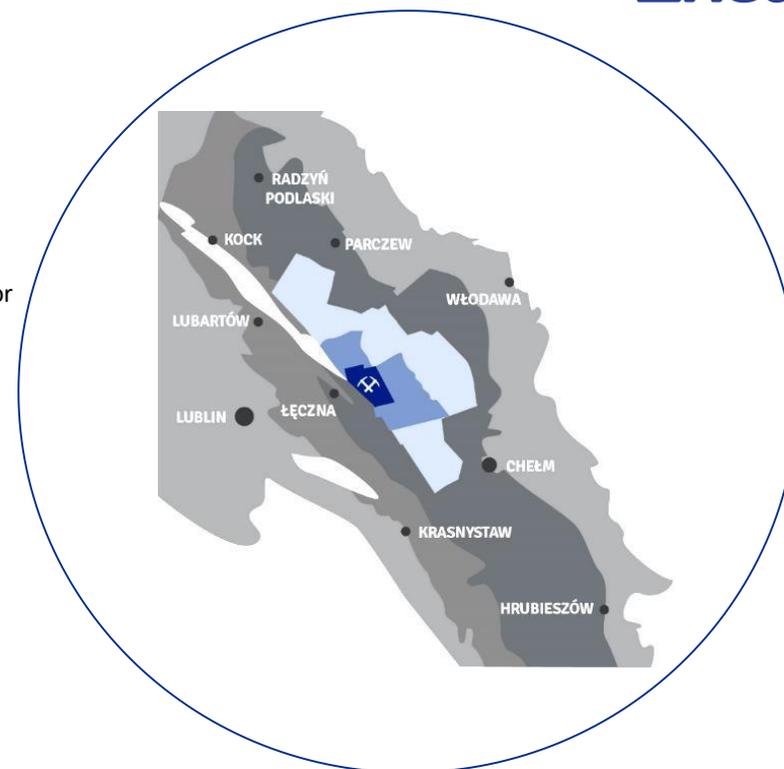
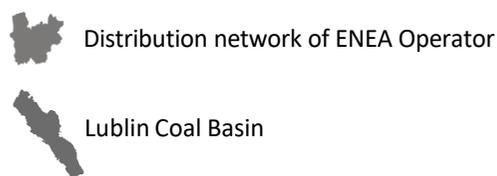
Retail trading:

- Trading in electricity and fuel gas on the retail market
- Product and service offer adjusted to Customers' needs
- Comprehensive Customer Service

Wholesale trading:

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





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 main clients include other ENEA Group companies, i.e. ENEA Wytwarzanie (Kozienice Power Plant) and ENEA Elektrownia Połaniec (EEP). LW Bogdanka sells about 85% of its production within the Group.

	FY 2017	FY 2018	Change
Net production [’000 tonnes]	9,050	9,007	-0.5%
Sale of coal [’000 tonnes]	9,151	8,943	-2.3%
Closing stock [’000 tonnes]	24	88	267.3%
Excavation works [km]	30.7	37.0	20.4%



Generation



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



Unit No. 11	FY 2018	Q4 2018
Net electricity generation [GWh]	5,314	1,562
Net average monthly load [MW]	732	767

Data concerning ENEA Wytwarzanie

	FY 2017	FY 2018	Change	Q4 2017	Q4 2018	Change
(Net) total generation of electricity [GWh], including:	13,599	16,426	20.8%	3,598	4,046	12.5%
Net production from conventional sources [GWh], including:	13,157	15,959	21.3%	3,446	3,901	13.2%
Enea Wytwarzanie – Kozienice Power Plant	12,749	15,721	23.3%	3,339	3,837	14.9%
Enea Wytwarzanie – Heat Segment Białystok Heat and Power Plant excluding biomass combustion ¹⁾	341	154	-54.8%	87	27	-69.0%
MEC Piła	67	66	-1.5%	20	19	-5.0%
Enea Ciepło excluding biomass combustion ²⁾		18			18	
Net production from renewable energy sources [GWh], including:	442	467	5.7%	152	145	-4.6%
Enea Wytwarzanie – Heat Segment Białystok Heat and Power Plant – biomass combustion ¹⁾	69	149	115.9%	29	37	27.6%
Enea Wytwarzanie - RES Segment (hydroelectric plants)	173	159	-8.1%	56	33	-41.1%
Enea Wytwarzanie - RES Segment (wind farms)	190	130	-31.6%	64	50	-21.9%
Enea Wytwarzanie - RES Segment (biogas plants)	10	6	-40.0%	3	2	-33.3%
Enea Ciepło – biomass combustion ²⁾		23			23	
Gross generation of heat [TJ]	5,156	5,168	0.2%	1,642	1,734	5.6%

In connection with the separation of Białystok Heat and Power Plant from Enea Wytwarzanie as of 30 November 2018, there was a change in data presentation:

¹⁾ In 2018, data for 11 months

²⁾ In 2018, date for December

Data concerning ENEA Elektrownia Połaniec

	FY 2017	Including in ENEA Group ¹⁾	FY 2018	Q4 2017	Q4 2018
(Net) total generation of electricity [GWh], including:	9,129	7,374	10,077	2,197	2,517
Enea Elektrownia Połaniec – net production from conventional sources	7,308	5,990	8,519	1,867	2,086
Enea Elektrownia Połaniec - production from renewable energy sources (combustion of biomass - green unit)	1,292	1,045	1,378	262	362
Enea Elektrownia Połaniec - production from renewable energy sources (biomass co-combustion)	529	339	180	68	69
Gross production of heat [TJ]	2,459	1,914	2,441	638	648

¹⁾ Since 14 March 2017

Generation

ENEA Wytwarzanie and its subsidiaries zależne and ENEA Ciepło as of 31 December 2018

	Installed electrical capacity [MW _e]	Attainable electrical capacity [MW _e]	Installed heating capacity [MW _t]	Installed RES capacity [MW]
Kozienice Power Plant	4,071.8	4,016.0	125.4	
Połaniec Power Plant	1,837.0	1,882.0	130.0	230.0
Bardy, Darżyno and Baczyna (Lubno I and Lubno II) wind farms	71.6	70.1	0.0	70.1
Liszkowo and Gorzesław biogas plants	3.8	3.8	3.1	3.1
Hydroelectric plants	58.8	55.8	0.0	55.8
MEC Piła	10.0	10.0	135.3	
PEC Oborniki	0.0	0.0	30.4	
ENEA Ciepło (Białystok Heat and Power Plant) ¹⁾	203.5	156.6	684.09	55.0
Total [gross]	6,256.6	6,194.3	1,108.29	414.0

¹⁾ Since 30 November 2018, Elektrociepłownia Białystok has been a part of ENEA Ciepło

Kozienice Power Plant		Unit	U1	U2	U3	U4	U5	U6	U7	U8	U9	U10	U11
Installed electrical capacity [MW]			230	230	230	230	230	230	230	230	560	560	1,112
Year of planned generation discontinuation ¹⁾			2031	2031	2029	2029	2032	2030	2030	2032	2040	2041	2050

Połaniec Power Plant		Unit	U1	U2	U3	U4	U5	U6	U7	U8
Installed electrical capacity [MW]			200	242	242	242	200	242	239	230
Year of planned generation discontinuation ¹⁾			2023	2034	2034	2034	2034	2034	2034	2042

Białystok Heat and Power Plant		Unit ²⁾	U1	U2	U3	U4 ³⁾	Water boilers	K1	K2	K3	K4	K5
Installed capacity [MW]			55	55	70	23.5		0	0	0	0	0
Thermal capacity [MW _t]			98.4	108	108	0		35 ⁴⁾	35	35	40	40
Year of planned generation discontinuation ¹⁾			2025	2032	2037	2040		-	-	-	-	-

¹⁾ The day of decommissioning is planned to be 31 December of the year indicated in the table

²⁾ Sources in ENEA Heat from 30 November 2018

³⁾ Condensing turbine unit powered by extractions from U2 and U3

⁴⁾ Boiler in modernisation. Boiler conversion to gas fuel

Free emission allowances for CO₂



Koźienice

Free emission allowances for CO ₂ [t] /electricity/	Y 2013	Y 2014	Y 2015	Y 2016	Y 2017	Y 2018	Y 2019	Total
Koźienice Power Plant - in acc. with CM Reg. of 8 Apr 2014	5,428,606	5,018,189	4,361,736	3,318,805	2,511,410	2,001,109	1,488,004	24,127,859
Koźienice Power Plant Bl. 11	0	0	0	411,338	1,245,072	992,082	737,702	3,386,194
Koźienice Power Plant - allowance received ¹⁾	5,428,606	4,719,575	2,843,957	3,008,656	2,321,834	-	-	18,322,628

Free emission allowances for CO ₂ [t] /heat/	Y 2013	Y 2014	Y 2015	Y 2016	Y 2017	Y 2018	Y 2019	Total
Koźienice Power Plant - in acc. with CM Reg. of 31 Mar 2014	26,297	23,434	20,673	18,035	15,546	13,137	10,806	127,928
Koźienice Power Plant - allowance received ¹⁾	26,297	23,434	20,673	18,035	15,546	13,137	-	117,122

¹⁾ Free CO₂ allowances received with a one-year shift



Białystok

Free emission allowances for CO ₂ [t] /electricity/	Y 2013	Y 2014	Y 2015	Y 2016	Y 2017	Y 2018	Y 2019	Total
Białystok Heat and Power Plant - in acc. with CM Reg. of 8 Apr 2014	260,483	240,789	209,291	159,247	120,506	96,020	71,399	1,157,735
Białystok Heat and Power Plant - allowance received ¹⁾	260,483	240,789	161,766	127,514	74,054	-	-	864,606

Free emission allowances for CO ₂ [t] /heat/	Y 2013	Y 2014	Y 2015	Y 2016	Y 2017	Y 2018	Y 2019	Total
Białystok Heat and Power Plant - in acc. with CM Reg. of 31 Mar 2014	253,400	212,489	175,707	142,958	123,118	104,906	87,278	1,099,856
Białystok Heat and Power Plant - allowance received ¹⁾	253,400	212,489	175,719	142,941	123,074	104,834	-	1,012,457

¹⁾ Free CO₂ allowances received with a one-year shift



Połaniec

Free emission allowances for CO ₂ [t] /electricity/	Y 2013	Y 2014	Y 2015	Y 2016	Y 2017	Y 2018	Y 2019	Total
Połaniec Power Plant - in acc. with CM Reg. of 8 Apr 2014	2,696,073	2,492,243	2,166,221	1,648,258	1,247,271	993,835	739,005	11,982,906
Połaniec Power Plant - allowance received ¹⁾	2,696,073	2,492,243	2,166,221	204,565	0	0	-	7,559,102

Free emission allowances for CO ₂ [t] /heat/	Y 2013	Y 2014	Y 2015	Y 2016	Y 2017	Y 2018	Y 2019	Total
Połaniec Power Plant - in acc. with CM Reg. of 31 Mar 2014	147,268	143,262	139,398	135,852	132,571	129,321	126,099	953,771
Połaniec Power Plant - allowance received ¹⁾	147,268	143,262	139,398	135,852	132,571	129,321	-	827,672

¹⁾ Free CO₂ allowances received with a one-year shift

CO₂ emissions [Mg]

	Kozienice Power Plant	Free CO ₂ emission allowances	Costs of allowances [PLN]
2017	12,138,001	2,337,380	247,816,466.33
2018	14,076,969	2,187,758 ¹⁾	324,672,994.21 ²⁾

	Białystok Heat and Power Plant	Free CO ₂ emission allowances	Costs of allowances [PLN]
2017	525,280	197,128	9 302,061.66
2018	280,147	104,834	29,682,134.94 ²⁾

	Połaniec Power Plant	Free CO ₂ emission allowances	Costs of allowances [PLN]
2017	7,029,514	132,571	201,351,440.63
2018	8,219,329	129,321	214,195,713.74

¹⁾ Estimated value

²⁾ Accounting treatment

Coal transport

ENEA Wytwarzanie

Kozienice Power Plant

The only means of transport used to deliver bituminous coal to Kozienice Power Plant in 2018 was rail transport ensured mainly by the carrier PKP Cargo S.A.

ENEA Elektrownia Połaniec

In 2018, coal transport to ENEA Elektrownia Połaniec was executed by PKP Cargo S.A.



Generation

Sales of electricity on the wholesale market [GWh]

Electricity is sold on the wholesale market. The largest generator in ENEA Wytwarzanie is Koźienice Power Plant, from which the largest sales volume in 2017 and 2018 was delivered to the ENEA Group company – ENEA Trading sp. o.o., and sales were effected via the Polish Power Exchange (PPE) under the obligation to sell own-generated electricity in accordance with Article 49a of the Energy Law Act (the so-called “exchange obligation”). In 2017, the obligation amounted to 15% of the volume of electricity generated, and in 2018 it was increased to 30%. Additionally, sales via the Balancing Market, resulting from the operation of the Central Dispatching Units in the National Power System (NPS), were also carried out. Within the RES Segment (hydroelectric, wind and biogas plants), sales were carried out under the concluded Agreements, from which all energy is directed to ENEA Group companies. Similarly, in the Heat Segment (Białystok Heat and Power Plant) energy sales were directed mainly to ENEA Trading and to the Balancing Market. On 30 November, Białystok Heat and Power Plant was separated from the structures of ENEA Wytwarzanie and transferred to ENEA Ciepło.

At ENEA Elektrownia Połaniec, in the years 2017 - 2018 sales were conducted mainly to companies from ENGIE Group (2017) and ENEA Group (2018). Moreover, similarly to Koźienice Power Plant, sales on PPE were carried out as part of the exchange obligation.

[GWh]	FY 2017	FY 2018	Q4 2017	Q4 2018
ENEA Wytwarzanie	15,453	23,056	4,072	5,766
Including from RES	442	445	152	122
ENEA Elektrownia Połaniec	11,395	12,774	2,747	3,149
Including from RES	1,292	1,378	262	362

Purchase of electricity on the wholesale market [GWh]

The purchase of electricity is carried out within the framework of market possibilities, which guarantee the achievement of the assumed financial effect and in order to limit the effects of the lack of appropriate level of available capacity and failures. In 2018, a significant increase in the volume of purchases in trading resulted from the increase in the exchange obligation to 30% (Article 49a of the Energy Law Act of December 2017). Due to the amendments to the Energy Law Act being made so late in relation to the contracted sale of electricity under annual contracts, the purchase of previously contracted energy was necessary (lack of availability to execute the full obligation at the high level of previously contracted energy). The purchase of electricity within the Balancing Market results from the ongoing balancing of the National Power System by the Operator. Within the Heat Segment, the purchase in trading resulted from the execution of agreements concluded with users and from actions taken to limit the costs of failure of generation units and lack of disposable capacity vs. the concluded contracts.

[GWh]	FY 2017	FY 2018	Q4 2017	Q4 2018
ENEA Wytwarzanie	1,920.5	6,737	493	1,780
ENEA Elektrownia Połaniec	2,266	2,697	550	632

Fuel supply

Volume and cost of fuel purchase

ENEA Wytwarzanie

Fuel type	FY 2017		FY 2018	
	Volume ['000 tonnes]	Cost ¹⁾ [PLN m]	Volume ['000 tonnes]	Cost ¹⁾ [PLN m]
Bituminous coal	6,266	1,308	7,064	1,627
Biomass	174	24	327	63
Fuel oil (heavy) ²⁾	8	9	5	7
Fuel oil (light) ³⁾	7	19	9	26
Gas ['000 m ³] ⁴⁾	16,831	19	16,878	20
TOTAL		1,379		1,743

¹⁾ Coal and biomass including transport

²⁾ Light-up fuel for Units Nos. 1-10 at Kozienice Power Plant

³⁾ Light-up fuel for Unit No. 11 and for Białystok Heat and Power Plant

⁴⁾ Used to produce electricity and heat in MEC Piła and heat energy in PEC Oborniki

The main fuel used to generate electricity is bituminous coal (mainly fuel dust and small quantities of sludge). The main supplier of coal for ENEA Wytwarzanie - Kozienice Power Plant in 2018 was LW Bogdanka S.A (80% share to total coal supplies). In 2018, no biomass was co-combusted in Kozienice Power Plant. The main supplier of coal to Połaniec Power Plant in 2018 was LW Bogdanka S.A.

ENEA Wytwarzanie – Heat Segment

The main fuels used in ENEA Wytwarzanie in the Heat Segment (Białystok Heat and Power Plant) are coal and biomass - mainly as wood chips, energetic willow chips and agricultural production left-overs as well as sunflower husk pellet. In 2018, the volume of supplied biomass was approx. 331 thousand tonnes, and the supplies were performed by 19 entities. More than 95 thousand tonnes of biomass were supplied to the premises of ENEA Wytwarzanie – Heat Segment by rail transport. In 2018, coal supplies to ENEA Wytwarzanie - Heat Segment were mainly performed by LW Bogdanka (more than 90% of total supplies) and Polska Grupa Górnicza S.A. The volume of coal supplied reached approx. 120.6 thousand tonnes. The rail transport of coal to ENEA Wytwarzanie - Heat Segment was executed by PKP Cargo S.A.

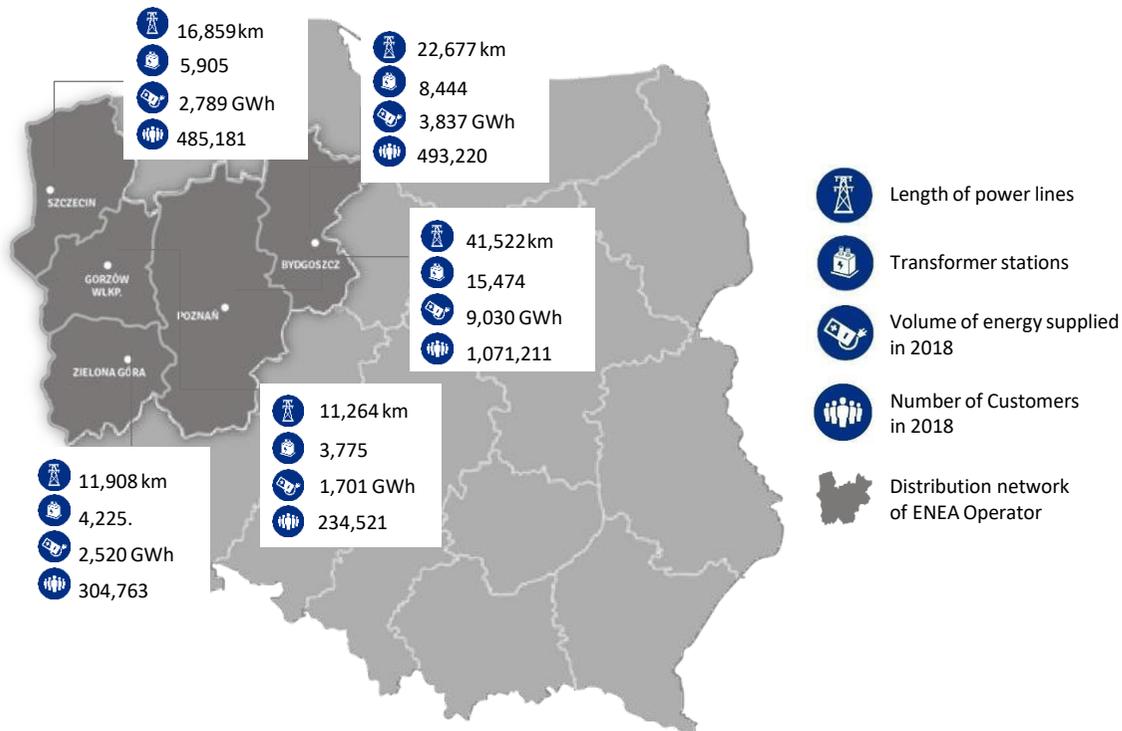
ENEA Elektrownia Połaniec

Fuel type	FY 2017		FY 2018	
	Volume ['000 tonnes]	Cost ¹⁾ [PLN m]	Volume ['000 tonnes]	Cost ¹⁾ [PLN m]
Bituminous coal	3,763	749.9	4,260	983.1
Biomass	1,453	253.6	1,346	295.7
Fuel oil	7	11.4	8	14.1
TOTAL		1,014.9		1,293

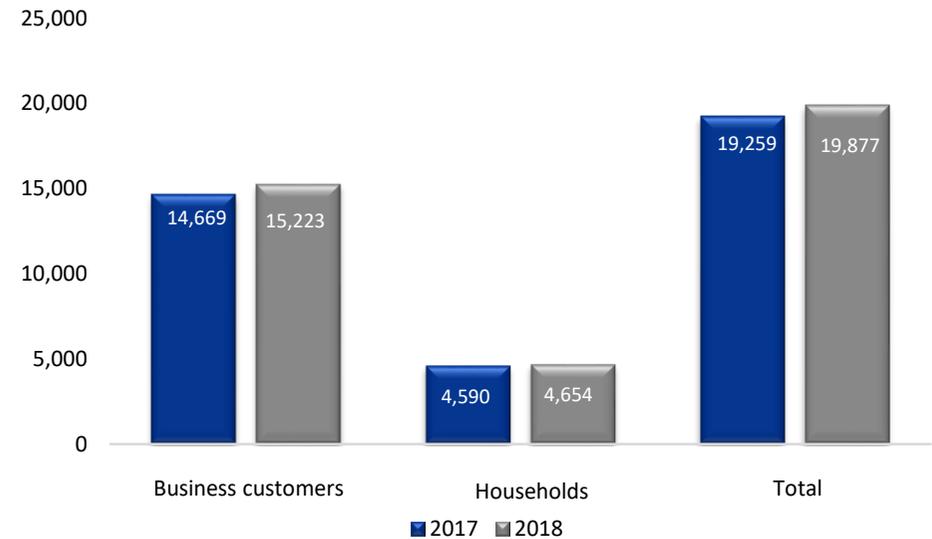
¹⁾ Including transport



Distribution



Sale of distribution services [GWh]



Number of Customers

	2017	2018	Change
Number of Customers at the end of the period	2,552,699	2,588,896	1.42 %

Quality regulation

In 2018, the Company met the objectives set out in the quality regulation, which in consequence will not translate into regulated revenue in 2020.



104.94 - Length of power lines [‘000 km]



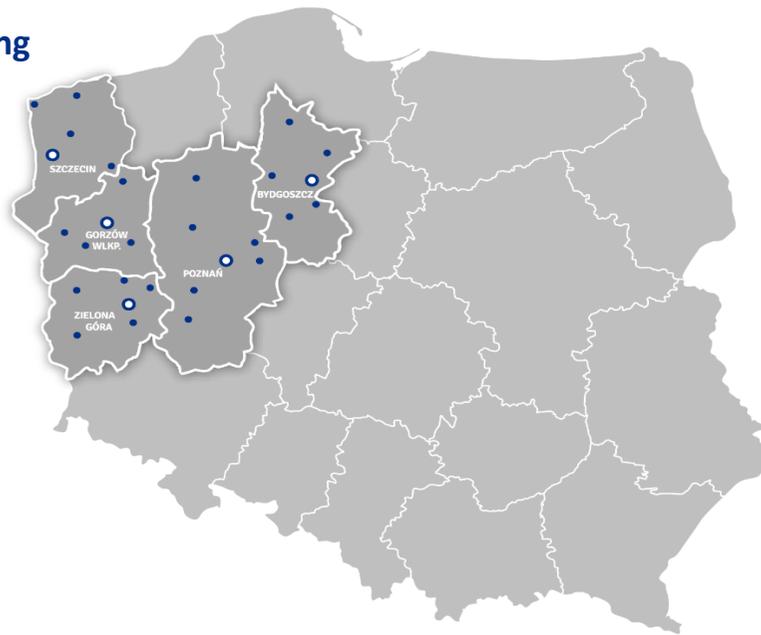
38.01 - Number of transformer stations [‘000]



17.88 - Length of connections [‘000 km]



847.90 - Number of connections [‘000]



32 Modern Customer Service Centres

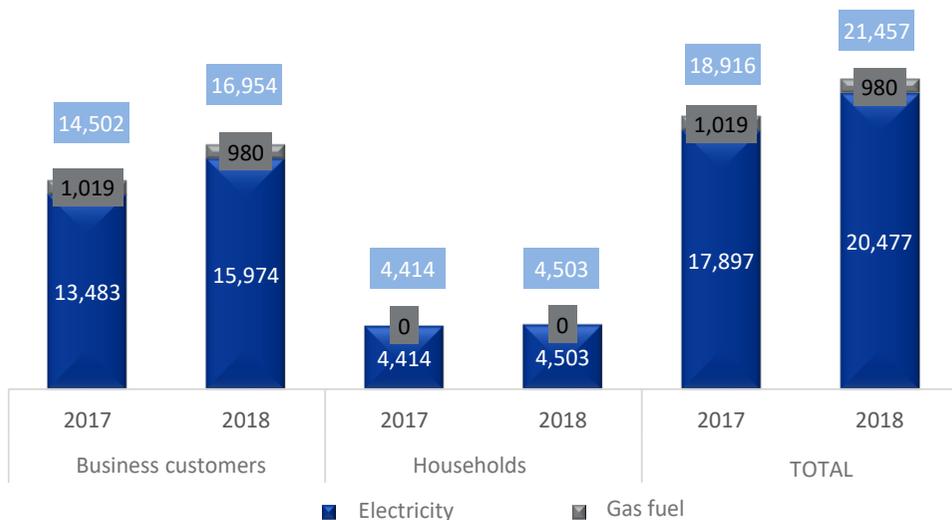
● Customer Service Centres

■ Distribution network of ENEA Operator

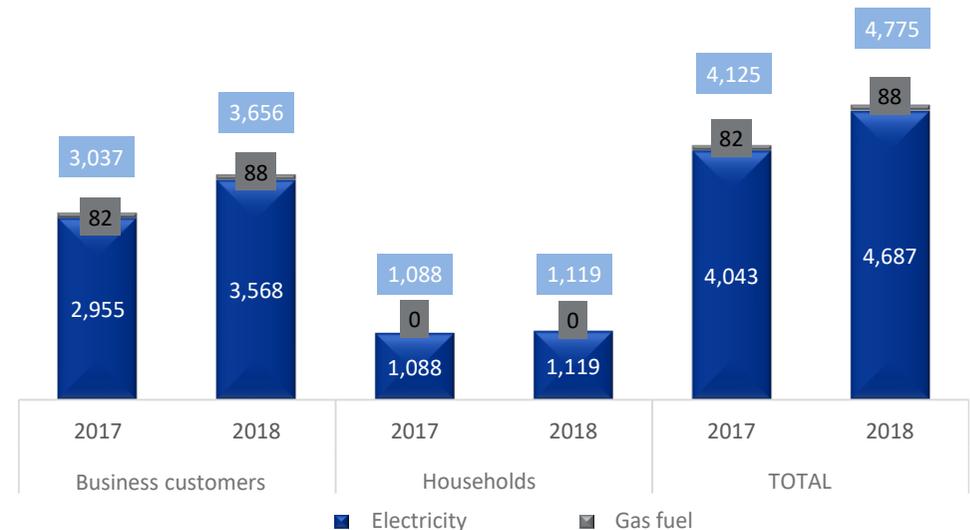
Sales of electricity and gaseous fuel to retail customers carried out by ENEA S.A.

In 2018, as compared to 2017, there was a very significant rise in the total sales volume by 2,541 GWh, i.e. more than 13%. The sales volume growth was mainly generated by the sale of electricity to business customers (an increase of 2,491 GWh, i.e. more than 18%), but the volume of electricity sold in the households segment also increased on previous year – a rise of 89 GWh, i.e. by more than 2%. On the other hand, the sales volume of gas fuel decreased slightly compared to the previous year (by 39 GWh, i.e. by nearly 4%). The total growth in sales volumes in 2018 translated into higher total sales revenues by PLN 650 million, i.e. by nearly 16% on 2017. It resulted from an increase of over 20% in revenues from sales to business customers, i.e. PLN 619 million. Sales volume growth in the households segment contributed to a rise in sales revenues in this segment - an increase by PLN 31 million, i.e. by nearly 3%.

Sales of electricity and gas fuel to retail customers of ENEA S.A.



Revenues from sales of electricity and gas fuel to retail customers of ENEA S.A.



Development strategy

ENEA Group's Development Strategy until 2030 – baselines

MISSION:

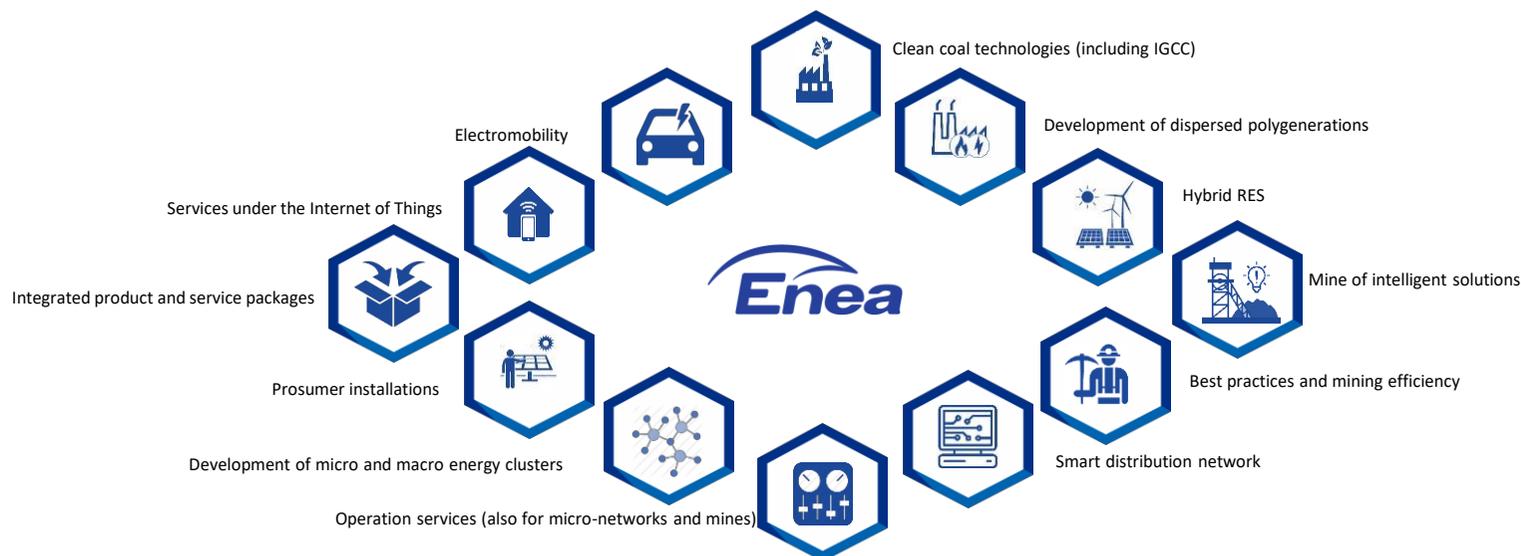
ENEA delivers constantly improved products and services, exceeding Customers' expectations due to motivated teams working in a friendly, safe and innovative organisation.

VISION:

ENEA is a leading supplier of integrated raw materials and energy related products and services and other innovative services for the wide range of Customers, recognised for the 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, i.a., the development of innovative products, services and business lines of ENEA Group.



Basic investment budget in the amount of PLN 26.4 billion

Estimated capital expenditures of ENEA Group in the years 2016-2030 [PLN m, current prices]

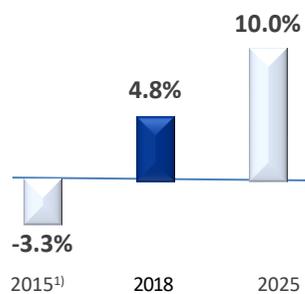
Area	2016-2025	2026-2030
Mining	3,712	2,080
Distribution	9,501	5,193
Generation	4,808	504
Other	403	153
Total basic investment budget of ENEA Group	18,424	7,930
CAPEX potential ¹⁾	6,176	5,320
Increasing the investment potential ²⁾	3,200	2,500
ENEA Group Total	27,800	15,750

¹⁾ CAPEX potential maintaining the net debt / EBITDA ratio on a safe level

²⁾ Increasing the investment potential by PLN 5.7bn as a result of the implementation of innovative strategic initiatives (EBITDA increase)

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

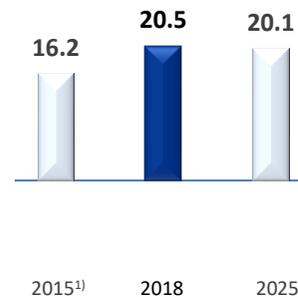
Return on equity (ROE)



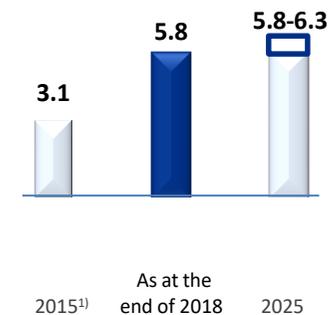
Return on assets (ROA)



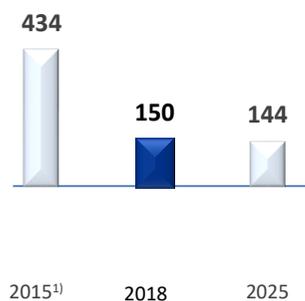
Sales of electricity to end users [TWh]



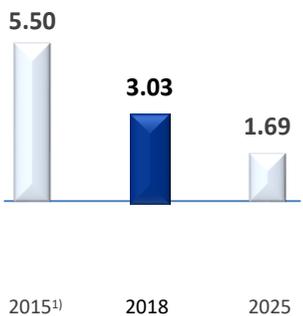
Installed conventional generation capacities [GW]



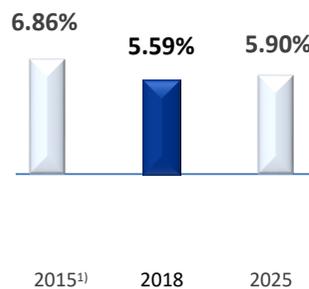
SAIDI [minutes]



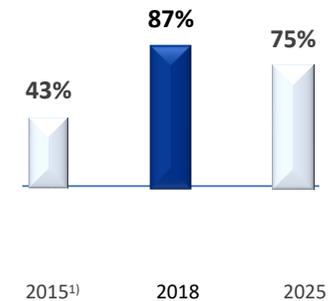
SAIFI



Grid distribution losses index



Own annual consumption of bituminous coal from own assets



¹⁾ Reference year

2019 trends vs. 2018

Area	2019 trend	Key drivers
Mining	Growth	<ul style="list-style-type: none"> (+) Increase in coal prices (+) Further increase in the length of new galleries (-) Increase in fixed costs (-) Renovation of railway routes
Generation	Growth	<ul style="list-style-type: none"> (+) Increase in electricity generation volume (+) High wholesale electricity prices (+) Completion of modernisation works on Units No. 9 and No. 10 at Kozenice Power Plant (-) Lower volume of free CO₂ (-) Increase in coal prices and transport costs (-) High level of CO₂ prices
Distribution	Stable	<ul style="list-style-type: none"> (+) Increase in the volume of sales of distribution services (+) Optimisation of asset management (+) Work on improving the quality of services (reduction of SAIDI and SAIFI)
Trading	Under pressure	<ul style="list-style-type: none"> (+) Development of sales channels and product offering (+) Increase in electricity sales volume to retail customers (+) Stable costs of environmental obligations (-) Impact of the Act on “Electricity Pricing Change” (-) Valuation of CO₂ contracts at persistently high prices

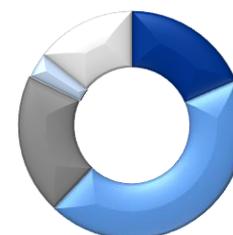
Implemented measures and investments

Capital expenditure in 2018

Capital expenditure [PLN m]	FY 2017	FY 2018	Status of plan implementation	Plan for 2019
Generation	1,094.7	430.2	72.2%	619.1
Distribution	1,022.3	1,000.4	103.5%	1,011.5
Mining	373.4	463.1	93.4%	580.5
Support and other	86.6	81.8	33.3%	157.6
Equity investments	53.1	331.3	287.3%	252.4
TOTAL Plan implementation	2,630.1	2,306.8	95.3%	2,621.1
Other ¹⁾	1,556.8	0.0	-	-
TOTAL ENEA Group's expenditures	4,186.9	2,306.8	95.3%	2,621.1

¹⁾ Equity investments not included in ENEA Group's Material and Financial Plan

Capital expenditure



- 18.6 % Generation
- 43.4 % Distribution
- 20.1 % Mining
- 3.5 % Support and other
- 14.4 % Equity investments

Investments implemented in 2018

Mining

- Obtaining new licences:
 - application for new mining licences in K-6 and K-7 areas
- Maintenance of the machinery stock - purchase and assembly of machines and equipment
- Operating investments - execution of more than 37.0 km of new excavations
- Other development and replacement investments:
 - replacement investments in Zakład Przeróbki Mechanicznej Węgla, i.a. upgrades of steel structures and an electromagnetic separator development project, development of a gas extraction system from welding stations
 - power, telecommunication, and mechanical installations



Generation

ENEA Wytwarzanie

- On 30 March 2018, upgrade work within the project - Upgrade of the Stator from Unit 8 for reserve - was completed. The Institute of Power Engineering has drawn up an oversight report; the report has been received. The project has been completed successfully and timely.
- The work on project - Upgrade of Unit No. 10 as part of the 2 x 500 MW Units Upgrade Programme was finished, the Final Acceptance Report for the construction work was signed on 22 May 2018 and the investment was transferred to Company's assets.
- Continued development of the SCR installation along with an upgrade of electrostatic dust precipitators for Units No. 9 and No. 10 as part of the 2 x 500 MW Units Upgrade Programme
- Completion of on-site works and execution of tests and start-ups in accordance with the schedule – upgrade of Unit No. 6: on 6 October 2018, synchronisation of Unit No. 6; on 9 October 2018, completed test run of Unit. 6
- The FGD installation for K7 and K8 boilers in Białystok Heat and Power Plant was transferred to the Company's assets.

ENEA Elektrownia Połaniec

- Launch of the SCR installation on Unit No. 4
- Phoenix project for Unit No. 5 – Contracts concluded for modernisation of the turbine generator part, started prefabrication. Contract signed for the construction of the SCR installation. The tender process for the boiler part is in progress.

Distribution

- Completion of a series of investments related to the expansion, automation and modernisation of stations and power grids, including those related to the connection to the grid, as well as to the modernisation of stations, including the redevelopment of the Main Transformer Stations Zdroje and Dąbie along with the development of the 100kV line Dąbie-Zdroje, upgrade of Main Transformer Station Żary, development of Main Transformer Stations Choszczno II and Recz along with the development of 100kV line Choszczno II-Recz
- Continuation of ongoing investments and launching new investments to be implemented in 2019 and in the following years
- Continuation of the improvement of processes for connecting Customers to the power grid
- Continuation of development of IT tools supporting network management



Investments and other activities planned by the end of 2019 and in the following years within the existing assets

Mining

Development investments	<p>Obtaining new licences:</p> <ul style="list-style-type: none"> • continuation of the application process related to mining licences in K- 6 and K-7 areas <p>Maintenance of the machinery stock:</p> <ul style="list-style-type: none"> • purchase and assembly of new machinery and equipment • upgrade of machinery and equipment <p>Increasing the operational resources:</p> <ul style="list-style-type: none"> • programme and spatial concept OG Ludwin • obtaining of a property in connection with the development plans for the mine
Operating investments	<p>New excavations and upgrade of existing ones:</p> <ul style="list-style-type: none"> • development of excavations, mainly longwall galleries, longwall cross-cuts and other technological and access excavations, enabling wall mining • upgrades of mine excavations
Other investments	<p>Other development and replacement investments:</p> <ul style="list-style-type: none"> • extension of the extractive waste disposal facility in Bogdanka • continuation of work connected with the Integrated Production Management System and the “Mine of Smart Solutions” project • upgrade of main ventilators in shaft 1.4 • upgrade of the drive system and the shaft signalling system • construction of a monitoring system for the company's facilities • installation of tower cranes • replacement of jigs at the Mechanical Coal Processing Plant • environment protection – construction project of a pumping station on the RE Żelazny trench along with water drainage, a pumping station on trench C in Nadrybie

Generation

Continued	<ul style="list-style-type: none"> • Adaptation of the Systemic Power Plants Segment of ENEA Wytwarzanie Sp. z o.o. to the BAT conclusions • Upgrade of Unit No. 9 • Development of the SCR installation for Units No. 9 and No. 10 (completion in 2019)
RES Segment	<ul style="list-style-type: none"> • Searching for bargain investment and acquisition opportunities
ENEA Ciepło	<ul style="list-style-type: none"> • Reconstruction of the TZ3 turbine set – reconstruction of generation capacity of the TZ3 turbine set, ensuring fault-free operation and maintaining correct operating parameters of the turbine set as well as of the auxiliary systems and equipment • Regeneration of K6 boiler • Upgrade of the K8 boiler electrostatic precipitator, revitalisation of the K8 boiler with regard to the pressure part • Upgrade of the Experion PKS system on units and auxiliary systems • Construction of a steam-water connection and junction to Jazbud residential buildings in Dojlidy
ENEA Elektrownia Połaniec	<ul style="list-style-type: none"> • Upgrade of Unit No. 5 as part of the Phoenix project for Unit No. 5 • Process of contracting services for the project of EEP adaptation to the BAT conclusions

Investments and other activities planned by the end of 2019 and in the following years within the existing assets

Distribution

Key investments implemented

- Implementation of the smart grid development programme
- Continuation of the grid operation reliability improvement programme
- Continuation of the Grid Information System project
- Project “Innovative system services of energy storage facilities increasing the quality and efficiency of electricity usage – EnergyStore”
- System of balancing capacity and energy and of monitoring the quality of electricity supply from distributed energy sources and energy storage tanks (Mo-BiSys)
- Flexible system of improving competences of technical service employees using virtual reality techniques
- Pilot project to reduce power losses in used and newly installed MV/nn transformers by applying an algorithm to optimize the selection of a transformer to the conditions of the actual station load by relocating units taking into account the impact on the environment
- Construction and upgrade of a number of grid infrastructure elements, such as HV, MV, and LV power lines and transformer stations, including i.e.:
 - Development of Poznań Główna Main Transformer Station
 - Development of Suchy Las Main Transformer Station
 - Development of Kisielin Main Transformer Station
 - Development of Skwierzyna II Main Transformer Station
 - Redevelopment of Fordon Main Transformer Station along with the development of a duplex power supply for the station
 - Redevelopment of Chodzież Main Transformer Station
 - Redevelopment of Oborniki Main Transformer Station
 - Development of Bydgoszcz Śródmieście-Bydgoszcz Północ 110 kV line
 - Redevelopment of Kościan-Śmigiel 110 kV line
 - Redevelopment of Morzyczyn-Drawski Młyn 110 kV line
 - Development of Garbary Main Transformer Station and development of 110 kV line
 - Development of Garbary-Cytadela and Garbary-EC Karolin 110 kV power cable lines
 - Development of Garaszewo grid switchyard and development of 110 kV power cable line
 - Development of Kromolice-Nagradowice, Kromolice-Gądkki and Kromolice-Swarzędz 110 kV lines
 - Development of Piła Krzewina-Miasteczko Krajeńskie 110 kV line and redevelopment of Miasteczko Krajeńskie Main Transformer Station
 - Redevelopment of Wronki Main Transformer Station
 - Redevelopment of Piła Południe Main Transformer Station
 - Comprehensive modernisation of the Czarnków ZPP grid switchyard
 - Redevelopment of MV switchgear in Cytadela Main Transformer Station
 - Development of Janikowo grid switchyard
 - Development of Kuczyna Main Transformer Station and development of 110 kV cable line
 - Redevelopment of Reclaw-Goleniów 110 kv line
 - Comprehensive modernisation of Górczyn Main Transformer Station
 - Development of Babimost-Zbąszynek 110 kV line
 - Development of Gorzów-Witnica 110 kV line to Pole 65 of Witnica-Dębno line and of Witnica-Dębno 110 kV line (from Pole 65)
 - Development of Leszno Gronowo Main Transformer Station
 - Redevelopment of Wronki-Czarnków ZPP 110 kV line
 - Development of Środa-Kromolice 110 kV line
 - Development of Pomorzany Main Transformer Station

Investment	Project status	2018 CAPEX [PLN m]	Total CAPEX [PLN m]	Work progress [%]	Planned completion date	
ENEA Wytwarzanie	Upgrade of Unit No. 10 as part of the 2 x 500 MW Units Upgrade Programme	<ul style="list-style-type: none"> The following works were completed in Q1-Q4 2018: <ul style="list-style-type: none"> Works on auxiliary installations of the turbine set, ended on 9 February 2018 Assembly of elements of the Automatic Test and Measurement Equipment, ended on 31 January 2018 Works on the boiler pressure system, ended on 19 February 2018 A 72-hour test run of the unit, ended on 5 May 2018 The final acceptance protocol for the construction works was signed on 22 May 2018 The investment was transferred to Company's assets on 22 May 2018 Heat tests in the unit were carried out to check if the predicted effect of the upgrade conducted from 13 to 17 June 2018 was achieved On 22 August 2018, the Steering Committee of the "2017 Unit No. 10 Upgrade" Project implemented by ENEA Wytwarzanie Sp. z o.o. decided to close the project - Decision No. 1/2018. 	8.364	93.950	100%	2018
	Upgrade of Unit No. 9 as part of the 2 x 500 MW Upgrade Programme	<ul style="list-style-type: none"> The following works were completed in Q1-Q4 2018: <ul style="list-style-type: none"> On 1 May 2018, the upgrade of the unit commenced Works on the upgrade of the equipment in the facility - boiler house and engine house - are in progress Update of the Schedule of Unit No. 9 Upgrade - anticipated completion date of the unit's upgrade is on 31 May 2019 Approval by the Management Board of requests for an annex extending the scope of the agreement to include chemical cleaning and blowing of the boiler 	75.710	78.224	80%	2019
	Upgrade of Unit No. 6	<ul style="list-style-type: none"> The following works were completed in Q1-Q4 2018: <ul style="list-style-type: none"> On 9 May 2018, an agreement was executed with Rafako Engineering Sp. z o.o. for "Preparation of an Expert Analysis of the Wear and Tear of Pressure Components of OP-650 Boiler No. 6" of the net value of PLN 417,000.00 On 1 June 2018, an agreement was executed with Polimex Energetyka Sp. z o.o. for "Upgrade of Boiler of Unit No. 6" of the net value of PLN 7,916,608.94 On 30 July 2018, the upgrade of Unit No. 6 commenced Works under the "Boiler Upgrade of Unit No. 6" commenced on 2 July 2018 Completion of on-site works and execution of tests and start-ups in accordance with the schedule: <ul style="list-style-type: none"> Synchronisation of Unit No. 6 on 6 October 2018 Completed test run of Unit No. 6 on 9 October 2018 The transfer of the investment took place on 6 November 2018 	29.591	29.691	100%	2018
	Adaptation of ENEA Innowacje Sp. z o.o.'s Systemic Power Plants Segment for BAT conclusions – Upgrade of the Electrostatic Dust Precipitator for Unit No. 6	<ul style="list-style-type: none"> The agreement signed on 25 October 2017 with Balcke-Durr Polska Sp. z o.o. The Contractor provided implementation projects in all trades until 19 February 2018. In March, elements for the upgrade of the precipitator were prefabricated. On 2 July 2018, the object of the contract was transferred to the Contractor in order to perform the upgrade of the electrostatic precipitator of Unit No. 6 On 5 November 2018, the final acceptance of the subject of the Agreement was conducted The warranty period began as from 5 November 2018, which in terms of the concentration of exhaust gas dust behind the electrostatic precipitator and in terms of the works performed is 60 months from the date of signing the final acceptance protocol On 26 November 2018, the transfer of the investment took place. 	3.791	4.277	100%	2018

Investment	Project status	2018 CAPEX [PLN m]	Total CAPEX [PLN m]	Work progress [%]	Planned completion date	
ENE A Wytwarzanie	<p>The following works were completed in Q1-Q4 2018:</p> <p>Unit No. 10:</p> <ul style="list-style-type: none"> On 27 April 2018, the post-assembly acceptance report confirming the completion of construction and assembly work was signed On 30 April 2018, Unit No. 10 was started up with the SCR installation On 18 and 25 June 2018, representatives of ENEA Wytwarzanie along with the Project Engineer conducted partial branch acceptance of the ash removal installation of the SCR installation of Unit No. 10 with a positive result in the Control and Measurement Instruments and Automation and electrical industries On 26 June 2018, representatives of ENEA Wytwarzanie along with the Project Engineer conducted partial branch acceptance of the basic and emergency lighting installation and repair sockets and cable routes of the SCR installation of Unit No. 10 with a positive result On 26 June 2018, representatives of ENEA Wytwarzanie along with the Project Engineer conducted partial branch acceptance of technological installations of the SCR installation of Unit. 10 with a positive result <p>Unit No. 9:</p> <ul style="list-style-type: none"> On 1 May 2018, Unit No. 9 was reclassified from operational standstill to renovation standstill On 11 May 2018, the report concerning handing-over of Construction Site No. 6, i.e. the area of Fume Extraction Fans and Electrostatic Dust Precipitator of Unit No. 9 was signed On 11 December 2018, the Parties concluded Annex No. 5 by which, in particular, the deadlines for execution of Task 2 (Unit No. 9) were changed after taking into account the change of the repair standstill date of Unit No. 9 and unforeseen circumstances, for which neither Party is responsible – a 23-day delay in disassembly of the TG9 line On 20 December 2018, payment protocols for the Execution Phases: 27.10, 31.1, 27.2, 29, 27.13, 27.14, 27.15, 27.3, and 27.5. were signed On 27 December 2018, payment protocols were signed for the Execution Phases 27.7 and 30 Ongoing investor supervision was exercised, among others, over the performance of start-up works and construction works on Task 1 and 2. Technical Board of ENEA Wytwarzanie Sp. z o.o. successively and timely evaluated the documentation provided by the Contractor 	106.288	207.399	67%	2019	
	<p>Development of the SCR installation with upgrade of electrostatic precipitators for boilers AP-1650 of Units No. 9 and No. 10 as part of the 2 x 500 MW Units Upgrade Programme</p>	<p>An agreement was concluded with the National Fund for Environmental Protection and Water Management for investment subsidy in the form of a loan. On 29 September 2017, the installation was commissioned.</p> <p>In 2018, works connected with the completion of the investment were continued, i.e.:</p> <ul style="list-style-type: none"> Regulation and optimisation of the FGD operation by the Contractor to ensure guaranteed parameters Assembly of an additional element in the reactor, aimed at changing the flow distribution in the reactor and assessment of its influence on the operation of the installation Installation test on a sorbent from another supplier On 20-23 February 2018, guaranteed parameters were again measured Report on these measurement states that the installation achieves all technical and environmental parameters except for process water consumption and process temperature. On 12 March 2018, the Contractor submitted the installation for final acceptance; An Annex to the Agreement, changing the investment completion date to 15 March 2018, was entered into with the Contractor (this action was approved by the Management Board of ENEA Wytwarzanie and of ENEA Group's Investment Committee) The date of the final acceptance was 19 April 2018 On 24 April 2018, an Agreement regulating the issue of the installation defects removal was entered into with Rafako Transfer to the Company's assets on 1 May 2018 		86.460	100%	2018
ENE A Elektrownia Polaniec	<p>Development of the SCR installation for Unit No. 4</p>	<p>Launch of the SCR installation for Unit 4</p>	11.8	34.4	98%	2020
	<p>Phoenix project for Unit No. 5</p>	<ul style="list-style-type: none"> Contracts concluded for upgrade of the turbine generator part, prefabrication commenced. Contract signed for development of the SCR installation. The tender process for the boiler part in progress 	20.9	127.4	7%	2020
	<p>EEP's adaptation to the BAT conclusions</p>	<ul style="list-style-type: none"> Consent of the Management Board of ENEA S.A. obtained for the implementation of the project within the scope of stage I. The service contracting process in progress 	0.0	299.5	4%	2021

Implemented measures and investments

Measures implemented in 2018



Retail Trade Area

- Expansion of ENEA Smart product offer (Heating Package)
- Launching the new formula of the ENERGY+SPECIALIST product line and rollout of the offer to the Business Customers segment
- Implementing new agreement templates meeting GDPR requirements
- Seasonal offers promoting the product offer and the PURCHASE ZONE loyalty programme
- Rollout of the PURCHASE ZONE loyalty programme to the Business Customers segment
- Expansion of the ENEA ECO product line with Electric Heat Pumps and Accumulation Furnaces



Customer Service Area

- Launching of telephone self-services for Customers
- Renovation and improvement of further Customer Service Centres in Krosno Odrzańskie, Wolsztyn, Nakło nad Notecią, Gryfice, Świnoujście, Kościan, Świecie, Mogiłno, Goleniów and Choszczno
- Production launching of a billing system for gaseous fuel settlements
- Implementation of automation processes in the customer service area through, among others, robotic business process automation (RPA) that will translate into timely achievement of key indicators within the implemented processes
- Production launch of the CRM system in the Contact Center
- Adaptation of the rules of processing, use and storage of personal data, forms and documents to the new provisions of the General Data Protection Regulation (GDPR) for efficient exercise of ENEA Customers' rights arising from GDPR
- Launching of the functionality of arranging visits to Customer Service Offices via the website www.enea.pl or by Contact Center consultants



Wholesale Trade Area

- Execution of an interdisciplinary project consisting in the implementation of the capacity market and participation in main auctions, which aims at maximising finance income of ENEA Group's generation units
- Activities aimed at optimisation of fuel (coal, biomass, fuel oil) deliveries were carried out by using extraction resources of ENEA Group under the conditions of closures and constraints of railway line capacity
- Cooperation with PGG S.A. and JSW S.A. was pursued in the area of management of sludge and flotoconcentrates under the agreements on sludge supplies to Kozienice and Połaniec
- Development of both a full financial, accounting and business concept of a change in the model of steam coal trade and a model of optimisation of coal purchase and transport costs due to conclusion of the contract for difference (CFD), which served as a tool for settling the surplus due to the relocation of domestic supplies
- Implementation of a new, effective biomass sourcing strategy which allowed to cover the current demand resulting from the construction of Unit No. 9 at EEP and to restore a safe amount of spare biomass
- Expansion of the product range with specialised 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
- Building a long-term concept of conventional asset management by centralising the management of sales-purchase margin level in one place in ENEA Group, which serves as an additional tool for effective market and regulatory risk mitigation
- Management of wholesale trade regulations at national and European level
- Continuation of analytical work on forecasting models for foreign electricity markets, and then implementation of an operationally selected neutral network model supporting trade-related decision making process

Measures to be implemented in 2019



**Retail Trade
Area**

- Modification of the product offer in terms of its adaptation to the provisions of the Act amending the Excise Duty Act and certain other acts
- Preparation and clearance of settlements with the Settlement Manager [Zarządca Rozliczeń] pursuant to the Act amending the Excise Duty Act and certain other acts
- Further development of the product offer in terms of additional products and services
- Further development of the Purchase Zone loyalty programme
- Sales process optimisation and promotional actions
- Analysis of the trading segment operation model with regard to changes in the regulatory environment



**Customer Service
Area**

- Implementation of the customer settlement process in accordance with the Act amending the Excise Duty Act and certain other acts
- Continuation of the project aimed at the visual upgrade of Customer Service Centres – modernisation of the Customer Service Centre in Gniezno
- Implementation of a digital pen for signing agreements and contracts in Customer Service Centres
- Development of remote customer service channels by introducing a range of facilities, such as: new contact channels, video chat and mass customer service through social media
- Implementation of a new Digital Customer Service Centre and introduction of changes on the service subpages of www.enea.pl website to facilitate remote customer service
- Launch of Customer Service in the Contact Centre in English and further development of self-services
- Further work on automation of service process through robotic process automation (RPA)
- Implementation of the system supporting Customer information management, i.e. Central Customer Database (CCD)
- Introduction of customer satisfaction surveys in Customer Service Centres
- Provision of new points for invoice payments and purchase of electricity in prepayment system by loading codes, in cooperation with the PayTel network
- Implementation of a new channel for distribution of e-documents to e-mail



**Wholesale Trade
Area**

- Execution of an interdisciplinary project to implement the secondary capacity market, which aims at maximising finance income of and optimising the approach to the management of costs related to renovation works and investments for ENEA Group's generation units. Preparation of ENEA Group's assets for general certification and main auction and development of the 2024 strategy for the participation of capacity market units in the main auction. Commencement of ENEA Group's participation in the secondary capacity market, which will start operating from 2020, including management of the obtained one-year and multi year capacity contracts and update of generation unit availability
- Development of tools and products in the area of origination, taking into account new trade opportunities and services for the management of energy produced in distributed units and micro grids; the use of energy storage facilities in the management of electricity trade and system services
- Further use of sludges and flocculants in ENEA Elektrownia Połaniec
- Development of a concept for biomass fuel trade on international markets that covers the following stages: analysis of potential directions of supply, conducting bids for biomass supplies according to the DDP or CIF formula, conducting bids for the provision of additional services (transport and agency services), depending on the delivery agreement – completion of deliveries
- Development of a model for the management of the risk of exposure of Receiving Units (JGO) owned by ENEA Group's companies to the Balancing Market in the periods of National Power System's minimum and peak demand related to the border price change adjusting the Polish Balancing Market to other European markets
- Update of the model of short-term optimisation of ENEA Group's companies taking into account the planned implementations of the solutions on the Polish market that are in line with the Capacity Allocation & Congestion Management network code
- Update of the model for optimisation of exposure of ENEA Group's active generation units to the Balancing Market taking into account TSO's planned implementations of the solutions compliant with Guideline on Electricity Balancing

Agreements concluded

Agreements of significance to ENEA Group's operations

In 2018, 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 Koźienice Power Plant in 2017-2036 has been increased, whereby the value of the said Agreement rose by approx. PLN 2.7 bn.

Execution of agreements concerning operating activities

Date of conclusion	Parties to the agreement		Description
23 July 2015	ENEA S.A.	PKO BP S.A., Bank Pekao S.A., Bank Zachodni WBK S.A., Bank Handlowy w Warszawie S.A.	Annex to the Programme Agreement of 21 June 2012 amending the terms and conditions of financing in the amount up to PLN 3 billion
3 December 2015	ENEA S.A.	Bank Gospodarstwa Krajowego	Programme Agreement in the amount up to PLN 700 million with allocation to financing investment needs
29 May 2015	ENEA S.A.	Europejski Bank Inwestycyjny	Financial agreement in the amount up to PLN 946 million
30 September 2016	ENEA Wytwarzanie Sp. z o.o.	Rafako S.A.	Supply and assembly of the SCR installation for AP-1650 Boilers 9 and 10, including the upgrade of electrostatic precipitators
28 June 2011	ENEA Wytwarzanie Sp. z o.o.	Rafako S.A.	Supply and assembly of the SCR installation for OP-650 Boilers 4 to 8
23 January 2012	ENEA Wytwarzanie Sp. z o.o.	LW Bogdanka S.A.	Multiannual Agreement No. UW/LW/01/2012 – specifies the general terms for coal supplies in 2017-2036
27 December 2017	ENEA Wytwarzanie Sp. z o.o.	Polska Grupa Górnicza S.A.	Multiannual Agreement No. 44/P/PGG/2018/K – specifies the general terms for coal supplies in 2018-2021
29 December 2017	ENEA Wytwarzanie Sp. z o.o.	Jastrzębska Spółka Węglowa S.A.	Multiannual Agreement for supplies of fuel coal No. 48/DH/HE/2017 K – specifies the general terms for coal supplies in 2018-2020
29 December 2017	ENEA Wytwarzanie Sp. z o.o.	Jastrzębska Spółka Węglowa S.A.	Multiannual Agreement for supplies of sludge No. 1/DH/HE/2018 – specifies the general terms for sludge supplies in 2018-2020
15 December 2017	ENEA Wytwarzanie Sp. z o.o.	LW Bogdanka S.A.	Annual Agreement for supplies of fuel coal in 2017 – Appendix No. 3 to Agreement UW/LW/01/2012
17 November 2017	ENEA Wytwarzanie Sp. z o.o.	Węglokok S.A.	Coal sale agreement No. 14164/2017 – specifies the general terms for coal supplies between November 2017 and January 2018
12 July 2012	ENEA Połaniec S.A.	LW Bogdanka S.A.	Multiannual Agreement – specifies the general terms for coal supplies in 2013-2021
24 August 2016	ENEA Połaniec S.A.	Katowicki Holding Węglowy (now: PGG)	Annual Agreement for supplies of fuel coal in 2016-2017
24 August 2016	ENEA Połaniec S.A.	Polska Grupa Górnicza (PGG)	Annual Agreement for supplies of fuel coal in 2017
20 April 2017	ENEA Połaniec S.A.	Jastrzębska Spółka Węglowa S.A.	Short-term Agreement for coal purchase
29 December 2017	ENEA Połaniec S.A.	Jastrzębska Spółka Węglowa S.A.	Multiannual Agreement for coal purchase
27 December 2017	ENEA Połaniec S.A.	Polska Grupa Górnicza S.A.	Multiannual Agreement for coal purchase
28 August 2018	ENEA Połaniec S.A.	RAFAKO S.A.	"Design, delivery, assembly and start-up of a complete flue gas desulphurisation (FDG) installation for Unit No. 5 in ENEA Połaniec S.A."

Agreements concluded by ENEA Wytwarzanie Sp. z o.o.

Date of conclusion	Party to the Agreement	Description
11 September 2018	LW Bogdanka S.A.	Additional Agreement No. UD/LW/01/2018 for supplies of thermal coal
11 September 2018		Annual Agreement for supplies of thermal coal in 2019 – Annex No. 4 to Agreement No. UW/LW/01/2012
9 August 2018	Węglokoks S.A.	Framework Agreement for supplies of coal No. UW/WEG/01/2018
10 August 2018	Polska Grupa Górnicza S.A.	Multiannual Agreement No. 63/P/PGG/2018/K for supplies of thermal coal in the years 2018-2021 (Białystok Heat and Power Plant)
29 March 2018		Agreement No. 202/P/PGG/2018/K for supplies of thermal coal
16 August 2018	EP Coal Trading Polska S.A.	Framework Agreement No. EPCT/UR/42/2018. Framework Agreement for supplies of thermal coal
5 December 2018	P2 Trading Sp. z o.o.	Framework Agreement for supplies of coal No. UW/P2T/01/2018
9 July 2018	PKP Cargo S.A.	Contract for the performance of thermal coal transportation services for ENEA Wytwarzanie Sp. z o.o. from LW Bogdanka S.A. from 9 July 2018 to 9 August 2019 (or until the limit of 5,500,000 tonnes has been exhausted)
10 January 2018	CD Cargo Poland Sp. z o.o.	Contract for the performance of thermal coal transportation services for ENEA Wytwarzanie Sp. z o.o. from mines belonging to Polska Grupa Górnicza Sp. z o.o., Jastrzębska Spółka Węglowa S.A., Spółka Restrukturyzacji Kopalń S.A., Węglokoks Kraj Sp. z o.o., and PG Silesia Sp. z o.o. from 1 February 2018 to 31 January 2019 (or until the limit of 800,000 tonnes has been exhausted)
31 December 2018	Europort Giełda Towarowa Sp. z o.o. s.k.	Framework Agreement for supplies of coal No. UR/EGT-EW/01/2018
9 July 2018	PKP Cargo S.A.	Contract for the performance of thermal coal transportation services for ENEA Wytwarzanie Sp. z o.o. from LW Bogdanka S.A. from 9 July 2018 to 9 August 2019 (or until the limit of 5,500,000 tonnes has been exhausted)
10 January 2018	CD Cargo Poland Sp. z o.o.	Contract for the performance of thermal coal transportation services for ENEA Wytwarzanie Sp. z o.o. from mines belonging to Polska Grupa Górnicza Sp. z o.o., Jastrzębska Spółka Węglowa S.A., Spółka Restrukturyzacji Kopalń S.A., Węglokoks Kraj Sp. z o.o., and PG Silesia Sp. z o.o. between 1 February 2018 and 31 January 2019 (or until the limit of 800,000 tonnes has been exhausted)
1 October 2018	CD Cargo Poland Sp. z o.o.	Contract for the performance of thermal coal transportation services for ENEA Wytwarzanie Sp. z o.o. from mines belonging to Polska Grupa Górnicza Sp. z o.o., Jastrzębska Spółka Węglowa S.A., Spółka Restrukturyzacji Kopalń S.A., Węglokoks Kraj Sp. z o.o., and PG Silesia Sp. z o.o. between October 2018 and 31 December 2019 (or until the limit of 1,500,000 tonnes has been exhausted)

Agreements concluded by ENEA Elektrownia Połaniec S.A.

Date of conclusion	Party to the Agreement	Description
3 January 2018	Polska Grupa Górnicza S.A.	Agreement for supplies of coal in the years 2018-2021
8 May 2018	PGE Paliwa Sp. z o.o.	Multiannual/Framework agreement for supplies of coal
19 April 2018	Polska Grupa Górnicza S.A.	Short-term
13 November 2018	Węglokoks S.A.	Agreement for supplies of coal No. 1/WR/ET/EEP/2018
18 May 2018	PKP Cargo S.A.	Contract for the performance of thermal coal transportation services for ENEA Połaniec from LW Bogdanka S.A. in the years 2018/2019
18 May 2018	PKP Cargo S.A.	Contract for the performance of thermal coal transportation services for ENEA Połaniec from Silesian mines in the years 2018/2019

Agreements concluded by LW Bogdanka S.A. with entities outside ENEA Group

Date of conclusion	Party to the Agreement	Description
8 January 2009	Zakłady Azotowe Puławy S.A.	Multiannual Agreement – specifies the general terms for coal supplies in 2010 – 2023
14 December 2010	Energa Elektrownie Ostrołęka S.A.	Multiannual Agreement – specifies the general terms for coal supplies in 2011 – 2022

Dependence on suppliers or users

Due to the sales structure, there is no dependence on any customer. In the area of coal supply, LW Bogdanka's subsidiary is the largest supplier of coal.

Insurance agreements

At ENEA Group, insurance agreements are contracted pursuant the Corporate Policy of Insurance. With the single Policy, insurance standards within the Group have been made uniform and the insurance coverage procurement has been consolidated for selected insurance segments, which has provided measurable benefits both in terms of insurance and in terms of insurance cost.

ENEA Group companies 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 conclusion of insurance agreements. The measures taken in this area enables them to achieve measurable financial and organisational benefits.

Due to the significant exposure of ENEA Group companies to damage and potential claims, it cannot be ruled out that the current insurance agreements may prove insufficient. The level of insurance coverage does not deviate from the standards applied in Polish power industry and is adjusted to the specific activity of each Company.

Agreements signed between the Parent's shareholders

The Company is not aware of any agreements that may have been concluded between the shareholders of ENEA S.A.



Partnering or cooperation agreements

ElectroMobility Poland S.A.

PGE Polska Grupa Energetyczna S.A., Energa S.A., ENEA S.A. and Tauron Polska Energia S.A. established ElectroMobility Poland S.A. on 19 October 2016. The company's activity is to contribute to implementing a programme aimed at constructing a Polish electric vehicle and selling it on a mass scale, as well as to establishing the electromobility system in Poland. The companies establishing ElectroMobility Poland acquired 25% of shares each, thus obtaining 25% of votes at a general shareholders' meeting. Initially, the share capital amounted to PLN 10,000,000.

In 2018, the Company's share capital was increased twice. The first increase occurred on 3 January 2018, when the Shareholders took a decision to increase the Company's share capital by PLN 20,000,000, i.e. from PLN 10,000,000 to PLN 30,000,000. On 4 October 2018, the Extraordinary Shareholders Meeting of ElectroMobility Poland S.A. adopted a resolution on increasing the share capital of the Company by PLN 40,000,000, i.e. from PLN 30,000,000 to PLN 70,000,000.

Currently, the Company's capital share amounts to PLN 70,000,000.

Cooperation with research units

As a result of innovative activities and implementation of research and development projects, in 2018 the Company ENEA Operator continued its cooperation with the research units listed below:

- University of Zielona Góra
- Institute of Power Engineering in Warsaw
- Institute of Power Engineering, Gdańsk Division
- AGH University of Science and Technology
- Poznań University of Technology
- Institute of Logistics and Warehousing in Poznań
- Maritime University of Szczecin
- Warsaw University of Technology

Additionally, under newly concluded agreements, cooperation was extended in 2018 with the following research units:

- Jan and Jędrzej Śniadecki's University of Science and Technology in Bydgoszcz
- Poznań University of Economics and Business
- West Pomeranian University of Technology in Szczecin

Participation in the nuclear power plant programme:

On 15 April 2015, KGHM, PGE, TAURON and ENEA signed a Share Purchase Agreement in PGE EJ 1. KGHM, TAURON and ENEA acquired from PGE 10% of shares (in total 30% of shares) in PGE EJ 1. ENEA paid for the acquired shares PLN 16 million. According to the Shareholders' Agreement, ENEA S.A.'s financial contribution in the Phasing-in Period shall not exceed the amount of approximately PLN 107 million.

In 2018, the Company's share capital was increased once. The Shareholders decided to increase the share capital of the Company by about PLN 60 million. ENEA S.A. acquired shares of the total nominal value of about PLN 6 million. The total expenditure of ENEA S.A. resulting from the purchase of shares and the increase of the Company's share capital have so far amounted to PLN 32,543.8 thousand.

On 28 November 2018, PGE S.A. expressed an initial interest in acquiring all shares in PGE EJ 1. PGE S.A. aims at operational and cost restructuring of the company as well as at integrating business operations within the PGE Group. Information presented by PGE S.A. also indicated that the transaction would be possible upon a valuation by an independent advisor and obtaining corporate approvals by all involved entities. On 4 December 2018, ENEA expressed an initial interest in selling all shares held in PGE EJ 1. The other shareholders, i.e. TAURON and KGHM, also expressed an initial interest in selling shares held by them in PGE EJ 1.

ENEA Innowacje Sp. z o.o.

ENEA Innowacje Sp. z o.o. (formerly ENEA Innovation Sp. z o.o.) was established by the Management Board of ENEA S.A. on 29 September 2015 and it deals with undertakings which have a chance to become real, innovative products offered by ENEA Group in the future and generate additional financial streams there. The Company actively participates in the implementation of important and key innovative projects of ENEA Group (e.g. related to the development of the concept and commercialisation of the coal gasification project), as well as in the integration of important business and organisational processes.

In 2018, the Company's share capital was increased once. On 31 January 2018, the Extraordinary Shareholders Meeting of ENEA Innovation Sp. z o.o. adopted a resolution on increasing the share capital by PLN 3,500,000, i.e. from PLN 305,000 to PLN 3,805,000. On 23 April 2018, the share capital increase was registered in the National Court Register. On 17 April 2018, the name of ENEA Innovation Sp. z o.o. was changed in the National Court Register to ENEA Innowacje Sp. z o.o.

Implementation of the Investment Agreement with Energa S.A. and Elektrownia Ostrołęka Sp. z o.o. on the construction and operation of the power unit at Elektrownia Ostrołęka Sp. z o.o. – events in 2018

On 4 April 2018, Elektrownia Ostrołęka Sp. z o.o. resolved a public procurement award procedure entitled “Construction of Ostrołęka C Power Plant with an approximate output of 1000 MW” by selecting the Consortium composed of GE Power Sp. z o.o. and Alstom Power System S.A.S as the General Contractor, which offered to deliver the subject of the Contract ensuring parameters specified in the offer for a net amount of PLN 5,049,729 thousand (PLN 6,023,035 thousand gross). On 6 July 2018, the Extraordinary Shareholders Meeting of Elektrownia Ostrołęka Sp. z o.o. granted its consent for the execution of a Public Contract with the General Contractor: GE Power Sp. z o.o. Consortium – The Consortium Leader and ALSTOM Power Systems S.A.S. selected within the framework of procedures for industry procurement conducted by the company in the form of a competitive dialogue entitled “Construction of Ostrołęka C Power Plant with the capacity of approx. 1000 MW”. On 12 July 2018, the Contract was signed by the Management Board of Elektrownia Ostrołęka Sp. z o.o. with the General Contractor: GE Power Sp. z o.o. Consortium – Consortium Leader and ALSTOM Power Systems S.A.S.

On 4 September 2018, an agreement was made by ENEA S.A., Energa S.A., Elektrownia Ostrołęka Sp. z o.o. and Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (Closed-end Non-Public Asset Investment Fund) Energia (“Fund”) concerning the capital involvement of the Fund (through taking up shares in the share capital the SPV) in the project of preparation, construction and operation of a power unit with gross capacity of approx. 1000 MW fired with hard coal, implemented via a special purpose entity. The involvement of the Fund in Elektrownia Ostrołęka Sp. z o.o. depends on the fulfillment of a variety of legal, corporate and financial conditions as well as on the market situation. The agreement was valid until 30 November 2018. The company entered into the Investment Agreement with Energa S.A. and Elektrownia Ostrołęka Sp. z o.o. concerning the implementation of the Ostrołęka C project. The subject matter of the Agreement was the preparation, construction and operation of a high-end coal fired 1,000 MW power unit at Ostrołęka Power Plant. On 19 December 2016, the special purpose entity 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%.

On 24 September 2018, the Extraordinary General Meeting of ENEA S.A. expressed qualified consent to commence the Construction Stage of the Project Ostrołęka C, that is the stage understood as the period from the time when Elektrownia Ostrołęka Sp. z o.o. issues a Notice to Proceed (NTP) to the General Contractor to the time when the power unit executed as part of the Project Ostrołęka C is delivered for commercial operation. This consent was one of many corporate consents expressed preceding the issuing of the NTP.

On 21 December 2018, a Capacity Market auction for the supply for 2023 was held in which Elektrownia Ostrołęka Sp. z o.o. participated. On 14 January 2019, the final capacity auction results were announced by the President of ERO. As a result, Ostrołęka C Power Plant entered into a capacity contract for a 15-year support period for PLN 202.99 kW per year, which entails an annual revenue of approx. PLN 173 million.

By resolution of 28 December 2018, the Supervisory Board of ENEA S.A. agreed to:

- the Management Board of ENEA S.A. entering into a memorandum of understanding (Memorandum) with Energa S.A. and Elektrownia Ostrołęka Sp. z o.o. regulating the terms of the cooperation between the parties in the construction project of Ostrołęka C Power Plant, terminating the Investment Agreement of 8 December 2016 and its Annex No. 1/2018 made on 26 March 2018, which limited the financial involvement of ENEA S.A. in the Construction Stage to PLN 1 billion,
- the ENEA S.A. representative voting at the Extraordinary Shareholders Meeting of Elektrownia Ostrołęka Sp. z o.o. in favour of the resolution regarding the consent to issuing a Notice to Proceed provided that prior to that parties enter into the Memorandum.

The Memorandum between ENEA S.A., Energa S.A. and Elektrownia Ostrołęka Sp. z o.o. was made on 28 December 2018. Under the Memorandum, the Investment Agreement of 8 December 2016 as well as the Annex of 26 March 2018 were terminated. New terms of cooperation were established in the Memorandum, including the financing structure of the Project, according to which ENEA S.A. commits to financial involvement of PLN 1 billion in the Construction Stage and Energa S.A. commits to no less than PLN 1 billion in addition to the funds already involved. Moreover, the Memorandum provides for the involvement of other investors to the extent necessary to cover Project’s financial outlays.

The parties to the Memorandum intend to:

- agree on the form, schedule and terms of financial involvement of a financial investor and/or other investors;
- enter into a new investment agreement;
- agree on the terms of granting credit facilities by the creditors to the Company which are necessary to complete the Construction Stage in such way as not to breach the commitments of ENEA S.A. and Energa S.A. assumed under financial covenants.

The Memorandum was a condition to ENEA S.A. agreeing to issue a Notice to Proceed (NTP) to the general contractor. On 28 December 2018, Extraordinary Shareholders Meeting of Elektrownia Ostrołęka Sp. z o.o. agreed to issuing a Notice to Proceed for the General Contractor – GE Power Sp. z o.o. Consortium – Consortium Leader and ALSTOM Power Systems S.A.S. On 28 December 2018 the Management Board of Elektrownia Ostrołęka Sp. z o.o. issued a Notice to Proceed with the works related to the construction of Ostrołęka C Power Plant to the General Contractor – GE Power Sp. z o.o. Consortium – Consortium Leader and ALSTOM Power Systems S.A.S.

In connection with the issuing of the NTP to the General Contractor – keeping in mind that, pursuant to the provisions of the Memorandum, the second installment of the advance will be covered in equal parts by ENEA S.A. and Energa S.A. – in order to pay the second installment of the advance to the General Contractor on 4 January 2019 the Extraordinary Shareholders Meeting of Elektrownia Ostrołęka Sp. z o.o. adopted a resolution on increasing the company’s share capital by PLN 361,382.4 thousands. ENEA S.A. took up 3,613,821 shares of the nominal value of PLN 180,691 thousands in the share capital of the Company by making a cash contribution to the account of the special purpose entity on 4 January 2019. The share capital increase is awaiting registration in the NCR. On 7 January 2019, ENEA S.A. and Energa S.A. and PGE Polska Grupa Energetyczna S.A. (PGE) commenced talks which may result in PGE’s engagement in the construction of the Ostrołęka C Power Plant, the project which is currently being implemented by ENEA S.A. and Energa S.A.

Recapitalisation of Polska Grupa Górnicza S.A.

In connection with the process of equity investor prospecting by Katowicki Holding Węglowy S.A., in July 2016 ENEA S.A. commenced talks with investors on the possibility of implementing 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. (Investors), 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 of Katowicki Holding Węglowy S.A. and commencement of the PGG recapitalisation process, ENEA S.A. conducted, with the existing Shareholders of PGG, the necessary analyses of the Business Plan presented by PGG and expressed interest in capital commitment in Polska Grupa Górnicza S.A.

On 30 March 2017, the Supervisory Board of ENEA S.A. expressed its consent for the Company to join Polska Grupa Górnicza S.A. and take up new shares in the PGG's capital, of nominal value of PLN 300 million, in exchange of a cash contribution of PLN 300 million.

On 31 March 2017, the Company entered into:

- the investment agreement setting out the terms and conditions of financial investment in PGG (Investment Agreement),
- the investor agreement concerning the joint control of PGG (Annex no. 1 to the Agreement related to Polska Grupa Górnicza).

Investment Agreement

The Parties to the Investment Agreement are: ENEA S.A., Energa Kogeneracja Sp. z o.o., PGE Górnictwo i 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 (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 entered into 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.

As part of recapitalisation of PGG, ENEA S.A. undertook to take up new shares of PGG of the total nominal value of PLN 300 million, for a cash contribution amounting to PLN 300 million, in three stages:

- a) as part of the first stage, the Company took up new shares of PGG of the nominal value of PLN 150 million in exchange for a cash contribution of PLN 150 million. 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.
- b) as part of the second stage, the Company took up new shares of PGG of the nominal value of PLN 60 million in exchange for a cash contribution of PLN 60 million. After taking up these shares, the Company held a 5.81% share in the share capital of PGG. The second recapitalisation took place in June 2017.
- c) as part of the third stage, the Company took up, by way of a private subscription, B series shares of PGG of the nominal value of PLN 90 million, paid up in full with a cash contribution of PLN 90 million. The share of ENEA S.A. in the share capital increased to 7.66%. The third recapitalisation took place in January 2018.

The Agreement defines the rules for the appointment of members of the Supervisory Board, based on which each Investor and the State Treasury shall be entitled to appoint one member to the Supervisory Board consisting of not more than 8 members. The investments fits into the Development Strategy of ENEA Capital Group, since one of the elements of the Strategy is to secure resource base for conventional power operations. As a result of the conversion of Polska Grupa Górnicza Sp. z o.o. into a joint-stock company and changes in the rules concerning the preparation of financial statements, i.e. the transition of Polska Grupa Górnicza Sp. z o.o. to International Accounting Standards, on 31 August 2018 Annex no. 1 to the Investment Agreement of 31 March 2017 entered into force, taking into account, but not limited to, the changes referred to above.

Investor Agreement

On 31 March 2017, the following investors: Energa Kogeneracja Sp. z o.o., PGE Górnictwo i Energetyka Konwencjonalna S.A., PGNiG TERMIKA S.A. and Fundusz Inwestycji Polskich Przedsiębiorstw Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych entered with ENEA S.A. into a Memorandum of Understanding regulating the manner of reaching a common position of the Parties in decisions relating to the Company, and the common control of the company.

The Memorandum of Understanding for ENEA S.A. was executed on the condition of obtaining the consent of the President of the Office of Competition and Consumer Protection (UOKiK) for the acquisition of joint control of the Company. The UOKiK's consent referred to in the preceding sentence was granted on 22 December 2017.

At the same time, on 31 March 2017, the Letter of Intent signed on 16 October 2016 by ENEA S.A., Węglokoks S.A. and Towarzystwo Finansowe Silesia Sp. z o.o., relating to the considered equity investment in Katowicki Holding Węglowy S.A. was terminated.

On 12 December 2018, under the Bond Issue Programme up to the value of PLN 700 million (of 3 December 2015, as amended), ENEA S.A. issued the second series of securities in the amount of PLN 550 million, thus using all the financing available under the programme. Bank Gospodarstwa Krajowego is the underwriter of the agreement. As at the balance sheet date, the nominal debt on account of bonds issued by ENEA S.A. totalled PLN 6,065 million. The funds from the above issue were used to finance current operations and investment needs of ENEA S.A. and its subsidiaries.

Assessment of feasibility of investment plans' implementation

The Company's financial standing creates a solid basis for implementation of 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 the investment activities (particularly in the area of acquisitions) the Company intends to make use of debt financing so as to attain leverage.

Interest rate hedging transactions

Under the implementation of the Interest Rate Risk Management Policy, in the twelve months of 2018 ENEA S.A. did not conclude any transactions hedging the interest rate risk (Interest Rate Swaps).

Related-party transactions

In the period of January-December 2018, ENEA S.A. and its subsidiaries did not conclude any related-party transactions on non-market conditions. Information on related-party transactions concluded by ENEA or its subsidiaries is included in Note 45 to the consolidated financial statements of ENEA Group for the period from 1 January to 31 December 2018.

Other agreements

In the previous years, ENEA S.A. also concluded intra-group programme agreements on bond issues with its subsidiaries, which serve to finance investments in the RES and Heat Segments. These programmes are fully utilised and being redeemed in instalments. As at 31 December 2018, the total amount of bonds to be redeemed under these programmes amounted to PLN 50 million. Following the division effected on 30 November 2018 of ENEA Wytwarzanie Sp. z o.o. ("ENEA Wytwarzanie") consisting in the transfer to ENEA Ciepło Sp. z o.o. ("ENEA Ciepło") of a part of the assets of ENEA Wytwarzanie in exchange for shares of ENEA Ciepło, which were taken up by a shareholder of ENEA Wytwarzanie (division by spin-off), ENEA Ciepło was allocated the property (assets and liabilities), permits, licences and allowances related to the operations of Białystok Heat and Power Plant, which is an organised part of the enterprise. The distribution of components was made as at 1 May 2018. All assets of ENEA Wytwarzanie (including receivables and liabilities) not allocated to ENEA Ciepło in the division plan of ENEA Wytwarzanie of 26 June 2018 remain with ENEA Wytwarzanie. As a result of the reorganisation of ENEA Wytwarzanie, bonds issued by Białystok Heat and Power Plant were transferred to ENEA Ciepło, which took over the rights and obligations of the issuer of bonds with a nominal value of PLN 13.45 million.

Distribution of profit for 2017

On 16 May 2018, the Management Board of ENEA S.A. adopted a resolution on approval of the distribution of the Company's net profit for 2017 in which the Management Board requested that the Issuer's net profit for the period from 1 January 2017 to 31 December 2017 in the amount of PLN 1,813,324,000 be distributed in such a way that 100% of the net profit be allocated to increase reserve capitals for purposes of financing investments. The recommendation of the Company's Management Board to allocate 100% of the net profit for the financial year 2017 to other reserve capitals is a consequence of significant investment needs of the Group resulting, inter alia, from plans included in the "Development Strategy of the ENEA Group until 2030", which the Company informed about in Current Report No. 29/2016. At the same time, the principle of dividend policy of ENEA S.A. remains that any future dividend payments will be made depending on the amount of the generated profit and financial capabilities of the Company. Next, the Supervisory Board of the Company gave a positive opinion on the above motion. On 25 June 2018, the Ordinary General Meeting adopted a resolution on the distribution of net profit for 2017 in line with the above recommendation.

Financing sources of the investment programme

ENEA S.A. finances the investment programme using financial surpluses from its business activities and external debt. ENEA Group implements the investment financing model, in which ENEA S.A. acquires external sources of financing and distributes them to its subsidiaries. In further activities, ENEA S.A. 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. Description of active agreements is presented below.

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

On 30 June 2014, ENEA S.A. concluded a programme agreement relating to the bond issue programme up to the amount of PLN 5 billion with the following banks acting as dealers: ING Bank Śląski S.A., PKO BP S.A., Bank Pekao S.A. and mBank S.A. 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 2018, ENEA S.A. did not issue bonds under the programme. As at 31 December 2018, the value of the bonds issued within the Programme totalled PLN 1,500 million.



Financing source utilisation rate

External financing sources utilised

Below is a summary of the loan agreements and bond issue programmes utilised, under which ENEA S.A. had liabilities as at 31 December 2018.

Source	Purpose	Value	Final redemption/repayment date	Amount due at the balance sheet date	Additional information
Programme Agreement on the bond issue programme	Financing of the realisation of investment projects	up to PLN 3,000 million	June 2022	PLN 3,000 million	underwriters of the issue – PKO BP S.A., Bank Pekao S.A., BZ WBK S.A. and Bank Handlowy the financing is not hedged on assets
Programme Agreement on the bond issue programme	Financing of the current activities and investment purposes	up to PLN 1,000 million	December 2026	PLN 880 million	underwriter of the issue – Bank Gospodarstwa Krajowego
		up to PLN 700 million	September 2027	PLN 685 million	
Investment loans granted by the European Investment Bank	Financing of the multiannual investment plan regarding the upgrade and extension of the power grids of ENEA Operator	a loan up to PLN 950 million	September 2028	PLN 799 million	the financing is not hedged on assets
		a loan up to PLN 475 million	June 2030	PLN 465 million	
		a loan up to PLN 946 million	September 2032	PLN 942 million	

Distribution of cash – bond issues programmes of subsidiaries

ENEA Group has adopted a model of financing investments implemented by subsidiaries of ENEA S.A. through intra-group financing. ENEA S.A. raises long-term cash on the financial market by taking out loans or issuing bonds, which it then distributes within the Group.

Company	Title	Date of conclusion	Value	Final redemption/repayment date	Amount due at the balance sheet date	Additional information
ENEA Wytwarzanie	Programme Agreement concerning the Bond Issue Programme	September 2012	PLN 3,000 million	PLN 2,650 million	June 2022	The Programme has been fully utilised by ENEA Wytwarzanie. Depending on the series, the bonds bear fixed or floating interest rate.
	Executive Agreement on the Bond Issue Programme	August 2014	PLN 260 million	-	-	As a result of the organisation of the Heat Segment completed on 30 November 2018, the outstanding amount of PLN 228.8 million (together with interest due by the redemption date) was fully redeemed by ENEA Wytwarzanie.
	Programme Agreement concerning the Bond Issue Programme	November 2014	PLN 740 million	PLN 350 million	March 2020	The possibility of issuing bonds under the programme ended on 30 June 2016. The bonds bear floating interest rate plus a margin. The bonds will be redeemed on one date.
	Executive Agreement on the Bond Issue Programme	February 2015	PLN 1,000 million	PLN 1,000 million	February 2020	The Programme has been fully utilised by ENEA Wytwarzanie. The bonds bear fixed interest rate. The bonds will be redeemed on one date.
ENEA Operator	Programme Agreement concerning the Bond Issue Programme	June 2013	PLN 1,425 million	PLN 1,264 million	June 2030	The Programme has been fully utilised. The bonds, depending on the series, bear fixed or floating interest rate. The bonds are being redeemed in half-yearly principal instalments from June 2017.
	Executive Agreement on the Bond Issue Programme	July 2015	PLN 946 million	PLN 942 million	September 2032	The programme has been fully utilised. The bonds bear floating interest rate. The bonds are being redeemed in half-yearly instalments from December 2018.
	Executive Agreement on the Bond Issue Programme	September 2017	PLN 350 million	PLN 350 million	December 2019	The programme has been fully utilised. The bonds bear floating interest rate WIBOR 3M plus margin. The bonds will be redeemed at one time.
	Executive Agreement on the Bond Issue Programme	July 2018	PLN 400 million	PLN 400 million	December 2020	The programme has been fully utilised. The bonds bear floating interest rate WIBOR 3M plus margin. The bonds will be redeemed at one time.

Loan and borrowing agreements concluded and completed

As at 31 December 2018, the nominal value of debt resulting from long-term loans taken out by ENEA S.A. was PLN 2,206,203 thousand. ENEA S.A. did not terminate any loan and borrowing agreements in 2018. ENEA S.A. did not increase its debt on account of loans and borrowings in 2018:

Starting date	Ending date	Lender	Value	Amount of credit taken in 2018 [k PLN]	Interest rate	Debt as at 31 Dec 2018 [k PLN]	Repayment period
29 May 2015	September 2032	(C) European Investment Bank	946,000	0	base rate + margin	941,833	principal instalments calculated upon credit tranche drawing
19 June 2013	December 2030	(B) European Investment Bank	1,425,000	0	base rate + margin	1,264,370	principal instalments calculated upon credit tranche drawing
TOTAL						2,206,203	

Loans and borrowings taken out by ENEA Group companies

As at 31 December 2018, the nominal value of debt on account of loans and borrowings taken out by ENEA Group companies amounted to PLN 89,739 thousand. In 2018, ENEA Group companies did not terminate any loan and borrowing agreements.

Starting date	Ending date	Company	Type of financing	Value [PLN k]	Amount of credit taken in 2018 [k PLN]	Interest rate	Debt as at 31 Dec 2018 [k PLN]
September 2013	June 2023	MEC Piła Sp. z o.o.	a loan from WFOŚiGW	14,022	3,360	base rate + margin	6,723
December 2012	September 2028	PEC Sp. z o.o. w Obornikach	a loan from WFOŚiGW	4,500	1,300	base rate + margin	2,600
August 2012	November 2023	ENEA Ciepło Sp. z o.o.	an investment loan	16,367	0	base rate + margin	6,909
April 2016	December 2026.	ENEA Ciepło Sp. z o.o.	a loan from NFOŚiGW	60,075	6,382	base rate + margin	56,541
June 2014	July 2024	Łęczyńska Energetyka Sp. z o.o.	a loan from WFOŚiGW	26,580	0	base rate + margin	16,966

Loans granted

In 2018, ENEA S.A. granted to ENEA Group companies and other companies in which it held an interest loans of the total value of PLN 87,280 thousand. The nominal value of debt as at 31 December 2018 was PLN 190,275 thousand. Detailed information on the loan agreements concluded by ENEA S.A. in 2018 and on the degree of their utilisation is presented in the table below:

Starting date	Ending date	Company	Value	Amount of credit taken in 2018 [k PLN]	Interest rate	Debt as at 31 Dec 2018 [k PLN]
May 2014	June 2028	ENEA Centrum Sp. z o.o.	325,000	45,000	base rate + margin	177,857
January 2015	January 2020	ENEA Oświetlenie Sp. z o.o.	10,000	0	base rate + margin	2,198
April 2018	February 2019	Annacond Enterprises w likwidacji	480	480	base rate + margin	480
November 2017	March 2021	PGE EJ 1 Sp. z o.o.	7,740	4,800	fixed	7,740
October 2018	December 2019	PEC Oborniki	2,000	2,000	base rate + margin	2,000

Suretyships granted and received

In 2018, ENEA Group companies did not grant any significant suretyships.

In 2018, ENEA S.A. grant one new suretyships to the value of PLN 2,000 thousand. As regards the agreements signed before, in several cases the effective dates of suretyships granted were modified by way of annexes. As at 31 December 2018, the total value of the off-balance sheet items on account of suretyships granted was PLN 109,881.00 thousand.

Guarantees granted

As at 31 December 2018, the total value of the off-balance sheet items on account of guarantees granted was PLN 300,278.57 thousand. In 2018, bank guarantees were issued upon the order of ENEA S.A. for the total value of PLN 305,735.47 thousand. The table below presents information on the largest bank guarantee amounts granted in 2019 (relevance threshold > PLN 1m):

Security granting date	Security validity date	Secured entity	Purpose of the agreement	Security form	Security amount granted [k PLN]
12 August 2018	12 August 2020	Polskie Sieci Elektroenergetyczne S.A.	good contract performance	under the guarantee line in the amount of PLN 350,000,000	15,000.00
12 August 2018	12 August 2020	Izba Rozliczeniowa Giełd Towarowych S.A.	deposit-making	under the guarantee line in the amount of PLN 350,000,000	40,000.00
29 August 2018	16 September 2019	ENEA Operator Sp. z o.o.	due contract performance	under the guarantee line in the amount of PLN 350,000,000	1,079.94
12 August 2018	12 August 2020	Izba Rozliczeniowa Giełd Towarowych S.A.	deposit-making	under the guarantee line in the amount of PLN 350,000,000	150,000.00
12 August 2018	12 August 2020	Izba Rozliczeniowa Giełd Towarowych S.A.	deposit-making	under the guarantee line in the amount of PLN 350,000,000	60,000.00
12 August 2018	12 August 2020	Górecka Projekt Sp. z o.o.	lease payment	under the guarantee line in the amount of PLN 350,000,000	1,944.00
13 November 2018.	30 January 2020	Olsztyn Commune	good contract performance	under the guarantee line in the amount of PLN 350,000,000	4,462.28
12 August 2018	12 August 2020	Polskie Sieci Elektroenergetyczne S.A.	good contract performance	under the guarantee line in the amount of PLN 350,000,000	20,000.00



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 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. At ENEA Group, ERM system 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 Procedures describe the process flow of these activities and the methods used in carrying out tests, measurements, etc.

The model functioning at ENEA Group is supplemented by the business continuity management system, the purpose of which is to identify critical processes for the operations of the key Companies of ENEA Group and to implement such actions and procedures that will reduce the risk of process interruption and ensure its continuity in an emergency situation.

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

The Group uses IT systems to implement corporate risk, credit risk and commodity risk management processes.

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 S.A.

Key features of the coordinated model:

- Group companies manage risks on the basis of uniform standards set out in the Policies and Procedures.
- Companies ensure operating management of risks within allocated limits and pursuant to the rules approved by ENEA Group Risk Committee.
- Individual companies report to ENEA S.A. on the measures implemented in the area of risk management.
- ENEA S.A. acts in its capacity as the process coordinator in ENEA Group.
- The Company's organisational structure is divided into Front-, Middle- and Back Office.
- The organisational structure in place at Companies is divided into Front Office (unit performing operational tasks), Middle Office (unit performing advisory, control and coordination tasks) and Back Office (unit performing tasks in the area of settlements, accounting records and debt collection).

INTEGRATED RISK MANAGEMENT SYSTEM

ERM Enterprise Risk Management Policy



Credit risk management policy



FX and interest rate risk management policy



Commodity risk management policy

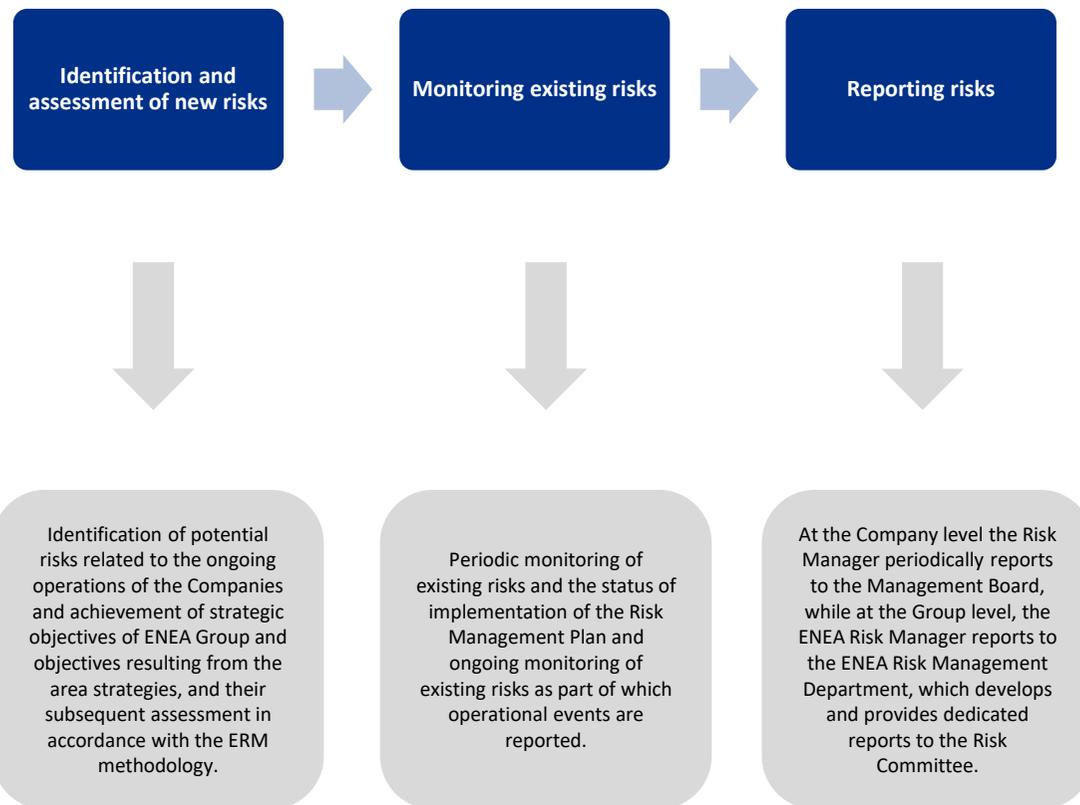


Liquidity and liquidity risk management policy



Risk management process

The risk management process at 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 of ENEA Group for 2018" hereinbelow.

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 S.A. and its Subsidiaries within the Group as well as ENEA S.A. department directors in charge of risk management, audit and Compliance.

Powers of the Risk Committee

For the Risk Management and Compliance Area:

- 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:
 - Issues resulting from the documentation governing the area of managing risks, business continuity, and insurances
 - Giving a consent to the deviations from the rules set out in the documentation governing the areas listed in the item above
 - 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)

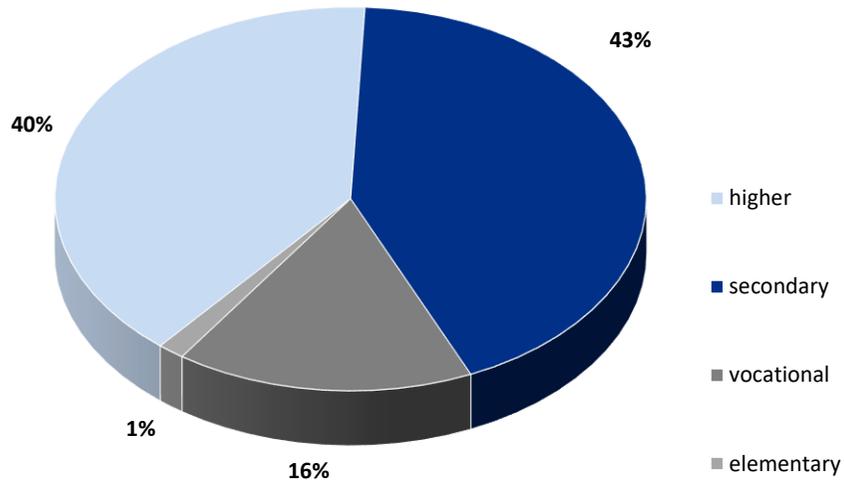
For the Market Regulation Area:

1. Issuing guidelines concerning the presentation of the position and undertaking negotiation, regulatory, and lobbying activities in favour of ENEA Group companies in the scope of market regulations.
2. Setting the direction and scope of the analysis of the impact of market regulations on development and investment plans and strategy of ENEA Group.
3. Receiving and analysing information from the Market Regulation Area received from the Substantive Entities.

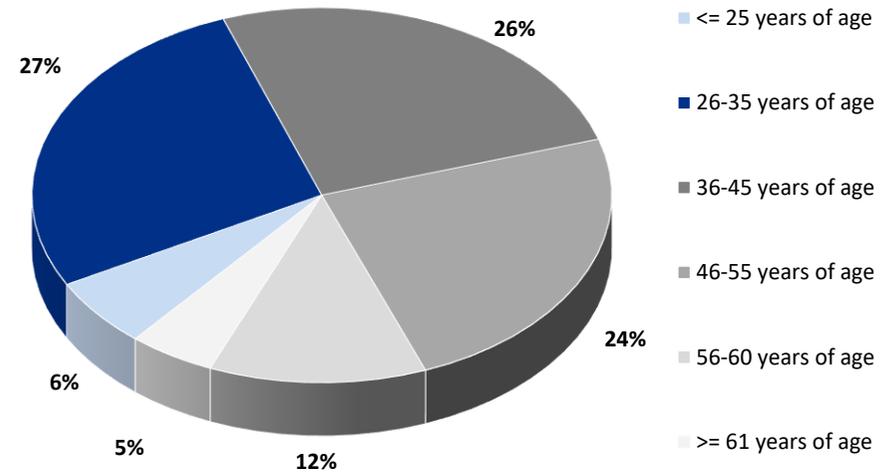
RISK MODEL	CORE RISKS TO WHICH ENEA GROUP IS EXPOSED IN SPECIFIC CATEGORIES	CORE RISKS TO WHICH ENEA GROUP IS EXPOSED IN SPECIFIC CATEGORIES
STRATEGIC	<ul style="list-style-type: none"> • Risk of breaching legal and internal regulations on the protection of personal data • Risk of delays in the implementation / failure to implement measurement of the MV / LV station by the specified statutory deadlines • Risk resulting from the regulatory environment affecting costs and revenues • Risk of adopting erroneous assumptions for long-term financial projections • Risk of improper management of information in a crisis situation • Risk of non-compliance with the restrictive objectives of the EU climate policy • Risk of a generation gap • Risk of failure to meet the economic objectives of the planned construction of the Ostrołęka C Power Plant 	<ul style="list-style-type: none"> • Conducting induction and periodic training for employees and associates • Participation in the work of thematic teams and the bodies of the Association of Energy Trading and other industry associations • Securing systems that process personal data by ensuring system security measures • Monitoring and verification of forecasts of exchange rates, interest rates and other macroeconomic assumptions • Maintaining efficient communication channels with key business units • Participation in work on regulations for the energy and coal industry • Implementation of solutions aimed at supplementing, enhancing and strengthening the competences and knowledge of the organisation, e.g. through paid internships and apprenticeships • Ensuring a transparent, competitive and motivational remuneration system • Monitoring of legislative activities • Updating the financial model in line with planned legislative changes
FINANCIAL	<ul style="list-style-type: none"> • Risk of breach of financing agreements • Risk of rating downgrade • Liquidity risk • Risk of losses due to partners' failure to meet their contractual obligations (including the credit risk) • Risk of non-execution or delays in the execution of investments 	<ul style="list-style-type: none"> • Monitoring banking covenants at ENEA Group • Ongoing consultations with the credit rating agency • Conducting structured activities in the area of credit risk management and debt collection, formally defined by means of implemented documentation • Monitoring the implementation of investment tasks
OPERATING	<ul style="list-style-type: none"> • Risk of non-compliance with BAT conclusion requirements • Risk of excessive consumption of some elements of generation assets • Risk of delayed tender processes • Risk of non-compliance with laws and internal regulations regarding information processing and IT security in ENEA Group • Flood risk 	<ul style="list-style-type: none"> • Projects related to compliance with the requirements of the BAT conclusions • Analyses and research on the state of generation assets. Initiating renovation projects as needed • Regular periodic employee training • Regular periodic reviews of systems processing personal data and their assessment in terms of ensuring security
MARKET	<ul style="list-style-type: none"> • Risk of commodity price volatility on the futures market • Risk of non-continuity of fuel supplies • Volumetric risk of fuel and transport • Risk involved in the sales of the assumed volume of coal to key customers 	<ul style="list-style-type: none"> • Improving methods and tools to optimize commodity portfolios • Maintaining and developing competences within the Company to manage the commodity risk • Diversification of sources of supply and service provision • Continuous analysis of the fuel and energy market • Optimisation 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

ENE A Group employs 16,531 persons under an employment contract, including 2,950 women and 13,581 men.

Employment at ENE A Group as of 31 December 2018
– level of education



Employment at ENE A Group as of 31 December 2018
– age



HR Policy implementation at ENEA Group in 2018

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 S.A. 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.
 - Voluntary Redundancy Scheme (VRS) – the process is underway of presumed restoration of jobs for the employees who terminated their employment contracts under the VRS.
 - 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. Developing an action plan based on an analysis of the results of the satisfaction survey.
 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, implementation of the dual education program, cooperation with student organisations and activities dedicated to students of vocational and technical schools through the implementation of a model of cooperation with patronage schools in the areas of operations of the companies, promotion of work for ENEA among schoolchildren and students - potential employees and support for schoolchildren and students in the education process. Activities related to employer promotion also include participation in job fairs in order to promote job offers among job seekers, professionals and specialists, as well as maintaining employer profiles in social media. In this area, activities are also undertaken aimed at current employees through running the Employee Zone in the intranet, organizing competitions and updating the Code of Ethics of ENEA Group.
 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 remuneration rules at ENEA S.A.

In 2018, 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 S.A., 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 S.A. 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 2018.

The extra-financial remuneration components (including those for the key managers) applied by ENEA S.A. in 2018 included, i.a., 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 S.A. in 2018. However, the remuneration 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 2018, 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.

Areas of activities

The current Polish energy market was shaped in 1997 when the Energy Law Act was adopted and the Energy Regulatory Office was established.

Energy Regulatory Office determines the prices of the energy transfer as well as the property rights from the certificates of origin for electricity and CO₂ emission allowances. Further significant changes in Polish energy sector occurred following the accession to the European Union in 2004. Two liberalising directives regulating the rules of the European the electricity and natural gas market were transposed into national law. Important changes also took place in 2007 when the domestic retail customers were given the right to purchase energy from any chosen seller.

The energy market in Poland is comprised mainly of energy groups: ENEA, PGE, Tauron, Energa and Innogy. Pursuant to the Energy Law Act, a license from the President of the Energy Regulatory Office is required to carry out an economic activity in the field of transmission or distribution of electricity. The main distributors of energy in Poland are: ENEA Operator Sp. z o.o., TAURON Dystrybucja S.A., PGE Dystrybucja S.A. and Energa Operator S.A.

There are three groups of electricity producers on the Polish market: system power plants, combined heat and power plants and renewable energy sources.

Companies that trade in energy are a special group of entities. They were created in 2007 as a result of the separation of trading and distribution activities of power distribution companies.

The energy trade market is regulated by the Energy Law Act and is currently divided into three segments: the contract market, the stock market, the balancing market. The energy trade is based on bilateral contracts (agreements) entered into by the energy producers and energy trading companies and end users. The stock market includes trading at the power exchange (Towarowa Gielda Energii S.A. or TGE). The energy trading at TGE takes place mostly at the Day-Ahead Market (DAM). DAM is run a day ahead of the 24h day during which the energy is actually supplied.

The balancing market is a specific area of energy market in which the differences between the transactions made by individual market participants and the actual demand for electricity are balanced.

On the Polish market, the majority of electricity comes from conventional fuels (mainly coal and lignite), but energy companies are increasingly restructuring in terms of increasing the share of renewable energy production. This is indirectly due to the obligations arising from e.g. the climate package 3x20, according to which before 2020 Poland is obligated to achieve 15% share of RES in the energy consumption. In order to increase the share of these sources in the electricity production balance in the country, due to high investment costs, it is necessary to use appropriate support systems, which guarantee their systematic development. According to the draft Energy Policy of Poland by 2040, announced in November last year which is currently at the stage of consultations, in 2030 the target share of RES in the energy balance is 21%, which constitutes 27% share in the production of electricity. The same year, 60% of the electricity production will come from coal and in 2040 this share is expected to drop below 30%.

Also according to the plans of the Ministry of Energy, in 2033 the first nuclear unit will start running. Other units will be added every 2 years – the last one in 2043. The total capacity of the first nuclear power plant in Poland will be 6-9 GW. An important factor in the development of the Polish energy market is the capacity market, which has to ensure a stable supply of electricity to households and industry, as, according to analyses, after 2020 there may be a deficit of the required capacity level. The project is planned for 2016-2046. Through capacity auctions, the capacity will be contracted few years in advance to ensure that the demand in a given year is covered.

This will ensure stable functioning of the existing generation sources, safe development of RES, development of energy storage facilities and investments in new power plants.

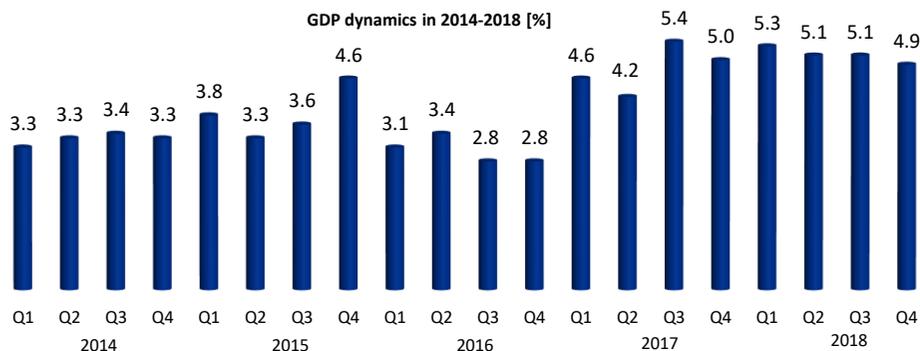
The energy market in Poland consists mainly of four investment groups: ENEA, PGE, Tauron, Energa.

Leading energy groups in Poland



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 estimate of the Central Statistical Office of Poland (GUS), the GDP in Q4 2018 (not seasonally adjusted) increased by 4.9% on the corresponding quarter in 2017 against 5.0% in the corresponding period in 2017.



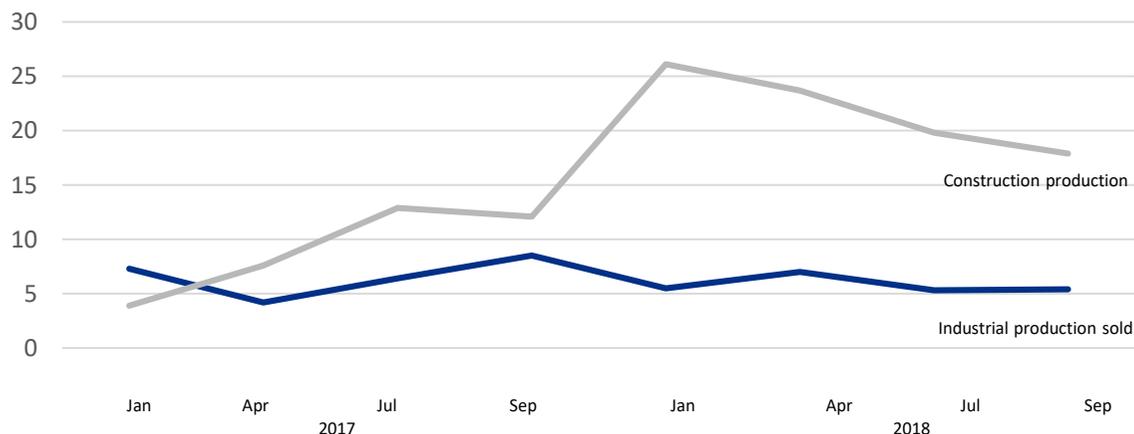
According to GUS data, in 2018 growth tendencies were observed in the main areas of the economy. According to preliminary GUS estimates, in 2018 GDP grew in real terms more than the year before (5.1% in 2018 vs. 4.6% in 2017). In 2018, the industrial production sold was higher than the year before by 5.8%. The growth of industrial production sold was slower than in 2017. In 2018, the construction production in Poland was 14.0% higher than in the previous year. The preliminary estimates show a higher than in 2017 growth in total construction output.

In 2018, prices of consumer goods and services increased by 1.6% year on year. Prices of consumer goods and services increased to a lesser extent than in 2017. The average annual consumer price index was lower than assumed in the Budget Act 2018. Prices of food and non-alcoholic beverages grew slower than in 2017. On the other hand, prices of goods and services related to housing and transport increased more dynamically.

Below, some basic macroeconomic data for the years 2015-2018 are presented.

	Unit	2015	2016	2017	2018
GDP	% change	3.8	2.9	4.6	5.1
Industrial production sold	% change	6.0	3.6	6.6	5.8
Construction production	% change	3.7	-2.6	7.0	14.0
Inflation	%	-0.9	-0.6	2.0	1.6

Quarterly domestic production dynamics in 2017-2018 [%]



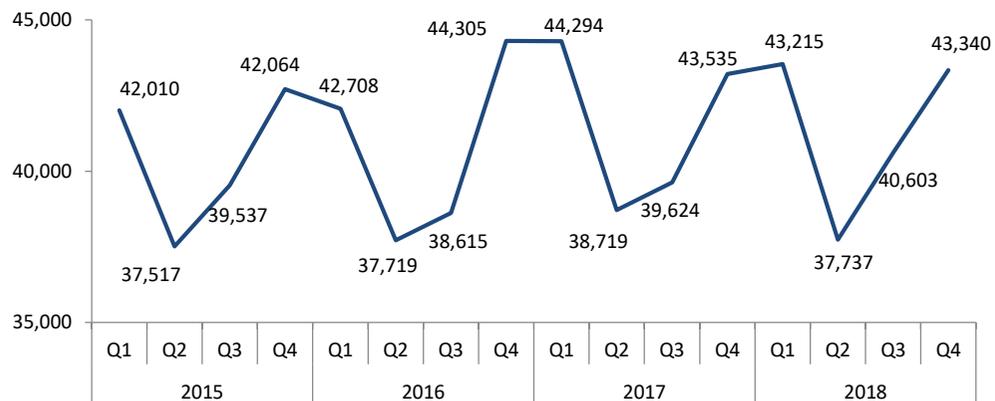
Source: <http://stat.gov.pl> and GUS study "Informacja o sytuacji społeczno-gospodarczej kraju w 2018 roku ("Information on the social and economic situation in the country in 2018") and "Szybki szacunek produktu krajowego brutto za czwarty kwartał 2018 roku" ("A quick estimate of the Gross Domestic Product for Q4 2018")

Situation on the electricity market

Production of electricity

According to the data published by PSE, the domestic production of electricity in 2018 was 165,214 thousand GWh.

Domestic production of electricity [GWh]



Structure of electricity production [GWh]

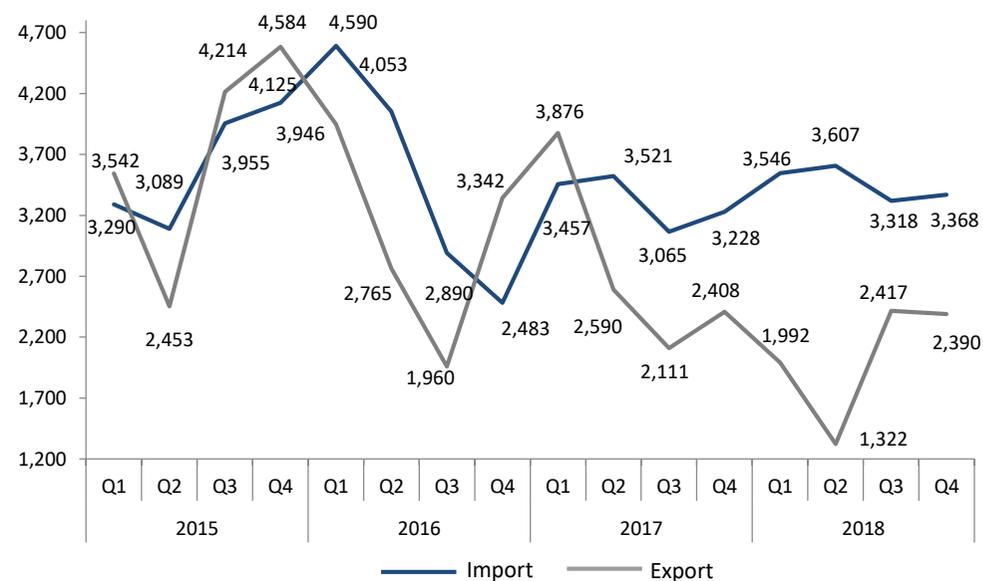
Type of power plants	2017	2018
Commercial on bituminous coal	79,868	82,375
Commercial on lignite	51,983	49,072
Industrial	10,057	10,022
Gas	7,172	9,590
Commercial hydroelectric	2,767	2,197
Wind	13,855	11,678
Other renewable	150	280
Total production	165,852	165,214

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

Domestic consumption of electricity [GWh]



Exchange of electricity with abroad [GWh]



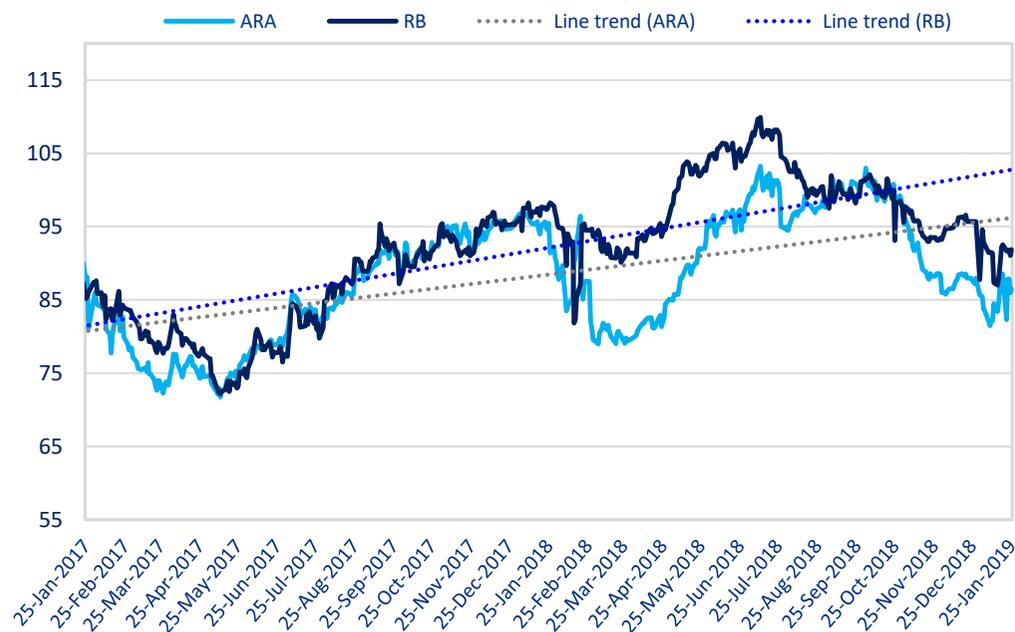
Global Coal Market in 2018

In 2018, the global coal market remained in an upward trend. Spot price growth in the Asia-Pacific region was significantly higher than in the Atlantic region. In June 2018, global spot prices of thermal coal increased to levels unquoted since 2012 and exceeded the critical threshold of 100 USD/t. High global coal prices were mainly due to temporary supply constraints and persistently strong demand. After a sharp rise in indices in the first half of the year, the market slowed down slightly and the fall in prices since October 2018 indicates that it has reached saturation levels and is likely to enter a period of so-called correction. The decrease in imports in China was a confirmation of this.

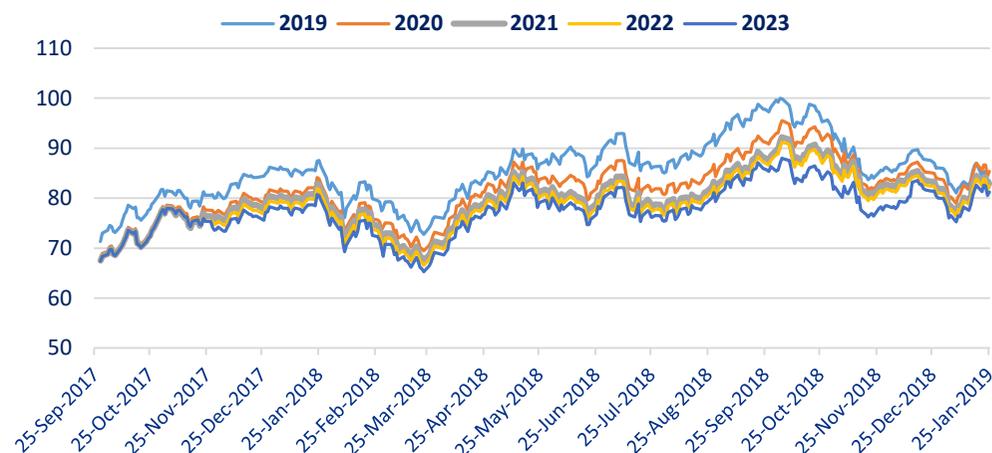
In European coal terminals, growing coal prices were supported by high energy prices in many EU countries and the highest CO₂ emission allowances in a decade. Lower than expected generation of energy from renewable sources in Europe and air temperatures above long-term averages additionally strengthened demand for coal energy and hikes in raw material prices. In ARA ports, an average of USD 92.38 was paid for 1 tonne of thermal coal in 2018 (+10% y/y).

In the Asia-Pacific region, there was a higher dynamics of price changes than in Europe due to increased trade involvement in the global market of the two largest coal players, i.e. China and India, as well as rapid economic development of South Asian countries. In 2018, 1 tonne of coal on the Asian market cost USD 98.51 on average (+16% y/y).

Global Coal Spot Prices [USD/t]



ICE Europe: Rotterdam Coal Futures ATW [USD/t]



Polish Coal Market in 2018

The upward trend in coal prices on the Polish market, which started in December 2017, continued throughout 2018. The increase in the quotations of the Polish steam coal market index PSCMI1 was facilitated by a significant reduction in domestic supply, which resulted in the need to increase imports of more expensive coal from abroad. In addition, the occurrence of temporary logistical problems on the rail market increased the risk of failure to meet the minimum levels of coal reserves by individual manufacturing entities in the country. At the end of 2018, the risk of exceeding the minimum level of coal reserves at power plant storage sites was reduced to highly optimal levels. The situation in the area of coal mining and logistics of coal supplies to power plants also improved. Average annual prices of thermal coal (incl. Dec/18¹⁾ ET forecast) for this period were higher than in the previous year and amounted to PLN 10.97 per GJ (+19% y/y).

Polish Steam Coal Market Index – PSCMI1 (2017-2018)



¹⁾ ET forecast

Wholesale electricity prices

In 2018, the average price on the SPOT market was higher by 39.3% as compared to the corresponding period of 2017. In all analysed months (except January), prices were significantly higher than in the same period in 2017. The prices were affected by the following factors:

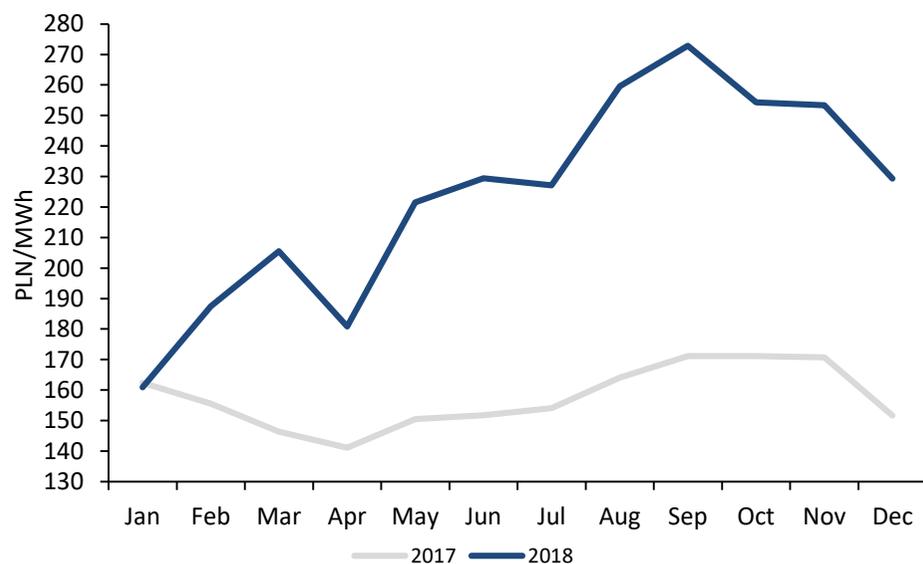
- higher demand for capacity in the National Power System (NPS)
- lower capacity available in NPS
- weather conditions, which translated into relatively low energy generation by wind turbines. In addition, air temperature was below multi-year averages in the months of February-March and above it in the summer months
- growing prices in CO₂ emission allowances

Average prices on the SPOT market (PPE Day Ahead Market)

Year	Average Price [PLN/MWh]	Change [%]
2017	160.66	-
2018	223.72	↑39.3%

Source: own study on the basis of PPE data.

Average electricity prices on Day Ahead Market



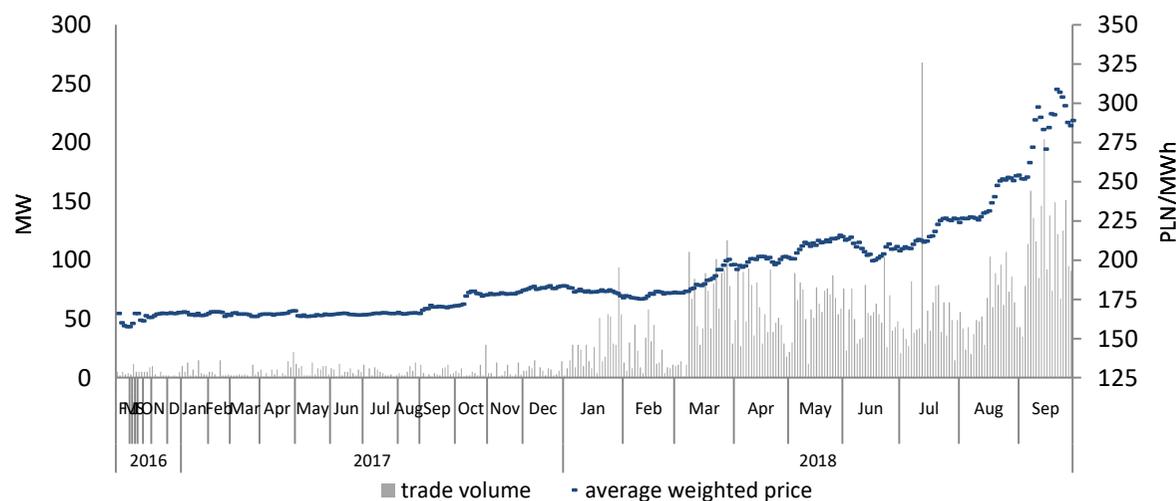
On the forward market, growth in electricity prices could be observed. During the reporting period, the BASE Y-19 product price went up from the level of 183.25 PLN/MWh in the beginning of January 2018 to 294.50 PLN/MWh in the end of 2018.

Prices on the forward market

Product	Price at the end of quotations [PLN/MWh]	Change y/y [%]	Average price during quotations [PLN/MWh]	Change y/y [%]
BASE Y-16	167.50		166.49	
BASE Y-17	162.00	↓-3.3%	159.31	↓-4.3%
BASE Y-18	177.65	↑9.7%	167.00	↑4.8%
BASE Y-19	294.5	↑65.8%	237.11	↑42.0%

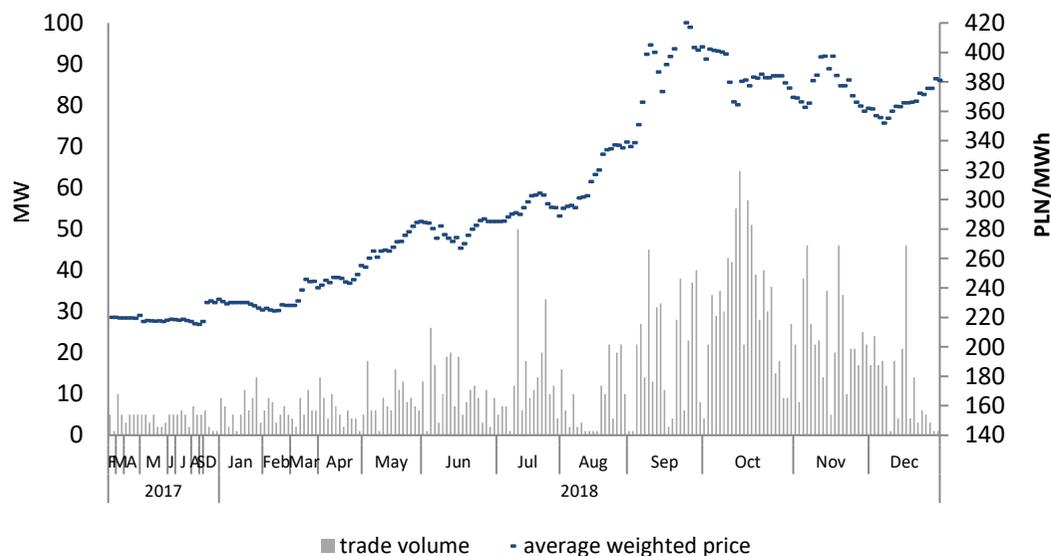
Source: Own study based on PPE and TFS data.

Transaction prices and volumes – BASE Y-19



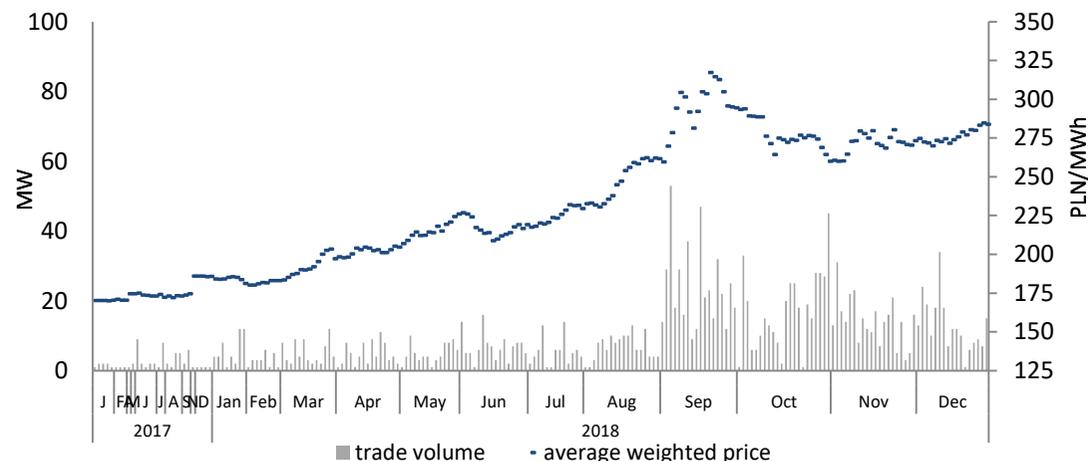
Such strong increases, never seen before on the market, coincided with strong growth in prices over shorter terms, with delivery in 2018. On the PPE forward market, an increased liquidity can be observed, the total trade volume of BASE Y-19 in 2018 is more than 2.5-times higher than on BASE Y-18 in 2017. The reason for this situation may be the introduction of the 30% “exchange obligation” in H1 2018 and the announced intention of increasing it to 100% still this year, along with imposing the obligation on some trading companies to take this change into account as of August 2018 and the acceleration of the contracting process by large users. As in the case of BASE Y-19, the prices of PEAK Y-19 were also changing. At the beginning of January, the market valuation of this product was 230.50 PLN/MWh, and at the end of 2018 it was 381.00 PLN/MWh. The growth of prices seen in 2018 was associated, among other things, with a high volatility of CO₂ emission allowances (the difference in prices ranged to even 17 EUR/tonne) and with a difficult situation on the hard coal market. A dynamic growth and significant volatility of the CO₂ emission allowance prices are connected with the implementation of the Market Stability Reserve and the increased activity of speculators.

Transaction prices and volumes – PEAK Y-19



In 2018, transactions were also concluded for BASE Y-20; however, due to the remote delivery horizon, the trade volume was much lower than in the case of BASE Y-19.

Transaction prices and volumes – BASE Y-20



Source: Own study based on PPE and TFS data.

Obligations involved in obtaining energy certificates

Pursuant to the effective regulations, energy companies selling electricity to end users in 2018 are obliged to obtain and redeem the following types of certificates of origin:

- for energy generated from renewable sources, the so-called “green” certificates – an obligation at the level of 17.5% of sales to end users
- for energy generated from agricultural biogas – an obligation at the level of 0.50% of sales to end users
- for energy generated in methane cogeneration, the so-called “violet” certificates – an obligation at the level of 2.3% 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 – an obligation at the level of 8.0%
- for energy generated in other cogeneration sources, the so-called “red” certificates – an obligation at the level of 23.2%
- for energy efficiency certificates, the so-called “white” certificates – an obligation at the level of 1.5%

Below, the pricing structure of contracts on the PPE session market for individual property rights in 2018 is presented. "Green" property rights (PMOZE) were omitted in the analysis due to the lack of trading and their complete replacement by PMOZE_A.

The Regulation of the Minister of Energy of 11 August 2017 determining the level of obligation for 2018-2019 (17.5% and 18.5% respectively) has improved the prospects for long-term discharge of the surplus. In addition, the amended RES Act (amendment of 20 July 2017) and Energy Minister's interpretation of the inability to pay the substitution fee until the unit replacement fee reaches the maximum level (300.03 PLN/MWh) resulted in a strong increase in PMOZE_A prices above the level of 70 PLN/MWh and established the current upward trend.

Prices on the market for certificates of origin (PPE session market)

	Average price in 2018		Change in relation to 2017		Maximum price	Minimum price		
	2017	2018	%	PLN/MWh	PLN/MWh	PLN/MWh		
OZEX_A ("green" property rights)	103.82	↑	167.4%	↑	64.99	165.00	45.01	
OZEX_BIO ("light blue" property rights)	312.55	↓	-6.4%	↓	-21.42	322.00	300.03	
KGMX ("yellow" property rights)	2017	117.51	↑	0.9%	↑	1.03	120.00	70.00
	2018	110.41	-	-	-	113.00	101.48	
KECX ("red" property rights)	2017	9.81	↑	0.9%	↑	0.08	9.90	9.50
	2018	8.78	-	-	-	8.84	8.52	
KMETX ("purple" property rights)	2017	55.38	↑	0.9%	↑	0.50	63.00	54.00
	2018	55.00	-	-	-	56.00	54.00	
EFX ("white" property rights) ¹⁾	643.47	↓	-7.2%	↓	-41.89	910.00	280.00	
EFFX ("white" property rights) ¹⁾	1,557.72	↑	25.7%	↑	318.4	1,654.00	1,400.00	
EFX ("white" property rights) ¹⁾	2017	616.70	↓	-0.2%	↓	-0.97	900.00	400.00
	2018	470.17	-	-	-	1,000.00	270.00	

¹⁾ Values in PLN/toe

Limits and market prices of carbon dioxide emission allowances

As of the beginning of 2018, the package of MiFID II regulations entered into force, aimed at the strengthening of the financial instrument markets and the protection of capital market participants in Europe. Under the distribution of free allowances for 2018, EU Member States issued 681.49 million out of 756.58 million EUAs (90% of all EUAs). Also, according to the data published, Poland has transferred 89% of the allowances granted to it. Information about CO₂ emission allowances in trading was published, along with information about the number of allowances that will be transferred to the MSR over the first 8 months from 1 January 2019, i.e. 264.7 million EUAs out of 1,654.6 million identified as a surplus.

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.

Prices of CO₂ emission allowances are at the highest level since 2011, and long-term price forecasts anticipate further increases. The identified cause of this situation is launching, in 2019, the MSR whose task is to limit oversupply of allowances on the market by transferring them to a reserve. The impact of speculative actions on the EUA prices in the market is also being discussed more and more often.

EUA and CER price change

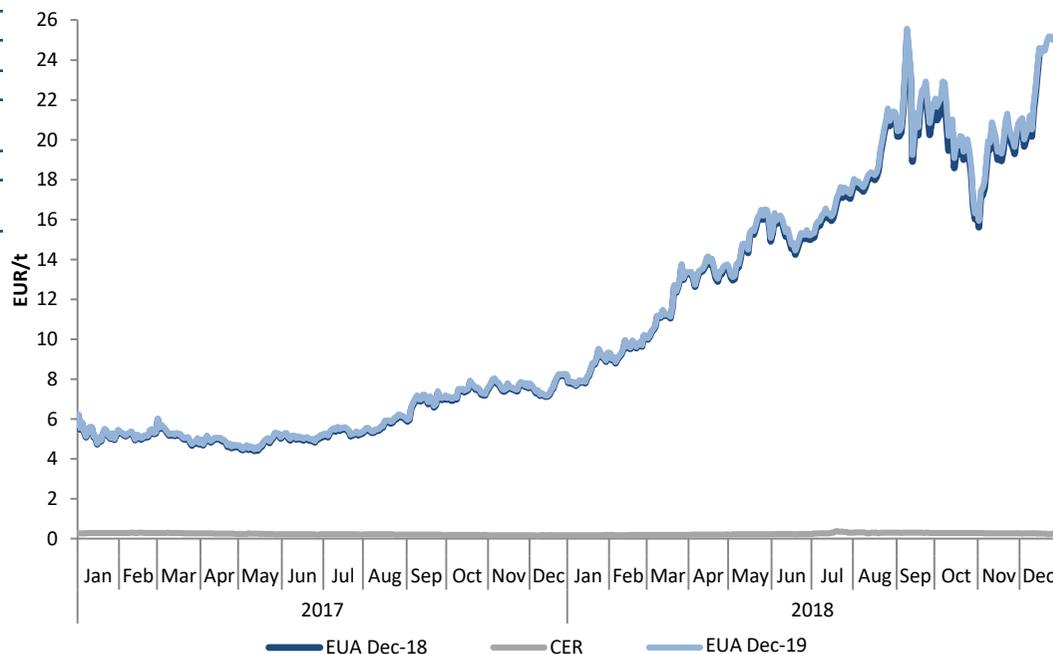
Product	Price [EUR/t]		↑	% change
	Beginning of January 2018	End of December 2018		
EUA Spot	7.78	24.64	↑	216.7%
CER Spot	0.17	0.25	↑	47.1%
EUA Dec-18	7.81	24.26 ¹⁾	↑	210.6%
CER Dec-18	0.17	0.25 ²⁾	↑	47.1%

¹⁾ The last day of the product's quotations is 17 December 2018

²⁾ The last day of the product's quotations is 19 December 2018

Source: Own study based on ICE data.

EUA and CER quotations



Source: Own study based on BlueNext and ICE data.



3. Financial standing

FINANCIAL STANDING

Financial results of ENEA Group in FY 2018 and in Q4 2018

Consolidated profit and loss account – FY 2018

[PLN k]	FY 2017	FY 2018	Change	% change
Revenue from the sale of electricity	6,932,940	9,060,134	2,127,194	30.7%
Revenue from the sale of heat	347,871	359,444	11,573	3.3%
Revenue from the sale of gas	145,262	106,160	-39,102	-26.9%
Revenue from the sale of distribution services	3,215,618	2,660,785	-554,833	-17.3%
Revenue from certificates of origin	12,937	4,432	-8,505	-65.7%
Revenue from the sale of CO ₂ emission allowances	77,315	27,584	-49,731	-64.3%
Revenue from the sale of goods and materials	87,199	92,466	5,267	6.0%
Revenue from the sale of other services	177,139	167,647	-9,492	-5.4%
Revenue from the sale of coal	409,408	194,118	-215,290	-52.6%
Net sales revenue	11,405,689	12,672,770	1,267,081	11.1%
Depreciation	1,194,540	1,477,667	283,127	23.7%
Costs of employee benefits	1,470,644	1,711,414	240,770	16.4%
Consumption of materials and raw materials and the value of goods sold	1,728,771	2,560,489	831,718	48.1%
Purchase of energy and gas for sale purposes	3,169,673	4,272,930	1,103,257	34.8%
Transmission services	1,057,151	411,712	-645,439	-61.1%
Other third party services	815,743	908,949	93,206	11.4%
Taxes and levies	376,542	411,184	34,642	9.2%
Tax deductible cost of sales	9,813,064	11,754,345	1,941,281	19.8%
Other operating revenue	141,790	245,122	103,332	72.9%
Other operating costs	221,871	168,690	-53,181	-24.0%
Profit / (Loss) on the sale and liquidation of property, plant and equipment	(23,530)	(45,244)	-21,714	-92.3%
Costs related to onerous contracts	0	78,981	78,981	100.0%
Impairment loss on non-financial non-current assets	1,284	-166,454	-167,738	-13,063.7%
Operating profit	1,487,730	1,037,086	-450,644	-30.3%
Financial costs	170,689	302,980	132,291	77.5%
Financial revenue	139,718	78,743	-60,975	-43.6%
Share in the results of affiliates and jointly controlled entities	9,282	55,422	46,140	497.1%
Dividend revenue	526	430	-96	-18.3%
Profit before tax	1,466,567	868,701	-597,866	-40.8%
Income tax	301,676	149,451	-152,225	-50.5%
Net profit of the reporting period	1,164,891	719,250	-445,641	-38.3%
EBITDA	2,683,554	2,348,299	-335,255	-12.5%

FY 2018

Factors behind the change of ENEA Group's EBITDA (a decrease by PLN 335 million):

- (+) higher revenues from sales of electricity by PLN 2,127 million result mainly from a higher sales volume (by 9,863 GWh) and a higher average sales price by 2.8%, with concurrent lower revenues from Regulatory System Services
- (+) higher revenues from sales of heat by PLN 12 million result from the higher sales volume by 482 TJ (mainly as a result of EEP acquisition), with a concurrent decrease in the average sales price by 4.3%
- (-) lower revenues from sales of natural gas by PLN 39 million resulting mainly from a change in presentation of revenues from gas sales – distribution services (implementation of IFRS 15 from 1 January 2018)
- (-) lower revenues from sales of distribution services by PLN 555 million resulting mainly from a change in presentation of revenues from transferred charges (implementation of IFRS 15 from 1 January 2018), with a concurrent increase in the sales volume of distribution services to end users
- (-) lower revenues from sales of certificates of origin by PLN 9 million result from a higher volume of intra-group transactions
- (-) lower revenues from sales of CO₂ emission allowances by PLN 50 million resulting mainly from a higher volume of intra-group transactions
- (+) higher revenues from sales of goods and materials by PLN 5 million resulting from higher sales of scrap from the liquidation of galleries
- (-) lower revenues from sales of other products and services by PLN 9 million resulting mainly from a change in presentation of sales revenues from carriage fees (implementation of IFRS 15 from 1 January 2018)
- (-) lower revenues from sales of coal by PLN 215 million result from a higher volume of intra-group supplies
- (-) an increase in the costs of employee benefits by PLN 241 million mainly due to EEP acquisition, rises paid in LWB, lower remunerations charged to expenditures in connection with the completion of Unit No. 11 investment and a change in the balance of actuarial provisions
- (-) an increase in the costs of consumption of materials and raw materials and the value of goods sold by PLN 832 million results mainly from EEP acquisition in the end of Q1 2017, commissioning of the SCR installation in Połaniec Power Plant – consumption of ammonia water, launch of the operation of Unit No. 11 with a simultaneous increase in the costs of coal purchase and CO₂ emission allowances for the whole Generation Area
- (-) an increase in the costs of purchasing electricity and gas by PLN 1,103 million results mainly from the increase in average purchase prices:
 - (-) electricity: price: +12%; volume: +3,567 GWh
 - (-) natural gas: price: +14%; volume: -319 GWh
 - (-) higher purchase costs of property rights as a result of higher average prices by 48.8% and a change in the liability base from 15.4% to 17.5%
- (+) a decrease in the costs of transmission services by PLN 645 million mainly due to a change in presentation of costs without transmission fees (implementation of IFRS 15 from 1 January 2018), with a concurrent increase of volume of energy from PSE and a higher fixed transmission fee in the PSE tariff
- (-) an increase in the costs of third-party services by PLN 93 million results mainly from EEP acquisition and higher gross extraction (larger scope of excavation works, larger scope of outsourced works)
- (-) higher taxes and levies by PLN 35 million result, i.a., from EEP acquisition and from a higher value of fixed assets in connection with the completed investments processes
- (-) costs related to onerous contracts - recognition in costs of a provision in the amount of PLN 79 million of financial consequences related to the entry into force of the Act of 28 December 2018 amending the Excise Duty Act and certain other acts
- (+) higher result on other operating activities by PLN 135 million:
 - (+) lower provisions for potential claims by PLN 66 million (including: lower provisions for terminated contracts for purchase of property rights by PLN 67 million)
 - (+) higher revenues arising from compensation, penalties and fines by PLN 40 million
 - (+) lower revaluation write-offs on overdue and bad debt by PLN 23 million
 - (+) higher balance of refunds from the insurer by PLN 20 million
 - (+) an inventory surplus of coal stock in the amount of PLN 14 million
 - (+) higher revenues from gratuitously acquired fixed assets by PLN 10 million
 - (-) a higher loss arising from liquidation of tangible assets by PLN 22 million
 - (-) a profit from a bargain purchase of shares of ENEA Elektrownia Połaniec S.A. in 2017 amounting to PLN 12 million

Consolidated profit and loss account – Q4 2018

[PLN k]	Q4 2017	Q4 2018	Change	% change
Revenue from the sale of electricity	1,817,852	2,342,228	524,376	28.8%
Revenue from the sale of heat	105,841	110,900	5,059	4.8%
Revenue from the sale of gas	44,512	28,533	-15,979	-35.9%
Revenue from the sale of distribution services	832,369	674,620	-157,749	-19.0%
Revenue from certificates of origin	-7,364 ¹⁾	1,193	8,557	116.2%
Revenue from the sale of CO ₂ emission allowances	63,377	1,607	-61,770	-97.5%
Revenue from the sale of goods and materials	28,874	31,295	2,421	8.4%
Revenue from the sale of other services	51,879	55,733	3,854	7.4%
Revenue from the sale of coal	106,151	42,463	-63,688	-60.0%
Net sales revenue	3,043,491 ¹⁾	3,288,572	245,081	8.1%
Depreciation	317,140	373,211	56,071	17.7%
Costs of employee benefits	328,429	475,916	147,487	44.9%
Consumption of materials and raw materials and the value of goods sold	470,931	715,326	244,395	51.9%
Purchase of energy and gas for sale purposes	880,513 ¹⁾	1,185,735	305,222	34.7%
Transmission services	268,877	103,387	-165,490	-61.5%
Other third party services	270,354	272,545	2,191	0.8%
Taxes and levies	90,443	101,082	10,639	11.8%
Tax deductible cost of sales	2,626,687 ¹⁾	3,227,202	600,515	22.9%
Other operating revenue	64,754	104,442	39,688	61.3%
Other operating costs	49,931	61,995	12,064	24.2%
Profit / (Loss) on the sale and liquidation of property, plant and equipment	(12,468)	(23,087)	-10,619	-85.2%
Costs related to onerous contracts	0	78,981	78,981	100.0%
Impairment loss on non-financial non-current assets	1,284	-115,089	-116,373	-9,063.3%
Operating profit	417,875	116,838	-301,037	-72.0%
Financial costs	67,933	47,935	-19,998	-29.4%
Financial revenue	78,715	30,300	-48,415	-61.5%
Share in the results of affiliates and jointly controlled entities	1,880	5,718	3,838	204.1%
Profit before tax	430,537	104,921	-325,616	-75.6%
Income tax	103,595	5,960	-97,635	-94.2%
Net profit of the reporting period	326,942	98,961	-227,981	-69.7%
EBITDA	736,299	374,960	-361,339	-49.1%

¹⁾ Presentation change in the scope of valuation and own sales cost of property rights

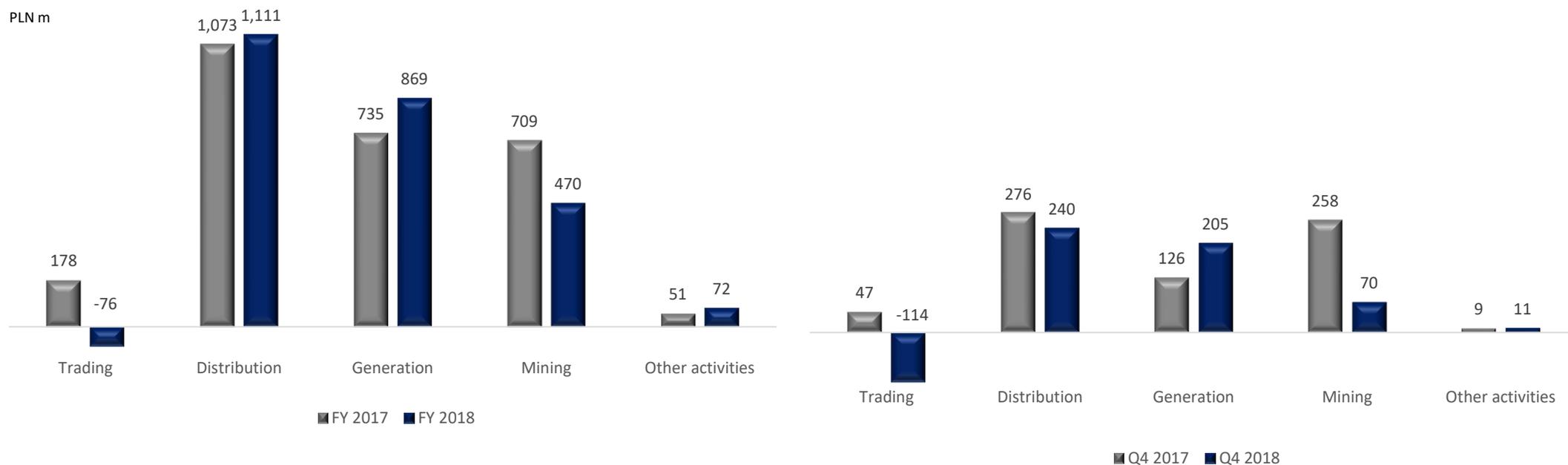
Q4 2018

Factors behind the change of ENEA Group's EBITDA (a decrease by PLN 361 million):

- (+) higher revenues from sales of electricity by PLN 524 million result mainly from a higher sales volume by 3,042 GWh, with a concurrent decrease in the average sales price by 1.6% and lower revenues from Regulatory System Services
- (+) higher revenues from sales of heat by PLN 5 million result mainly from higher sales volume by 149 TJ, with a concurrent decrease in the average sales price by 2.5%
- (-) lower revenues from sales of natural gas by PLN 16 million resulting mainly from a change in presentation of revenues from gas sales – distribution services (implementation of IFRS 15 from 1 January 2018)
- (-) lower revenues from sales of distribution services by PLN 158 million resulting mainly from a change in presentation of revenues from transferred charges (implementation of IFRS 15 from 1 January 2018)
- (+) higher revenues from sales of certificates of origin by PLN 9 million resulting from the valuation and own cost of sale of property rights
- (-) lower revenues from sales of CO₂ emission allowances by PLN 62 million result mainly from a higher volume of SPOT transactions
- (-) lower revenues from sales of coal by PLN 64 million result from a higher volume of intra-group supplies
- (-) an increase in the costs of employee benefits by PLN 148 million mainly due to a change in the balance of actuarial provisions
- (-) an increase in the costs of consumption of materials and raw materials and a higher value of sold goods by PLN 244 million results from higher consumption of materials and raw materials used directly in production, with a concurrent increase in the costs of purchasing coal, biomass, and CO₂ emission allowances for the entire Generation Area
- (-) an increase in the costs of purchasing electricity and gas by PLN 305 million results mainly from higher average purchase prices:
 - (-) electricity: volume: +1,319 GWh
 - (+) natural gas: price: +19%; volume: -164 GWh
 - (-) an increase in the costs of purchasing property rights mainly as a result of a higher average price of green certificates
- (+) lower costs of transmission services by PLN 165 million mainly due to a change in presentation of costs without transmission fees (implementation of IFRS 15 from 1 January 2018), with a concurrent increase of volume of energy from PSE and a higher fixed transmission fee in the PSE tariff
- (-) higher taxes and levies by PLN 11 million result, i.a., from a higher value of fixed assets in connection with the completed investments processes
- (-) costs related to onerous contracts – recognition in costs of a provision in the amount of PLN 79 million of financial consequences related to the entry into force of the Act of 28 December 2018 amending the Excise Duty Act and certain other acts
- (+) higher result on other operating activities by PLN 17 million:
 - (+) an inventory surplus of coal stock in the amount of PLN 14 million
 - (+) lower revaluation write-offs on overdue and bad debt by PLN 13 million
 - (+) higher revenues from gratuitously acquired fixed assets by PLN 4 million
 - (+) higher revenues arising from compensation, penalties and fines by PLN 4 million
 - (-) a higher loss arising from liquidation of tangible assets by PLN 11 million
 - (-) lower provisions for potential claims by PLN 8 million (including: lower provisions for terminated contracts for purchase of property rights by PLN 15 million)

ENEA Group's financial results in FY 2018 and in Q4 2018

EBITDA [PLN k]	FY 2017	FY 2018	Change	% change	Q4 2017	Q4 2018	Change	% change
Trading	177,768	-76,316	-254,084	-142.9%	46,798	-114,138	-160,935	-343.9%
Distribution	1,073,359	1,111,248	37,889	3.5%	275,528	239,531	-35,997	-13.1%
Generation	735,337	868,662	133,325	18.1%	125,756	205,168	79,412	63.1%
Mining	708,983	469,720	-239,263	-33.7%	257,915	69,871	-188,044	-72.9%
Other activities	51,284	72,352	21,068	41.1%	9,275	10,545	1,270	13.7%
Unassigned items and exclusions	-63,177	-97,367	-34,190	-54.1%	21,027	-36,017	-57,044	-271.3%
Total EBITDA	2,683,554	2,348,299	-335,255	-12.5%	736,299	374,960	-361,339	-49.1%



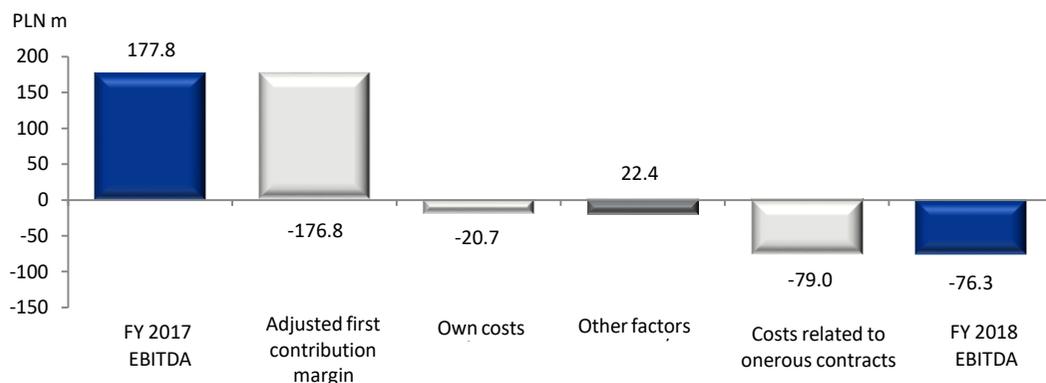
Trading Area

[PLN k]	FY 2017	FY 2018	Change	% change	Q4 2017	Q4 2018	Change	% change
Sales revenue	5,975,913	8,968,988	2,993,075	50.1%	1,772,509	2,624,225	851,716	48.1%
EBIT	176,813	-76,982	-253,795	-143.5%	46,555	-114,319	-160,874	-345.6%
Depreciation and amortisation	955	666	-289	-30.2%	242	181	-61	-25.2%
EBITDA	177,768	-76,316	-254,084	-142.9%	46,797	-114,138	-160,935	-343.9%
CAPEX ¹⁾	283	1,815	1,532	541.3%	0	9	9	100.0%
Share of the area's sales revenue in the Group's sales revenue	37%	42%	5 pp		40%	45%	5 pp	

¹⁾ Without equity investments of ENEA S.A.

Retail sales of electricity are carried out by ENEA S.A.

Wholesale trade is carried out by ENEA Trading Sp. z o. o.



FY 2018 EBITDA change drivers:

First contribution margin

- (-) higher costs of environmental obligations by 47.7%
- (-) higher average price of purchasing energy by 8.4%
- (+) higher average price of selling energy by 1.3%
- (+) an increase in the energy sales volume by 14.4%
- (-) lower result on trade in gas fuel
- (+) a lower provision for potential claims under terminated contracts on RES property rights by PLN 67 million

Own costs

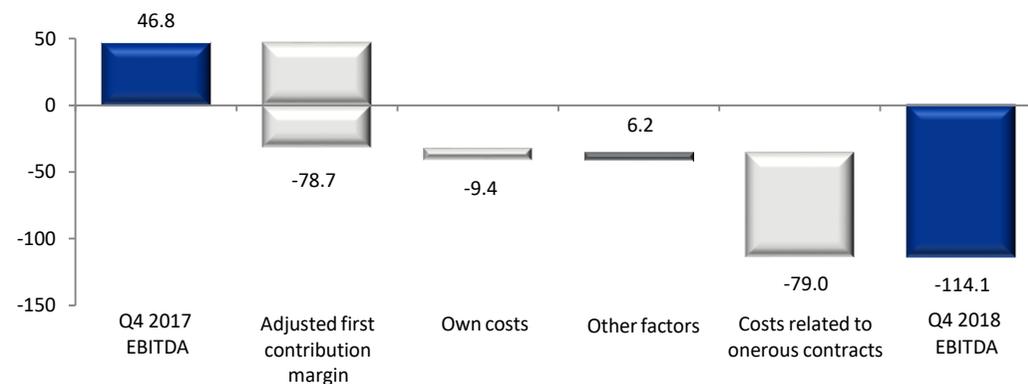
- (-) higher direct costs of sales by PLN 14 million
- (-) higher costs of SSC services by PLN 3 million
- (-) higher general administration costs by PLN 4 million

Costs related to onerous contracts

- (-) recognition in costs of a provision of financial consequences related to the entry into force of the Act of 28 December 2018 amending the Excise Duty Act and certain other acts in the amount of PLN 79.0 million

Other factors

- (+) lower costs of donations by PLN 4 million
- (+) lower written-off debts by PLN 1 million
- (+) lower revaluation write-offs on receivables by PLN 15 million
- (+) higher revenues from licence fees connected with the ENEA trademark by PLN 6 million
- (+) higher revenues from indemnities by PLN 2 million
- (+) higher revenues from the provision of wholesale trading services by PLN 5 million
- (-) higher provisions for anticipated losses and potential claims by PLN 14 million



Q4 2018 EBITDA change drivers:

First contribution margin

- (-) higher costs of environmental obligations by 44.9%
- (-) higher average price of purchasing energy by 14.0%
- (+) higher average price of selling energy by 4.1%
- (+) higher volume of energy sales by 15.6%
- (-) lower result on trade in gas fuel
- (+) a lower provision for potential claims under terminated contracts on RES property rights by PLN 15 million

Own costs

- (-) higher direct costs of sales by PLN 7 million
- (-) higher general administration costs by PLN 1 million
- (-) higher costs of SSC services by PLN 1 million

Costs related to onerous contracts

- (-) recognition in costs of a provision of financial consequences related to the entry into force of the Act of 28 December 2018 amending the Excise Duty Act and certain other acts in the amount of PLN 79.0 million

Other factors

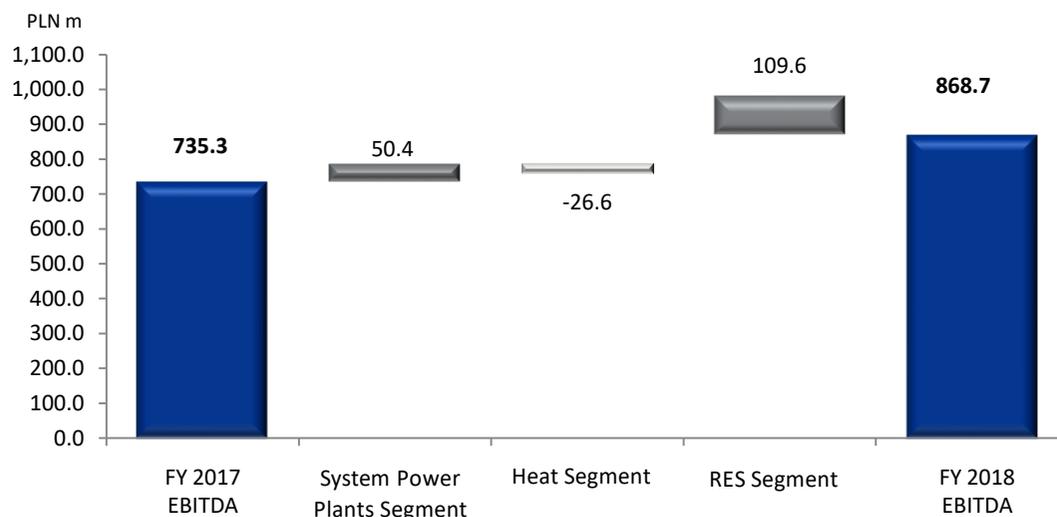
- (+) lower revaluation write-offs on receivables by PLN 8 million
- (+) higher revenues from indemnities by PLN 1 million
- (-) higher provisions for anticipated losses and potential claims by PLN 5 million

[PLN k]	FY 2017	FY 2018	Change	% change	Q4 2017	Q4 2018	Change	% change
Sales revenue	4,578,795	7,171,146	2,592,351	56.6%	1,198,994	1,869,057	670,063	55.9%
<i>electricity</i>	4,081,498	6,517,190	2,435,692	59.7%	1,060,016	1,659,097	599,081	56.5%
<i>certificates of origin</i>	104,509	237,927	133,418	127.7%	22,241	90,293	68,052	306.0%
<i>sales of CO₂ emission allowances</i>	17,786	27,626	9,840	55.3%	3,551	1,607	-1,944	-54.7%
<i>heat</i>	342,199	352,321	10,122	3.0%	104,115	108,707	4,592	4.4%
<i>others</i>	32,803	36,082	3,279	10.0%	9,071	9,353	282	3.1%
EBIT	428,460	498,804	70,344	16.4%	41,174	191,007	149,833	363.9%
Depreciation	306,877	540,592	233,715	76.2%	84,582	133,530	48,948	57.9%
Reversal of the impairment loss on non-financial non-current assets	0	170,734	170,734	100.0%	0	119,369	119,369	100.0%
EBITDA	735,337	868,662	133,325	18.1%	125,756	205,168	79,412	63.1%
CAPEX	1,094,673	430,216	-664,457	-60.7%	470,033	208,904	-261,129	-55.6%
Share of the area's sales revenue in the Group's sales revenue	28%	34%	6 pp		27%	32%	5 pp	

In the Generation Area, financial data of ENEA Wytwarzanie Sp. z o.o. together with its subsidiaries ENEA Elektrownia Połaniec S.A. and ENEA Bioenergia Sp. z o.o. is presented.

At the end of 2018, ENEA Wytwarzanie possesses, i.a., 11 high-efficiency and modernized power units in the Koźnice Power Plant. As a result of EEP acquisition, the production area was increased by additional 7 coal units with a total attainable capacity of 1,657 MW and the world's largest biomass-fired unit with a total installed gross capacity of 225 MW.

The annual production capacity in this area is about 38 TWh of electricity.



FY 2018 EBITDA change drivers:

System Power Plants Segment – an EBITDA increase of PLN 50.4 million

- (+) higher generation margin by PLN 283.6 million
- (-) lower margin on trading by PLN 145.3 million
- (-) higher fixed costs by PLN 71.1 million
- (-) lower margin on Balancing Market by PLN 28.6 million
- (-) lower revenues from Regulatory System Services by PLN 11.0 million
- (+) increase in other factors by PLN 35.0 million: i.a., in 2017, inventory shortage of production fuel, result on other operating activity taking into account the effect of material inventory
- (-) ENEA Elektrownia Połaniec PLN 12.2 million

Heat Segment – an EBITDA decrease of PLN 26.6 million

- (-) higher costs of consumption of materials and raw materials by PLN 42.5 million, including higher costs of biomass consumption by PLN 41.6 million, higher costs of CO₂ emissions by PLN 15.8 million, lower costs of coal consumption by PLN 16.3 million
- (-) lower revenues from electricity sales by PLN 2.5 million
- (+) higher sales revenues from certificates of origin by PLN 15.1 million
- (+) higher result on other operating activities by PLN 2.5 million
- (+) lower costs of employee benefits by PLN 2.1 million
- (-) ENEA Elektrownia Połaniec PLN 0.6 million

RES Segment – an EBITDA increase of PLN 109.6 million

- (+) Wind Area (PLN +22.8 million): lower fixed costs by PLN 9.6 million; higher revenues from certificates of origin by PLN 9.1 million; PLN +6.6 million compensation for loss of profit (FW Bardy failure); lower variable costs by PLN 2.1 million; lower revenues from electricity sales by PLN 4.8 million
- (+) Water Area (PLN +11.2 million): lower revenues from electricity PLN 6.4 million; higher revenues from certificates of origin by PLN 5.6 million
- (-) Biogas Area (PLN -3.6 million): PLN -3.0 million lower release of the provision for claims (2017: PLN 3.5 million; 2018: PLN 0.5 million); lower revenues from certificates of origin by PLN 1.5 million; lower revenues from sales of electricity by PLN 0.5 million; lower costs of consumption and transport of substrates by PLN 1.3 million; lower fixed costs by PLN 0.2 million;
- (+) Biomass Area (Green Unit): PLN 79.2 million (including PLN +3 million from ENEA Bioenergia Sp. z o.o.)

[PLN k]	FY 2017	FY 2018	Change	% change	Q4 2017	Q4 2018	Change	% change
Sales revenue	4,578,795	7,171,146	2,592,351	56.6%	1,198,994	1,869,057	670,063	55.9%
<i>electricity</i>	4,081,498	6,517,190	2,435,692	59.7%	1,060,016	1,659,097	599,081	56.5%
<i>certificates of origin</i>	104,509	237,927	133,418	127.7%	22,241	90,293	68,052	306.0%
<i>sales of CO₂ emission allowances</i>	17,786	27,626	9,840	55.3%	3,551	1,607	-1,944	-54.7%
<i>heat</i>	342,199	352,321	10,122	3.0%	104,115	108,707	4,592	4.4%
<i>others</i>	32,803	36,082	3,279	10.0%	9,071	9,353	282	3.1%
EBIT	428,460	498,804	70,344	16.4%	41,174	191,007	149,833	363.9%
Depreciation	306,877	540,592	233,715	76.2%	84,582	133,530	48,948	57.9%
Reversal of the impairment loss on non-financial non-current assets	0	170,734	170,734	100.0%	0	119,369	119,369	100.0%
EBITDA	735,337	868,662	133,325	18.1%	125,756	205,168	79,412	63.1%
CAPEX	1,094,673	430,216	-664,457	-60.7%	470,033	208,904	-261,129	-55.6%
Share of the area's sales revenue in the Group's sales revenue	28%	34%	6 pp		27%	32%	5 pp	

Q4 2018 EBITDA change drivers:

System Power Plants Segment – an EBITDA increase of 18 million

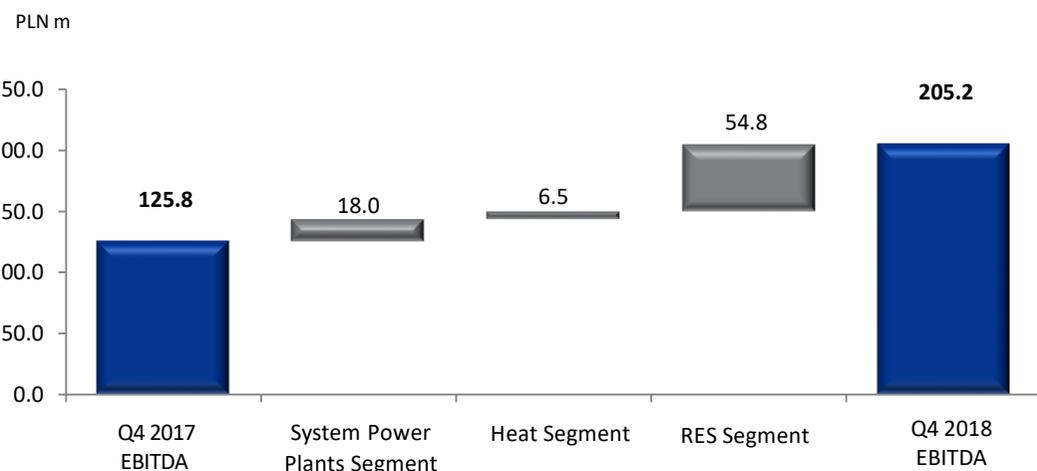
- (+) higher generation margin by PLN 117.7 million
- (+) a higher result on other operating activities by PLN 19.7 million
- (+) in 2017, inventory shortage of production fuel PLN 20.5 million
- (+) lower fixed costs by PLN 4 million
- (-) lower margin on trading and on Balancing Market by PLN 126.8 million
- (-) adjustments for one-off events - PLN 7.8 million - differences resulting from the valuation of assets based on the PKF report
- (-) lower revenues from Regulatory System Services by PLN 6.5 million

Heat Segment – an EBITDA increase of PLN 6.5 million

- (+) higher sales revenues from certificates of origin by PLN 9.1 million
- (+) a higher result on other operating activities by PLN 6.2 million
- (+) higher revenues from heat sales by PLN 4.9 million
- (+) lower costs of purchasing energy for sale purposes by PLN 2.8 million
- (+) lower costs of employee benefits by PLN 1.9 million
- (+) higher revenues from electricity sales by PLN 1.3 million
- (-) higher costs of consumption of materials by PLN 18.3 million, including higher costs of biomass consumption by PLN 12.9 million, higher costs of CO₂ emissions by PLN 7.1 million

RES Segment – an EBITDA increase of PLN 54.8 million

- (+) Wind Area (PLN +15.2 million): +PLN 6.6 million compensation for loss of profit (FW Bardy failure); higher revenues from certificates of origin by PLN 5.2 million; lower fixed costs by PLN 1.5 million; lower variable costs by PLN 0.7 million; higher revenues from electricity sales by PLN 0.6 million
- (-) Water Area (PLN -0.4 million): lower revenues from electricity sales by PLN 1.5 million; lower result on other operating activities together with result on sale and liquidation of fixed assets by PLN 0.2 million; higher revenues from certificates of origin by PLN 1.4 million
- (-) Biogas Area (PLN -3.8 million): PLN -3.5 million in 2017, release of the provision for claims; PLN -0.3 million lower revenues from certificates of origin
- (+) Biomass Area (Green Unit) PLN +43.8 million: higher unit valuation of green certificates PLN +40.4 million; higher price of energy PLN +8.8 million; higher volume of energy generation by PLN +6.5 million; differences resulting from the valuation of assets based on the PKF report + PLN 22.2 million (one-off adjustments in 2017); higher price of biomass PLN -24.9 million; higher fixed costs PLN -6.5 million



Distribution Area

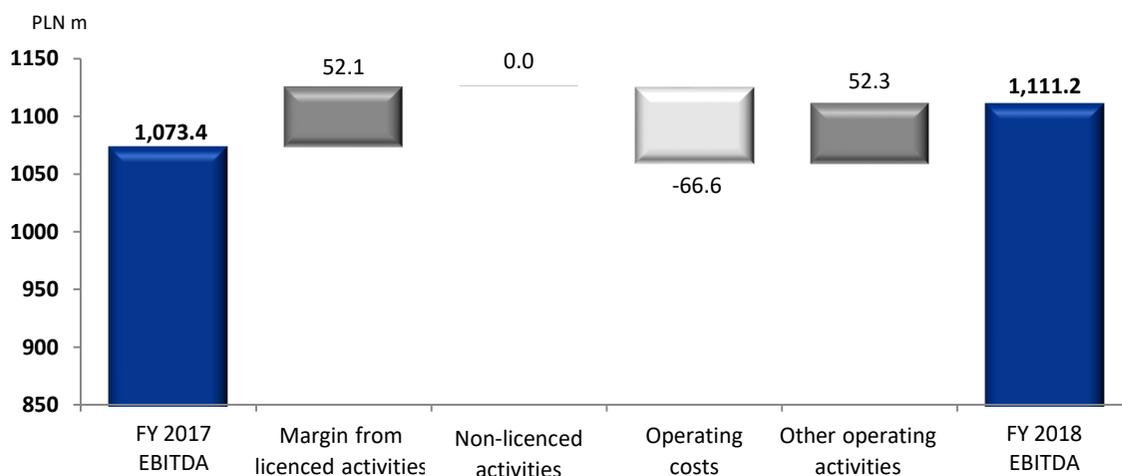
[PLN k]	FY 2017	FY 2018	Change	% change	Q4 2017	Q4 2018	Change	% change
Sales revenue	3,280,236	2,727,891	-552,345	-16.8%	853,278	695,833	-157,445	-18.5%
<i>distribution services to end users</i>	3,109,954	2,564,541	-545,413	-17.5%	800,043	644,017	-156,026	-19.5%
<i>network connection fees</i>	64,258	54,659	-9,599	-14.9%	16,196	13,323	-2,874	-17.7%
<i>others</i>	106,024	108,691	2,667	2.5%	37,037	38,493	1,455	3.9%
EBIT	576,171	574,865	-1,306	-0.2%	149,753	95,298	-54,455	-36.4%
Depreciation	497,188	532,103	34,915	7.0%	125,775	139,953	14,178	11.3%
Impairment loss on non-financial non-current assets	0	4,280	4,280	100.0%	0	4,280	4,280	100.0%
EBITDA	1,073,359	1,111,248	37,889	3.5%	275,528	239,531	-35,997	-13.1%
CAPEX	1,022,251	1,000,330	-21,921	-2.1%	429,289	430,062	773	0.2%
Share of the area's sales revenue in the Group's sales revenue	20%	13%	-7 pp		19%	12%	-7 pp	

ENE A Operator Sp. z o.o. is responsible for the distribution of electricity to 2.6 million Customers – in western and north-western Poland in the area of 58.2 thousand km².

The basic task of ENE A 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:

- ENE A Operator Sp. z o.o.
- ENE A Serwis Sp. z o.o.
- ENE A Pomiar Sp. z o.o.
- Annacond Enterprises Sp. z o. o.



FY 2018 EBITDA change drivers:

Margin from licenced activities

- (-) lower revenues from sales of distribution services to end users by PLN 545 million (from 1 January 2018, change of the IFRS 15 standard)
- (-) lower revenues from network connection fees by PLN 10 million result mainly from the settlement of quarterly IAS allowances in 2017 (from 1 January 2018, change of the IFRS 15 standard)
- (+) lower costs of purchasing transmission and distribution services (balance) by PLN 616 million (from 1 January 2018, change of the IFRS 15 standard)
- (-) higher costs of purchasing electricity to cover the balance-sheet difference (balance) by PLN 9 million result mainly from a higher average price of electricity

Operating costs

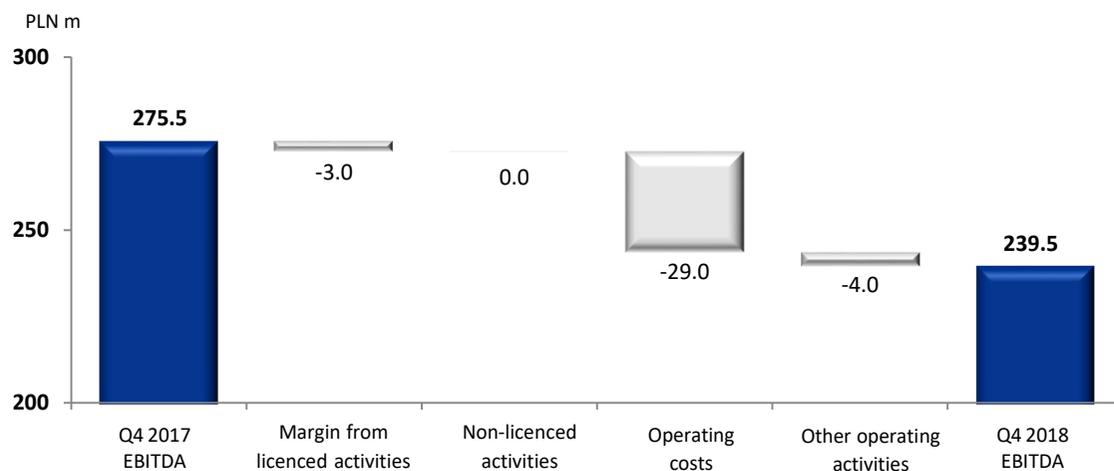
- (-) higher costs of employee benefits by PLN 30 million result mainly from employee provisions
- (-) higher costs of third-party services by PLN 15 million mainly in the area of grid assets exploitation
- (-) higher costs of taxes and levies by PLN 13 million result from the implemented investments in grid assets

Other operating activities

- (+) lower provisions concerning grid assets by PLN 21 million
- (+) higher revenues from gratuitously acquired fixed assets by PLN 17 million
- (+) higher revenues from the insurer related to the removal of unexpected losses incurred by the Company in 2017 by PLN 10 million

Distribution Area

[PLN k]	FY 2017	FY 2018	Change	% change	Q4 2017	Q4 2018	Change	% change
Sales revenue	3,280,236	2,727,891	-552,345	-16.8%	853,278	695,833	-157,445	-18.5%
<i>distribution services to end users</i>	3,109,954	2,564,541	-545,413	-17.5%	800,043	644,017	-156,026	-19.5%
<i>network connection fees</i>	64,258	54,659	-9,599	-14.9%	16,197	13,323	-2,874	-17.7%
<i>others</i>	106,024	108,691	2,667	2.5%	37,038	38,493	1,455	3.9%
EBIT	576,171	574,865	-1,306	-0.2%	149,753	95,298	-54,455	-36.4%
Depreciation	497,188	532,103	34,915	7.0%	125,775	139,953	14,178	11.3%
Impairment loss on non-financial non-current assets	0	4,280	4,280	100.0%	0	4,280	4,280	100.0%
EBITDA	1,073,359	1,111,248	37,889	3.5%	275,528	239,531	-35,997	-13.1%
CAPEX	1,022,251	1,000,330	-21,921	-2.1%	429,289	430,062	773	0.2%
Share of the area's sales revenue in the Group's sales revenue	20%	13%	-7 pp		19%	12%	-7 pp	



Q4 2018 EBITDA change drivers:

Margin from licenced activities

- (-) lower revenues from sales of distribution services to end users by PLN 156 million (from 1 January 2018, change of the IFRS 15 standard)
- (-) lower revenues from network connection fees by PLN 3 million result mainly from the settlement of quarterly IAS allowances in 2017 (from 1 January 2018, change of the IFRS 15 standard)
- (+) lower costs of purchasing transmission services (balance) by PLN 157 million (from 1 January 2018, change of the IFRS 15 standard)

Operating costs

- (-) higher costs of employee benefits by PLN 17 million result mainly from higher actuarial provisions
- (-) higher costs of third-party services by PLN 5 million mainly in the area of grid assets exploitation
- (-) higher costs of taxes and levies by PLN 3 million result from the implemented investments in grid assets

Other operating activities

- (-) higher provisions concerning grid assets by PLN 17 million
- (-) lower result on insurances and random losses by PLN 4 million
- (+) lower revaluation write-offs by PLN 11 million
- (+) higher revenues from gratuitously acquired fixed assets by PLN 6 million

Mining Area

[PLN k]	FY 2017	FY 2018	Change	% change	Q4 2017	Q4 2018	Change	% change
Sales revenue	1,780,320	1,756,673	-23,647	-1.3%	473,190	421,033	-52,157	-11.0%
<i>coal</i>	1,725,221	1,707,797	-17,424	-1.0%	457,198	407,942	-49,256	-10.8%
<i>other products and services</i>	41,805	30,000	-11,805	-28.2%	12,456	8,099	-4,357	-35.0%
<i>goods and materials</i>	13,294	18,876	5,582	42.0%	3,536	4,992	1,456	41.2%
EBIT	350,684	105,448	-245,236	-69.9%	159,248	-19,554	-178,802	-112.3%
Depreciation	357,015	364,272	7,257	2.0%	97,383	89,425	-7,958	-8.2%
Impairment loss on non-financial non-current assets	1,284	0	-1,284	-100.0%	1,284	0	-1,284	-100.0%
EBITDA	708,983	469,720	-239,263	-33.7%	257,915	69,871	-188,044	-72.9%
CAPEX	373,411	463,113	89,702	24.0%	119,002	167,060	48,058	40.4%
Share of the area's sales revenue in the Group's sales revenue	11.0%	8.0%	-3 pp		11.0%	7.0%	-4 pp	

The Mining Area presents the financial results of LW Bogdanka Group with the parent company - Lubelski Węgiel Bogdanka S.A. 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.

Q1-Q4 2018 EBITDA change drivers:

- (-) EBITDA profitability: 26.7% in Q1-Q4 2018 vs. 39.8% in Q1-Q4 2017
- (-) EBITDA profitability net of one-off events of 2017: 33.4% in Q1-Q4
- (-) lower revenues from coal sales: lower sales volume -208,000 t (-2.3%), at a higher price and a higher adjustment for coal from preparation works
- (+) higher revenues from sales of goods and materials – higher sales of scrap resulting from liquidated galleries
- (-) a higher revenue adjustment due to the value of excavated coal - larger scope of preparatory works (+6.3 km) at a higher coal price
- (-) higher extraction output by 915 thousand tonnes (+6.5%) – increase in production costs
- (-) an increase in the nominal production cost (without depreciation):
 - higher costs of third-party services (a larger scope of works commissioned to third-parties: drilling and mining services, stone transportation and loading services, weekend and holiday services, and higher rates for the services),
 - higher remuneration costs (a pay rise paid together with an extra bonus as well as higher average employment by 157 employees [LWB S.A.]
 - higher costs of materials and energy
 - lower costs of taxes and levies (lower mining fee due to the lower output realised)
- (+) in 2018, an increase in stocks of about PLN 13.9 million (a decrease in costs), as compared to the decrease in stocks (increase in costs) by PLN 11.5 million in 2017
- (+) result on other operating activities – settlement of the arrangement entered into by and between the Company and the consortium of Mostostal Warszawa S.A. and Acciona Infraestructuras - a positive impact on EBITDA in the amount of PLN 28.7 million

Presentation differences concerning the financial reporting of ENEA Group and LW Bogdanka Group in the scope of depreciation.

The decrease in revenues from the sale of other products and services results primarily from the fact that, as a result of the adoption of the new IFRS 15 "Revenue from contracts with customers" as of 1 January 2018, revenues from sales under this item were shown in the balance with the incurred costs (the amount of revenues was reduced by costs amounting to approximately PLN 10.7 million). In the previous year, revenues from transport were presented in an open order (change without impact on EBITDA).

Mining Area

[PLN k]	FY 2017	FY 2018	Change	% change	Q4 2017	Q4 2018	Change	% change
Sales revenue	1,780,320	1,756,673	-23,647	-1.3%	473,190	421,033	-52,157	-11.0%
<i>coal</i>	1,725,221	1,707,797	-17,424	-1.0%	457,198	407,942	-49,256	-10.8%
<i>other products and services</i>	41,805	30,000	-11,805	-28.2%	12,456	8,099	-4,357	-35.0%
<i>goods and materials</i>	13,294	18,876	5,582	42.0%	3,536	4,992	1,456	41.2%
EBIT	350,684	105,448	-245,236	-69.9%	159,248	-19,554	-178,802	-112.3%
Depreciation	357,015	364,272	7,257	2.0%	97,383	89,425	-7,958	-8.2%
Impairment loss on non-financial non-current assets	1,284	0	-1,284	-100.0%	1,284	0	-1,284	-100.0%
EBITDA	708,983	469,720	-239,263	-33.7%	257,915	69,871	-188,044	-72.9%
CAPEX	373,411	463,113	89,702	24.0%	119,003	167,060	48,058	40.4%
Share of the area's sales revenue in the Group's sales revenue	11.0%	8.0%	-3 pp		11.0%	7.0%	-4 pp	

Q4 2018 EBITDA change drivers:

- (-) EBITDA profitability: 16.6% in Q4 2018 vs. 54.2% in Q4 2017
- (-) EBITDA profitability net of one-off events in 2017: 29.9% in Q4 2017
- (-) lower revenues from coal sales: lower sales volume (-298,000 tonnes, -12.1%), at a higher price and a higher adjustment for coal from preparatory work
- (+) higher revenues from sales of goods and materials – higher sales of scrap resulting from liquidated galleries
- (-) a higher revenue adjustment due to the value of excavated coal – mainly resulting from a higher coal price; scope of preparatory works (+0.14 km)
- (+) lower extraction output by 189 thousand tonnes (-5.0%) – a decrease in production costs
- (-) higher costs of employee benefits – higher average employment (approx. 250 employees at LWB S.A.), a pay rise paid and an extra bonus
- (+) lower costs of taxes and levies (lower mining fee due to the lower output realised)
- (+) in Q4 2018, an increase in stocks of PLN 5.8 million (increase in costs), as compared to a decrease in stocks of PLN 13.2 million (increase in costs) in Q4 2017

Presentation differences concerning the financial reporting of ENEA Group and LW Bogdanka Group in the scope of depreciation.

The decrease in revenues from the sale of other products and services results primarily from the fact that, as a result of the adoption of the new IFRS 15 "Revenue from contracts with customers" as of 1 January 2018, revenues from sales under this item were shown in the balance with the incurred costs (the amount of revenues was reduced by costs amounting to approximately PLN 1.6 million). In the previous year, revenues from transport were presented in an open order (change without impact on EBITDA).

Area of Other Activities

[PLN k]	FY 2017	FY 2018	Change	% change	Q4 2017	Q4 2018	Change	% change
Sales revenue	587,844	603,504	15,660	2.7%	169,797	161,846	-7,952	-4.7%
EBIT	7,553	19,510	11,957	158.3%	-3,254	-3,191	64	2.0%
Depreciation	43,731	52,842	9,111	20.8%	12,530	13,736	1,206	9.6%
EBITDA	51,284	72,352	21,068	41.1%	9,275	10,545	1,270	13.7%
CAPEX	86,334	80,008	-6,326	-7.3%	45,622	35,744	-9,877	-21.7%
Share of the area's sales revenue in the Group's sales revenue	4%	3%	-1 pp		4%	3%	-1 pp	

The Area of Other Activities includes companies from the following areas:

- support for other ENEA Group companies:

ENEA Centrum Sp. z o.o. – the Shared Services Centre in the Group in the field of accounting, human resources, ITS and customer service

ENEA Logistyka Sp. z o.o. – a company specializing in logistics, warehousing and procurement

- accompanying activities:

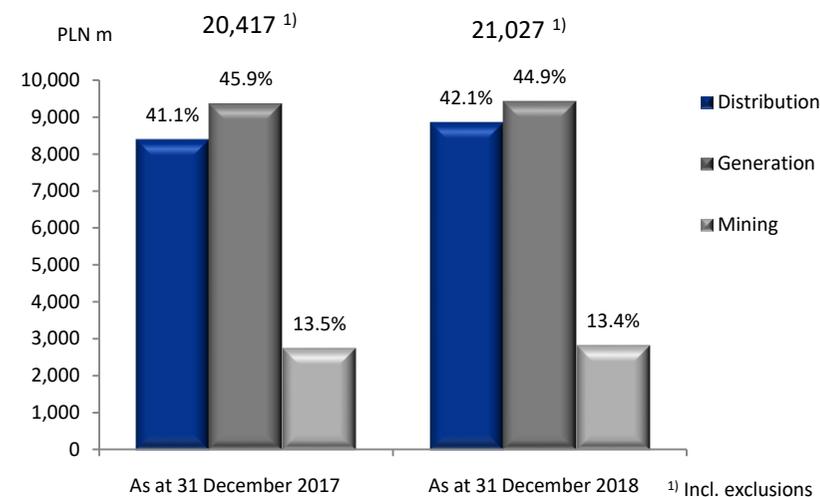
ENEA Oświetlenie Sp. z o.o. – a company specializing in indoor and outdoor lighting; it designs, builds road lighting, it illuminates urban spaces, illuminates historic and public buildings, and provides construction and comprehensive services for photovoltaic power plants.



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

Assets [PLN k]	As at:			
	31 Dec 2017	31 Dec 2018	Change	% change
Non-current assets	22,080,914	23,037,274	956,360	4.3%
Property, plant and equipment	20,416,867	21,027,393	610,526	3.0%
Perpetual usufruct of land	105,571	105,141	-430	-0.4%
Intangible assets	418,248	435,712	17,464	4.2%
Investment real estates	26,981	25,864	-1,117	-4.1%
Investments in subsidiaries, affiliates and jointly controlled entities	355,152	734,268	379,116	106.7%
Deferred income tax assets	501,945	487,272	-14,673	-2.9%
Financial assets at fair value ²⁾	0	49,442	49,442	100.0%
Debt financial assets at amortized cost ²⁾	0	7,741	7,741	100.0%
Financial assets available for sale – until 2017	40,698	0	-40,698	-100.0%
Financial assets at fair value through profit or loss – until 2017	33,364	0	-33,364	-100.0%
Derivatives – until 2017	29,553	0	-29,553	-100.0%
Trade and other receivables	30,729	23,257	-7,472	-24.3%
Costs incurred to obtain or fulfil a contract ¹⁾	0	12,905	12,905	100.0%
Funds accumulated in the Mine Liquidation Fund	121,806	128,279	6,473	5.3%
Current assets	6,232,080	6,928,351	696,271	11.2%
CO ₂ emission allowances	595,533	586,236	-9,297	-1.6%
Inventories	846,187	1,264,870	418,683	49.5%
Trade and other receivables	1,903,568	1,874,505	-29,063	-1.5%
Costs incurred to obtain or fulfil a contract ¹⁾	0	16,948	16,948	100.0%
Assets due to contracts with customers ¹⁾	0	327,980	327,980	100.0%
Current income tax assets	149,859	93,659	-56,200	-37.5%
Financial assets at fair value ²⁾	0	112,536	112,536	100.0%
Debt financial assets at amortized cost ²⁾	0	234	234	100.0%
Inne inwestycje krótkoterminowe	0	545	545	100.0%
Financial assets held to maturity – until 2017	478	0	-478	-100.0%
Financial assets at fair value through profit or loss – until 2017	49,329	0	-49,329	-100.0%
Cash and cash equivalents	2,687,126	2,650,838	-36,288	-1.4%
Total assets	28,312,994	29,965,625	1,652,631	5.8%

Structure of non-current tangible assets



Change factors for non-current assets (an increase of PLN 956 million):

- an increase in tangible fixed assets by PLN 611 million results mainly from an increase in the value of property, plant and equipment by PLN 1,776 million, with a concurrent increase in accumulated depreciation of PLN 1,165 million
- an increase in investments in in associates and jointly controlled entities by PLN 379 million results mainly from taking up new shares in the increased share capital of Elektrownia Ostrołęka Sp. z o.o., Polska Grupa Górnicza S.A. and from an increase in the share capital of ElectroMobility Poland S.A.

Change factors for current assets (an increase of PLN 696 million):

- an increase in inventories by PLN 419 million due to higher amount and value of certificates of origin and from higher coal inventories
- an increase in trade and other receivables, costs incurred to obtain or fulfil a contract and assets due to contracts with customers by PLN 316 million, relating to, among other things, a higher level of trade receivables and security deposits under futures contracts for CO₂ emission allowances
- a decrease in cash and cash equivalents by PLN 36 million caused, i.a., by redemption of LWB bonds, with a concurrent increase in security deposits for trade for the Commodity Clearing House and the concluded futures contracts on CO₂ emission allowances

¹⁾ Data for 2018 incorporate changes resulting from the implementation of IFRS 15, while balance-sheet items for 2017 do not include new asset categories. Restated data for 31 December 2017 are presented in the Consolidated Financial Statements for 2018

²⁾ Data for 2018 incorporate changes resulting from the implementation of IFRS 9, while balance-sheet items for 2017 do not include new asset categories. Restated data for 31 December 2017 are presented in the Consolidated Financial Statements for 2018

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

Equity and liabilities [PLN k]	As at:		Change	% change
	31 Dec 2017	31 Dec 2018		
Total equity	13,999,669	15,049,162	1,049,493	7.5%
Share capital	588,018	588,018	0	0.0%
Capital from the surplus of the issue price over the nominal value	3,632,464	3,632,464	0	0.0%
Capital from the revaluation of financial instruments	741	-16,295	-17,036	-2299.1%
Other equity	-27,101	0	27,101	100.0%
Reserve capital from the valuation of hedging instruments	25,967	-16,024	-41,991	-161.7%
Retained profits	8,858,130	9,908,842	1,050,712	11.9%
Non-controlling shares	921,450	952,157	30,707	3.3%
Total liabilities	14,313,325	14,916,463	603,138	4.2%
Long-term liabilities	10,063,012	10,109,857	46,845	0.5%
Short-term liabilities	4,250,313	4,806,606	556,293	13.1%
Total equity and liabilities	28,312,994	29,965,625	1,652,631	5.8%

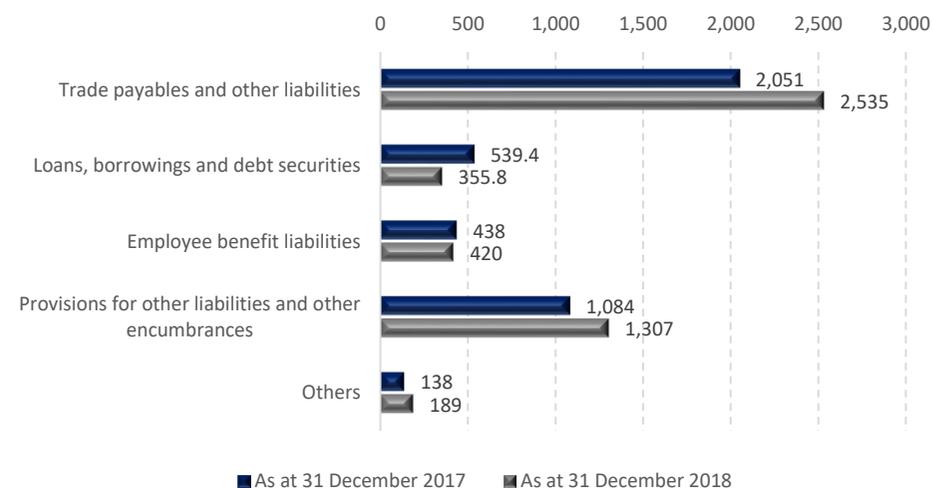
Change factors for long-term liabilities (an increase of PLN 47 million)

- a decrease in the item of settlement of income on subsidies, connection fees of PLN 447 million results from the implementation of IFRS 15 which affects the presentation of revenues from connection fees for tasks completed until 31 December 2009, recognised previously as deferred revenues
- an increase in loans, borrowings and debt securities of PLN 254 mainly due to issuance of new bonds
- an increase of employee benefit liabilities of PLN 75 million
- an increase in other long-term liabilities of PLN 166 million, including: an increase in deferred income tax provisions of PLN 122 million, an increase in provisions for other liabilities and other encumbrances of PLN 14 million

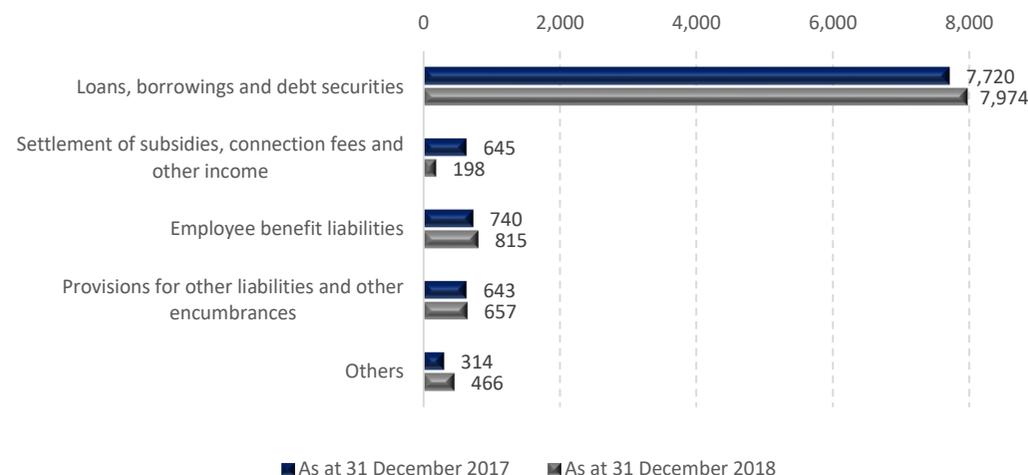
Change factors for short-term liabilities (a decrease of PLN 556 million)

- a decrease in loans, borrowings and debt securities of PLN 184 million resulting from resulting from the repayment of amounts due to the EIB and BGK
- a decrease in the item of settlement of income on subsidies, connection fees of PLN 81 million results from the implementation of IFRS 15, which affects the presentation of revenues from connection fees for tasks completed until 31 December 2009, recognised previously as deferred revenues
- a decrease in employee benefit liabilities of PLN 18 million
- an increase in trade payables and other liabilities of PLN 483 million, including trade liabilities resulting from the valuation of contracts for CO₂ emission allowances
- an increase in provisions for other liabilities and other encumbrances of PLN 223 million, including: provisions for the redemption of property rights of PLN 43 million, provisions for the termination of RES property rights contracts of PLN 19 million, provisions for the purchase of CO₂ emission allowances PLN 69 million, provision for costs related to contracts giving rise to encumbrances of PLN 79 million
- an increase in other short-term liabilities by PLN 132 million, including: an increase in liabilities due to contracts with customers of PLN 65 million (new balance sheet item since the implementation of IFRS 15)

Structure of short-term liabilities

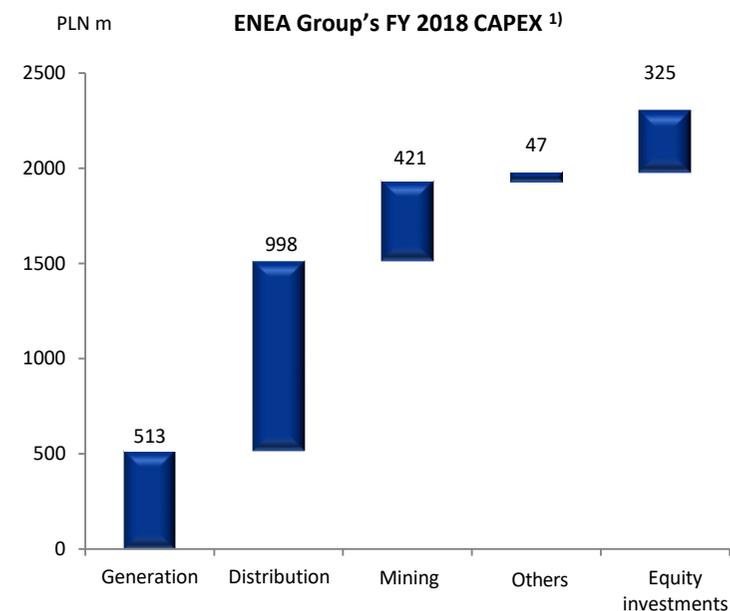
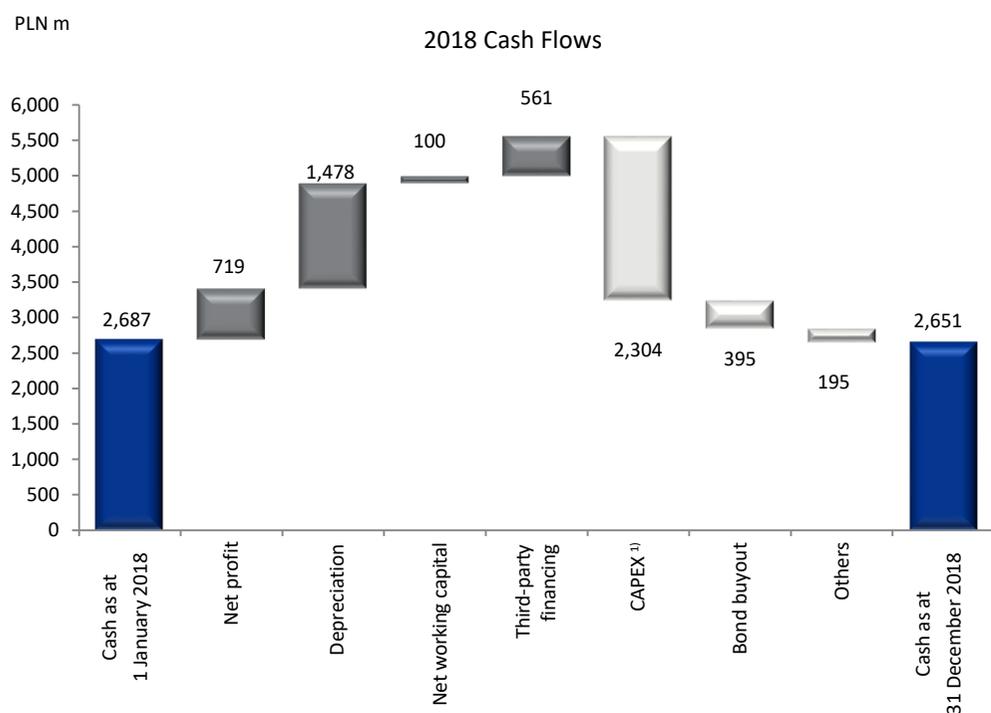


Structure of long-term liabilities



Cash position of ENEA Group

Cash flow statement [PLN k]	FY 2017	FY 2018	Change	% change
Net cash flow from operating activities	2,579,644	2,435,239	-144,405	-5.6%
Net cash flow from investment activities	(3,482,925)	(2,310,127)	1,172,798	33.7%
Net cash flow from financial activities	1,250,190	(161,400)	-1,411,590	-112.9%
Increase / (Decrease) in net cash	346,909	(36,288)	-383,197	-110.5%
Cash balance at the beginning of the reporting period	2,340,217	2,687,126	346,909	14.8%
Cash balance at the end of the reporting period	2,687,126	2,650,838	-36,288	-1.4%



¹⁾ Acquisition of tangible and intangible non-current assets and acquisition of subsidiaries, associates and jointly controlled entities, adjusted for the acquired cash

Expected financial situation

In 2018, the Mining Area recorded lower results, mainly due to geological and hydrological events. When comparing year-on-year EBITDA of this segment, one cannot ignore the one-off event, i.e. the December 2017 release of the provision for employees' allowances in kind. In the following year, the sales volume of coal is expected to increase, with a gross extraction increase of about 2.2%. However, it should not be assumed that the unit cost of production will significantly decrease due to the observed consistent trend of increasing costs. In LW Bogdanka, work is underway to enable extraction from Ostrów Field, so we are expecting an increase in the investment outlays related to the preparation of underground infrastructure. LW Bogdanka's Management Board focuses on optimising processes and testing innovative solutions that could contribute to even higher profitability of coal extraction. More long-term activities are aimed at developing the mine and expanding the perspective of its operation, hence the subsequent applications for obtaining concessions to extract in new mining areas.

The Generation Area, which accounted for 37% of ENEA Group's EBITDA in 2018, recorded the largest year-on-year increase in the EBITDA result in all areas of ENEA Group's business activity. The volume of energy produced from both coal and renewable energy sources has increased significantly. However, hard coal-based production involves high exposure to the risk of increasing CO₂ emission allowance prices, which in the period concerned reached an unprecedented level. In 2019, the Generation Area's revenue will be affected by a significantly decreasing number of free CO₂ emission allowances in comparison to the previous years. The major repairs of generation units planned for 2019-2021, which will enforce relatively long periods of suspension of electricity production, are important factors for the revenue of the Generation area. Nevertheless, lower expected production of the existing generation assets is and will be compensated by Unit No. 11 in ENEA Wytwarzanie. Higher electricity production should be expected in the RES Segment. Following the commissioning of Unit 11 and due to the completion of preparatory work related to the adjustment of coal-fired units to the BAT conclusions in subsequent years, ENEA Group analyses larger investments in renewable energy sources. The Group's activities will focus on achieving appropriate indicators, a "mix" of energy sources, and a further reduction in emissions. It is also worth mentioning that the Capacity Market auctions closed in 2018 will significantly improve the area's flows from 2021 onwards and enable financing of all necessary investments, especially in the scope of the BAT conclusions.

Distribution is the area that stabilises financial flows, as it accounted for 47% of ENEA Group's EBITDA result obtained in 2018. In order to ensure the implementation of indicators determined by the President of the Energy Regulatory Office, ENEA Group implements investments in the Distribution Area by enhancing security and stability of energy supplies. With a view to ensuring stable financial flows in the future, ENEA Group plans to maintain investment outlays related to the development of network at least at the unchanged level in the following years. In response to the encouragement of the President of the Energy Regulatory Office, extensive investments in "smart grids" and AMI meters are being implemented in the Distribution Area. The implementation of adequate investments in this area will allow to obtain an awarded return on capital employed.

The Trading Area recorded significantly lower results in 2018, mainly due to increasing wholesale prices of electricity and the valuation of previously concluded contracts for the purchase of CO₂ emission allowances. In 2019, the Trading Area remains affected by significant uncertainties on the implementation of the Act of 28 December 2018 amending the Excise Duty Act and certain other acts, as amended ("the Act"), limiting changes in electricity prices in 2019. Since we are currently awaiting the regulations implementing the aforementioned Act, it is impossible to estimate its impact on the results of ENEA Group. However, we cannot ignore that the Act provides for the possibility of

applying for the price difference coverage, and the legislator intends to balance the interests of end users of electricity and power companies responsible for its sales. As the Group is a closed value chain from coal mining to the sales of electricity to end users, it is possible to react flexibly to dynamic price increases and changing market and regulatory conditions, therefore, the financial standing of the Group remains safe.

In 2019, the Group will continue its activities related to the refinancing of debt due in subsequent periods and the financing of the investment process. It should be noted that the years 2020-2023 are the maturity period of a large part of the financing incurred in previous years by the energy industry entities. An additional difficulty is the decreasing number of entities willing to finance activities related to hard coal extraction or production of electricity from conventional coal-based sources. Encouragingly, the Group's flows will be supported by the Capacity Market auctions won and the related power supply contracts. The most important for the Generation Area is to obtain a 15-year contract for the supply of power from the mentioned Unit No. 11.

Financial results forecasts

The Management Board of ENEA S.A. did not publish any financial results forecast for 2018.

Ratio analysis ¹⁾

	FY 2017	FY 2018	Q4 2017	Q4 2018
Profitability ratios				
ROE – return on equity	8.3%	4.8%	9.3%	2.6%
ROA – return on assets	4.1%	2.4%	4.6%	1.3%
Net profitability	10.2%	5.7%	10.7%	3.0%
Operating profitability	13.0%	8.2%	13.7%	3.6%
EBITDA profitability	23.5%	18.5%	24.2%	11.4%
Liquidity and financial structure ratios				
Current liquidity ratio	1.5	1.4	1.5	1.4
Coverage of non-current assets with equity	63.4%	65.3%	63.4%	65.3%
Total debt ratio	50.6%	49.8%	50.6%	49.8%
Net debt / EBITDA	2.1	2.4	2.1	2.4
Economic activity ratios				
Current receivables turnover in days ²⁾	59	59	55	56
Trade and other liabilities turnover in days ³⁾	78	95	70	86
Inventory turnover in days	31	43	28	39

¹⁾ Ratio definitions are presented on Page 179

²⁾ Receivables due for supplies and services - commercial, assets on account of contracts with customers and costs of concluding contracts

³⁾ Liabilities due for deliveries and services - commercial, liabilities on account of contracts with customers.

Profit and loss account of ENEA S.A. – FY 2018 ¹⁾

[PLN k]	FY 2017	FY 2018	Change	% change
Sales of electricity to retail customers	4,043,405	4,687,448	644,043	15.9%
Sales of gas fuel to retail customers	82,091	87,538	5,447	6.6%
Sales of distribution services to customers who have comprehensive agreements	1,591,465	0	-1,591,465	-100.0%
Sales of energy and gas fuel to other entities	170,448	175,045	4,597	2.7%
Sales of services	4,698	4,345	-353	-7.5%
Other revenue	2,522	-524	-3,046	-120.8%
Excise tax	255,049	252,163	-2,886	-1.1%
Net sales revenue	5,639,580	4,701,689	-937,891	-16.6%
Depreciation	2,635	2,234	-401	-15.2%
Costs of employee benefits	53,544	63,285	9,741	18.2%
Consumption of materials and raw materials and the value of goods sold	2,154	2,981	827	38.4%
Purchase of energy and gas for sale purposes	3,582,160	4,461,790	879,630	24.6%
Transmission and distribution services	1,592,446	1,973	-1,590,473	-99.9%
Other third party services	179,415	196,764	17,349	9.7%
Taxes and levies	3,272	3,165	-107	-3.3%
Tax deductible costs of sale	5,415,626	4,732,192	-683,434	-12.6%
Other operating revenues	34,819	35,016	197	0.6%
Other operating costs	140,864	70,218	-70,646	-50.2%
Profit / (Loss) on the sale and liquidation of property, plant and equipment	3,971	109	-3,862	-97.3%
Costs related to onerous contracts	0	78,981	78,981	100.0%
Operating profit	121,880	-144,577	-266,457	-218,6%
Financial costs	195,237	265,322	70,085	35.9%
Financial revenues	1,097,427	467,421	-630,006	-57.4%
Dividend revenues	810,534	645,293	-165,241	-20.4%
Profit before tax	1,834,604	702,815	-1,131,789	-61.7%
Income tax	21,280	-24,321	-45,601	-214.3%
Net profit of the reporting period	1,813,324	727,136	-1,086,188	-59.9%
EBITDA	124,515	-142,343	-266,858	-214.3%

FY 2018

Factors behind the change of EBITDA of ENEA S.A. (a decrease of PLN 266.9 million):

- (-) lower first contribution margin by PLN 226 million:
 - (-) higher costs of environmental obligations by 47.8%
 - (-) higher average price of energy purchase by 8.3%
 - (+) higher average price of energy sale by 1.3%
 - (+) higher volume of energy sales by 14.4%
 - (-) lower result on trade in gas fuel
- (-) higher costs of employee benefits (by PLN 10 million):
 - (-) higher costs of remunerations with derivatives by PLN 7 million
 - (-) higher costs of provisions for employee benefits by PLN 3 million
- (-) higher costs of third-party services (by PLN 17 million):
 - (-) higher costs of sales and customer service by PLN 11 million
 - (-) higher costs of SSC services by PLN 2 million
 - (-) higher costs of advertisement and representation by PLN 4 million
 - (-) higher costs of rents and fees related to rental or lease by PLN 1 million
 - (+) lower costs of consultancy services by PLN 2 million
- (+) higher result on other operating activity (by PLN 67 million) results from:
 - (+) lower provisions for terminated contracts of purchase of RES property rights by PLN 67 million
 - (+) lower revaluation write-offs on receivables by PLN 15 million
 - (+) lower costs of donations by PLN 4 million
 - (+) lower receivables written off as costs by PLN 1 million
 - (+) higher revenue from licence fees connected with the ENEA trademark by PLN 9 million
 - (-) higher provisions for court cases and potential claims by PLN 14 million
 - (-) higher costs of court proceedings by PLN 2 million
 - (-) in 2017, recognition of revenue of PLN 12 million due to the expiry of the bond issue programme (PLN 3 billion)
 - (-) in 2017, recognition of revenue in the amount of PLN 4 million in connection with the transfer of ownership rights and perpetual usufruct of land included in the off-balance sheet records
- (-) in 2018, costs related to onerous contracts - recognition of financial consequences related to the entry into force of the Act amending the Excise Duty Act and certain other acts of 28 December 2018 in the amount of PLN 79.0 million

¹⁾ As of 1 January 2018, the entry into force of the new IFRS 15 Revenue from Contracts with Customers. Change in presentation (in terms of results) of revenues and costs of distribution services in 2018

Profit and loss account of ENEA S.A. – Q4 2018 ¹⁾

[PLN k]	Q4 2017	Q4 2018	Change	% change
Sales of electricity to retail customers	1,038,975	1,250,619	211,644	20.4%
Sales of gas fuel to retail customers	22,380	25,728	3,348	15.0%
Sales of distribution services to users who have comprehensive agreements	408,894	0	-408,894	-100.0%
Sales of energy and gas fuel to other entities	57,577	66,810	9,233	16.0%
Sales of services	1,487	1,983	496	33.4%
Other revenue	296	-586	-882	-298.0%
Excise tax	64,880	65,381	501	0.8%
Net sales revenue	1,464,729	1,279,173	-185,556	-12.7%
Depreciation	562	546	-16	-2.8%
Costs of employee benefits	15,577	18,340	2,763	17.7%
Consumption of materials and raw materials and the value of goods sold	529	1,059	530	100.2%
Purchase of energy and gas for sale purposes	949,185	1,251,794	302,609	31.9%
Transmission and distribution services	409,230	374	-408,856	-99.9%
Other third party services	46,305	50,198	3,893	8.4%
Taxes and levies	523	402	-121	-23.1%
Tax deductible costs of sale	1,421,911	1,322,713	-99,198	-7.0%
Other operating revenues	21,450	19,528	-1,922	-9.0%
Other operating costs	31,356	22,072	-9,284	-29.6%
Profit / (Loss) on the sale and liquidation of property, plant and equipment	3,716	(39)	-3,755	-101.0%
Costs related to onerous contracts	0	78,981	78,981	100.0%
Operating profit	36,628	-125,104	-161,732	-441.6%
Financial costs	53,415	71,256	17,841	33.4%
Financial revenues	921,080	218,177	-702,903	-76.3%
Profit before tax	904,293	21,817	-882,476	-97.6%
Income tax	1,589	6,999	5,410	340.5%
Net profit of the reporting period	902,704	14,818	-887,886	-98.4%
EBITDA	37,190	-124,558	-161,748	-434.9%

Q4 2018

Factors behind the change of EBITDA of ENEA S.A. (a decrease of 161.7 million):

- (-) lower first contribution margin by PLN 80 million:
 - (-) higher costs of environmental obligations by 44%
 - (-) higher average price of energy purchase by 14.3%
 - (+) higher average price of energy sale by 4.1%
 - (+) higher average sale price of energy by 3.3%
 - (+) higher volume of energy sales by 15.6%
 - (-) lower result on trade in gas fuel
- (-) higher costs of employee benefits by PLN 3 million:
 - (-) higher costs of remunerations with derivatives by PLN 3 million
- (-) higher costs of third-party services (by PLN 4 million):
 - (-) higher costs of sale and customer service by PLN 2 million
 - (-) higher costs of advertisement and representation by PLN 3 million
 - (+) lower costs of consultancy services by PLN 1 million
- (+) higher result on other operating activity (by PLN 4 million) resulting from:
 - (+) lower provisions for terminated contracts of purchase of RES property rights by PLN 15 million
 - (+) lower revaluation write-offs on receivables by PLN 8 million
 - (+) higher revenue from licence fees connected with the ENEA trademark by PLN 3 million
 - (-) higher provisions for court cases and potential claims by PLN 5 million
 - (+) lower receivables written off as costs by PLN 3 million
 - (-) in 2017, recognition of revenue of PLN 12 million due to the expiry of the bond issue programme (PLN 3 billion)
 - (-) in 2017, recognition of revenue in the amount of PLN 4 million in connection with the transfer of ownership rights and perpetual usufruct of land included in the off-balance sheet records
- (-) in 2018, costs related to onerous contracts - recognition of financial consequences related to the entry into force of the Act amending the Excise Duty Act and certain other acts of 28 December 2018 in the amount of PLN 79.0 million

¹⁾ As of 1 January 2018, the entry into force of the new IFRS 15 Revenue from Contracts with Customers. Change in presentation (in terms of results) of revenues and costs of distribution services in 2018

Assets position - the structure of assets and liabilities of ENEA S.A.

Assets [PLN k]	As at:		Change	% change
	31 December 2017	31 December 2018		
Fixed assets	19,068,965	19,578,834	509,869	2.7%
Property, plant and equipment	25,905	25,791	-114	-0.4%
Perpetual usufruct of land	1,215	1,504	289	23.8%
Intangible assets	4,666	4,501	-165	-3.5%
Investment real estates	14,855	14,305	-550	-3.7%
Investments in subsidiaries, affiliates and jointly controlled entities	11,945,473	12,794,956	849,483	7.1%
Deferred income tax assets	66,693	98,432	31,739	47.6%
Financial assets at fair value	-	46,357	46,357	100.0%
Debt financial assets at amortized cost ⁴⁾	-	6,578,980	6,578,980	100.0%
Trade and other receivables ¹⁾	146,241	1,103	-145,138	-99.2%
Costs incurred to obtain or fulfil a contract ³⁾	-	12,905	12,905	100.0%
Financial assets available for sale – until 2017	39,307	-	-39,307	-100.0%
Intra-group bonds	6,771,221	-	-6,771,221	-100.0%
Financial assets at fair value through profit or loss – until 2017	23,836	-	-23,836	-100.0%
Derivatives – until 2017	29,553	-	-29,553	-100.0%
Current assets	3,383,956	3,364,960	-18,996	-0.6%
Inventories	217,158	333,578	116,420	53.6%
Trade and other receivables ²⁾	1,126,982	970,657	-156,325	-13.9%
Costs incurred to obtain or fulfil a contract ³⁾	-	16,948	16,948	100.0%
Assets due to contracts with customers ³⁾	-	227,480	227,480	100.0%
Current income tax assets	126,336	77,098	-49,238	-39.0%
Debt financial assets at amortized cost ⁴⁾	-	593,221	593,221	100.0%
Intra-group bonds	167,054	-	-167,054	-100.0%
Cash and cash equivalents	1,746,426	1,145,978	-600,448	-34.4%
Total Assets	22,452,921	22,943,794	490,873	2.2%

¹⁾ Data for 2017 include loans of PLN 131 million and for 2018 loans of PLN 155 million included in debt financial assets at amortized cost.

²⁾ Data for 2017 include loans of PLN 37 million and for 2018 loans of PLN 35 million included in debt financial assets at amortized cost.

³⁾ Data for 2018 take into account the changes resulting from the implementation of IFRS 15, while the balance sheet items for 2017 do not include new categories of assets.

⁴⁾ Data for 2018 take into account the changes resulting from the implementation of IFRS 9, while the balance sheet items for 2017 do not include new asset categories..

Change factors for fixed assets (a decrease of PLN 510 million):

- an increase in investments in subsidiaries, affiliates and jointly controlled entities of PLN 849 million is mainly due to the acquisition of shares, among others, of Polska Grupa Górnicza S.A. in the amount of PLN 90 million, Elektrownia Ostrołęka Sp. z o.o. in the amount of PLN 220 million, ENEA Ciepło Sp. z o.o. and ENEA Ciepło Serwis Sp. z o.o. in the amount of PLN 301 million and reversal of impairment losses on shares in the amount of PLN 201 million
- a decrease in intra-group bonds of PLN 347 million (in 2018, bonds under the item debt financial assets in the amortized cost of PLN 6,424 million) is caused by a change in the balance of acquired bonds as a result of new issues, repayment of bond capital and reclassification of some bonds to current assets

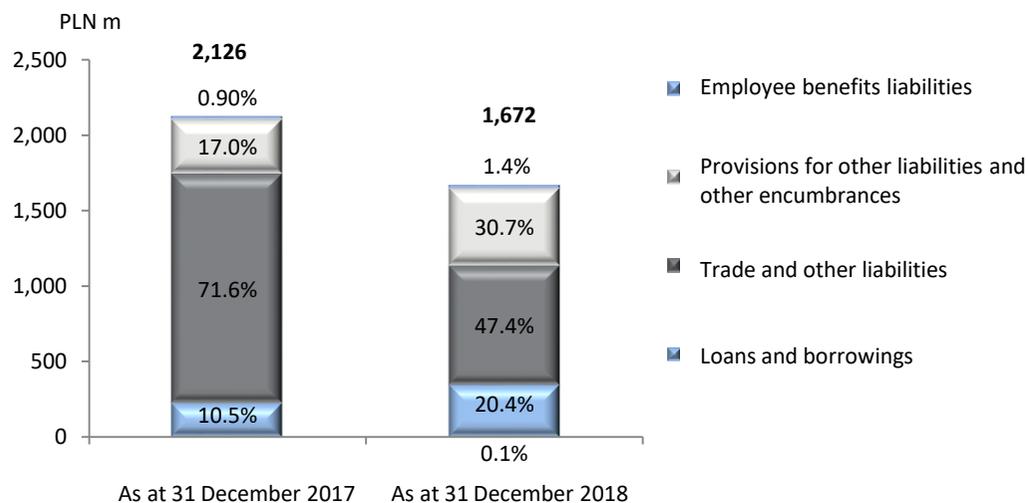
Change factors for current assets (a decrease by PLN 19 million):

- an increase in intra-group bonds of PLN 391 million (in 2018, bonds under the item debt financial assets at amortized cost of PLN 558 million) results from reclassification of fixed assets to the short-term part adjusted for received repayments of the bond capital
- an increase in inventories of PLN 116 million relates to certificates of origin of electricity
- an increase in trade and other receivables of PLN 125 million, costs incurred to obtain or fulfil a contract and assets due to contracts with customers, primarily relates to trade receivables (for a proper comparison with 2017, the deviation calculated taking into account PLN 37 million of loans in 2018)
- a decrease in cash by PLN 600 million results mainly from the fact that ENEA S.A. operates as Pool Leader in the pool structure covering also other Group companies, which results in consolidation of the Group's cash on ENEA S.A.'s account; in the analysed period, the total balance of mutual settlements between ENEA S.A. and the other companies - participants of the pool cash structure decreased by approximately PLN 604 million
- a decrease in current income tax assets of PLN 49 million

Assets position - the structure of assets and liabilities of ENEA S.A.

Equity and liabilities [PLN k]	As at:		Change	% change
	31 December 2017	31 December 2018		
Total equity	12,631,977	13,295,846	663,869	5.3%
Share capital	588,018	588,018	0	0.0%
Capital from the surplus of the issue price over the nominal value	4,627,673	4,627,673	0	0.0%
Capital from the revaluation of financial instruments	0	-17,036	-17,036	-100%
Reserve capital from valuation of hedging instruments	25,967	-15,986	-41,953	-161.6%
Reserve capital	3,150,240	4,963,564	1,813,324	57.6%
Retained profits	4,240,079	3,149,613	-1,090,466	-25.7%
Total liabilities	9,820,944	9,647,948	-172,996	-1.8%
Long-term liabilities	7,695,443	7,976,020	280,577	3.6%
Short-term liabilities	2,125,501	1,671,928	-453,573	-21.3%
Total equity	22,452,921	22,943,794	490,873	2.2%

Structure of short-term liabilities



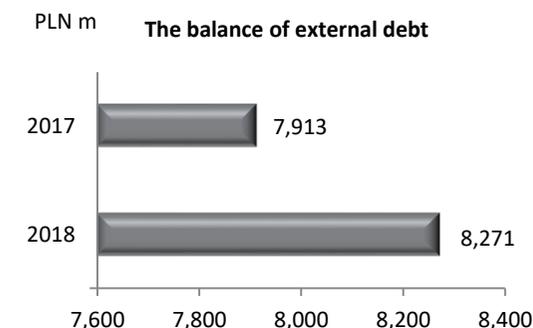
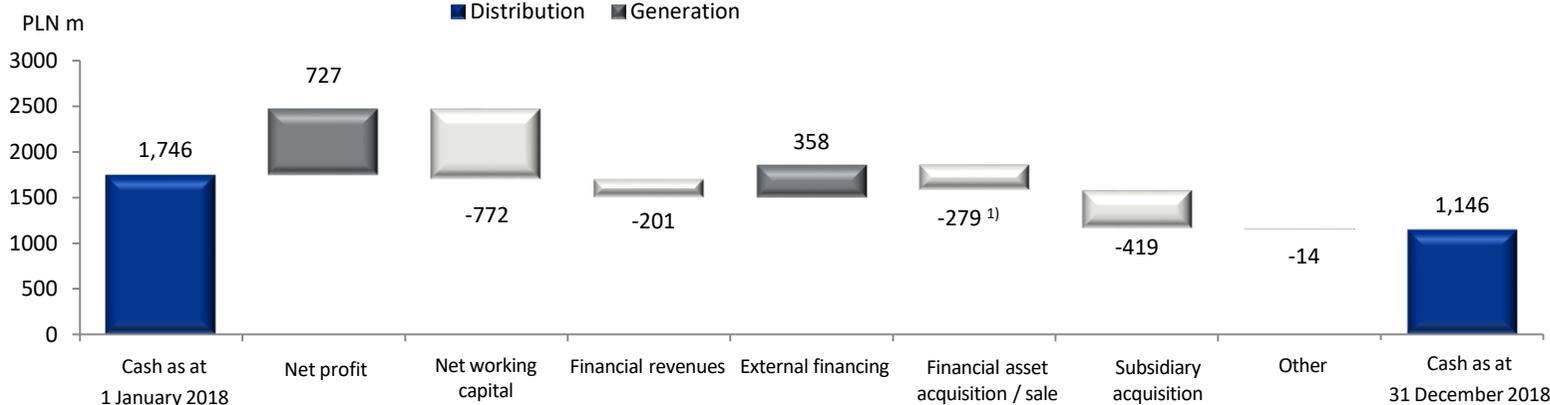
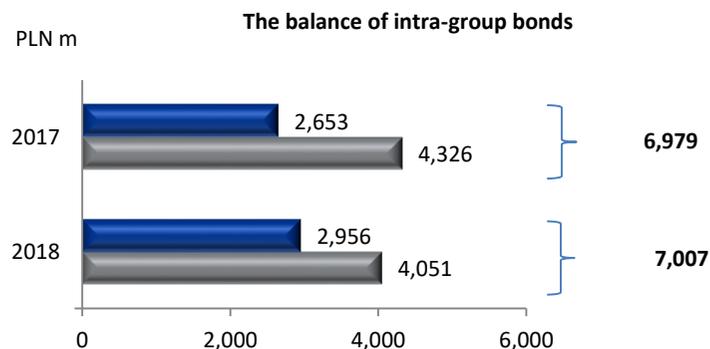
Change factors for liabilities:

- bond issue programmes - funds of PLN 550 million for investment purposes of ENEA S.A. and subsidiaries
- instalment repayments of capital and loans and redemption of bonds in the amount of PLN 192 million
- a decrease in trade liabilities of PLN 90 million
- an increase in provisions for liabilities by PLN 152 million (including mainly a provision for onerous contracts in the amount of PLN 79 million)
- a decrease in tax liabilities of PLN 13 million
- an increase in cash pooling liabilities by PLN 577 million

Cash position of ENEA S.A.

Cash flow statement [PLN k]	FY 2017	FY 2018	Change	% change
Net cash flow from operating activities	591,748	(885,683)	-1,477,431	-249.7%
Net cash flow from investment activities	(2,009,136)	142,485	2,151,621	-107.1%
Net cash flow from financial activities	1,548,992	142,750	-1,406,242	-90.8%
Increase / (decrease) in net cash	131,604	(600,448)	-732,052	-556.3%
Cash balance at the beginning of the reporting period	1,614,822	1,746,426	131,604	8.1%
Cash balance at the end of the reporting period	1,746,426	1,145,978	-600,448	-34.4%

Ratio analysis of ENEA S.A. ¹⁾	FY 2017	FY 2018	Q4 2017	Q4 2018
Profitability ratios				
ROE - return on equity	14.4%	5.5%	28.6%	2.4%
ROA - return on assets	8.1%	3.2%	16.1%	1.4%
Net profitability	32.2%	15.5%	61.6%	6.2%
Operating profitability	2.2%	-3.1%	2.5%	-3.6%
EBITDA profitability	2.2%	-3.0%	2.5%	-3.6%
Liquidity and financial structure ratios				
Current liquidity ratio	1.6	2.0	1.6	2.1
Coverage of fixed assets with equity	66.2%	67.9%	66.2%	68.3%
Total debt ratio	43.7%	42.1%	43.7%	41.7%
Economic activity ratios				
Current receivables turnover in days	72	90	67	86
Trade and other liabilities turnover in days	47	53	47	42
Inventory turnover in days	10	20	12	21



¹⁾ This item does not include the redemption of bonds in the amount of PLN 228 million, which was settled in a non-cash form

Financial instruments used

ENEA S.A. pursues the Interest Rate Risk Hedging Strategy, the main objective of which is to hedge cash flows resulting from concluded financing agreements. The adopted strategy assumes limiting the risk of impact on the financial result of changes in cash flows resulting from the risk of interest rate changes on the market within a specified time horizon. Based on the analysis of the interest rate market, taking into account the current valuations of IRS instruments and the estimated effectiveness of these instruments, as well as due to a slight increase in the level of debt based on variable interest rate - an increase by PLN 550,000 thousand due to the issue of bonds from the BGK Programme with a simultaneous decrease by PLN 170,000 thousand due to the conversion of the interest rate of the EIB Loan from variable to fixed, no interest rate risk hedging transactions were concluded in 2018. The total value of all interest rate risk hedging transactions concluded as at 31 December 2018 amounted to PLN 5,314,873 thousand, which, together with PLN 100,000 thousand of fixed rate debt contracted with the EIB and the conversion of the interest rate of the tranche of PLN 170,000 thousand from variable to fixed allowed to achieve the interest rate risk hedging ratio both in the ENEA CG and individually for ENEA S.A. at the level of 67%. In the reporting period, implementing the Currency Risk Hedging Strategy within the horizon of 2018 for the currency exposure identified outside the areas of core operations of the key Companies of ENEA Group, the aim of which is to limit the risk related to the volatility of currency exchange rates, 12 cash flow hedging transactions of the total value of EUR 4,709 thousand were concluded. The transactions concluded served to hedge the currency risk of ENEA S.A. (value of EUR 696 thousand), ENEA Wytwarzanie Sp. z o.o. (value of EUR 1,831 thousand) and ENEA Centrum (value of EUR 2,182 thousand). In the case of ENEA S.A. and ENEA Centrum Sp. z o.o. the collateral was based on the Forward Non-Deliverable instrument, whereas in the case of ENEA Wytwarzanie Sp. z o.o. the collateral was made on the basis of the Forward Non-Deliverable instrument.

Manging financial resources

ENEA Group manages financial resources in the short and long term. Financial resources are managed using the Cash Pooling mechanism. The Cash Pooling service allows for mutual balancing of accounts of the companies covered by the system due to differences in demand for cash. The day-to-day management of the liquidity of ENEA Group companies focuses on planning cash flows and monitoring the concentration of cash on bank accounts. The conducted activities are supported by quantitative analyses concerning the assessment of the liquidity situation in response to unfavourable conditions. Financial surpluses are managed from the central level. In order to unify the process of liquidity and liquidity risk management, ENEA Group companies have been covered by intra-group regulations, i.e. the policy and procedure for liquidity and liquidity risk management. The resulting shortages of cash of the Companies of ENEA Group are covered with the use of intraday limits. In case of lack of sufficient cash balance to cover shortages, ENEA Group has a possibility to use available sources of current financing. Management of financial resources in the long-term perspective focuses mainly on the identification of demand for cash and obtaining financing within the framework of emerging cash needs.

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

This Report of the Management Board on activities has been prepared in accordance with § 70-71 of Regulation of the Finance Minister of 29 March 2018 on current and periodic information (...). The consolidated financial statements of ENEA Group and the non-consolidated financial statements of ENEA S.A. included in the consolidated report of ENEA S.A. for the financial year 2018 have been prepared in accordance with International Accounting Standards and International Financial Reporting Standards (IAS/IFRS) approved by the European Union. The consolidated financial statements of ENEA Group and the non-consolidated financial statements of ENEA S.A. have been prepared on the assumption that the Issuer and its Group will continue as a going concern in the foreseeable future. Unless indicated otherwise, the financial data presented in the statements were expressed in PLN k.

Entity authorised to audit financial statements

The Supervisory Board of the Company appointed PricewaterhouseCoopers Sp. z o.o. to carry out the financial audit activities for 2018, referred to in the table below. The agreement with the above-mentioned entity was signed on 26 January 2018. The agreement was concluded for a period of 3 years.

KPMG Audyt spółka z ograniczoną odpowiedzialnością sp. k. was selected to carry out the financial audit activities for 2017 referred to in the table below. The agreement with the above-mentioned entity was signed on 6 May 2015.

Information on net remuneration due to entities performing financial review activities for the benefit of ENEA S.A. in the years 2017-2018 is presented in the table:

[PLN k]	2017	2018	2018	2018
Including:			KPMG	PWC
Remuneration for the audit of the annual consolidated and non-consolidated financial statements of ENEA S.A.	196	145	85	60
Remuneration for the audit of the annual financial statements of subsidiaries	622	538	270	268
Remuneration for the review of the mid-year non-consolidated financial statement and mid-year consolidated financial statement of ENEA S.A. and for the review of mid-year financial statements of subsidiaries	152	146		146
Remuneration for other services	40	54	14	40
TOTAL	1,010	882		

The total remuneration due to PwC for audit and other services for 2018 according to the agreements amounts to PLN 1,282,000, of which the remuneration for other services will amount to PLN 82,000. Remuneration for other services in 2018 includes remuneration for the verification of the regulatory statement in accordance with Article 44 of the Energy Law, verification of the excise rate, verification of the Regulatory Value of Assets, audit of material and financial statements on the performance of investment tasks included in the National Investment Plan, verification of compliance with the terms of loan agreements.

Detailed information on PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością Audyt sp. k. and a description of the services provided was published in Current Report No. 42/2017 of 19 December 2017.

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



4. Shares and shareholding

SHARES AND SHAREHOLDING

Shareholding structure and share quotations

As at publication date of the 2018 report, the share capital of ENEA S.A. amounts to PLN 441,442,578 and is divided into 441,442,578 ordinary bearer shares of the nominal value of PLN 1 each. The 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 shares of the Company are dematerialised bearer shares registered with the National Depository for Securities.

The table below presents the shareholding structure of ENEA S.A. as at the date of release of the 2018 report.

Shareholder	Number of shares /number of votes at GM	Share in the share capital / share in the total number of vote
State Treasury	227,364,428	51.50%
Other	214,078,150	48.50%
TOTAL	441,442,578	100.00%

Potential changes in the shareholding structure

The Company is not aware 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 successors may result in some changes in the number of shares held by the State Treasury.

Own shares

Neither ENEA S.A., nor any of the ENEA Group companies acquired the Company's own shares in 2018.

Employee share control system

ENEA S.A.'s Statute foresees the so-called employee share package. All the ordinary registered shares of B series in ENEA S.A. 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 shares for whom 33,239,235 shares were designated.

The right to the unpaid acquisition from the State Treasury of ENEA 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 S.A., 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 S.A. shares available for unpaid acquisition by the Company's employees was 1,969,793 as at 31 December 2018.

In 2018, ENEA S.A. did not launch any standard employee share programme control systems.

Prices of ENEA S.A.'s shares on Warsaw Stock Exchange

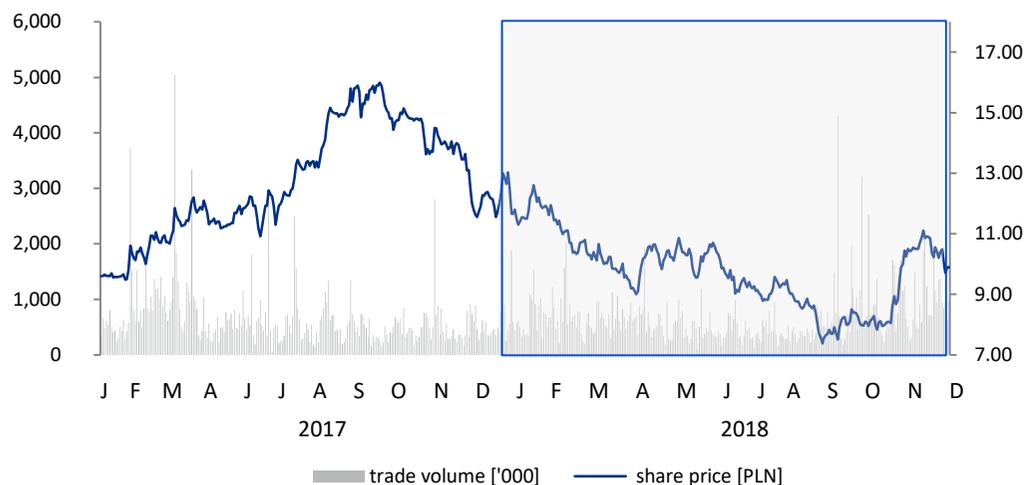
ENEA S.A.'s shares have been listed on the Warsaw Stock Exchange (WSE) since 17 November 2008. Weights of the Company's shares in stock indices as at 28 December 2018 were as follows:

WIG30 0.96%	WIG40 3.54%	WIGenergia 13.51%	WIG Poland 0.75%
-----------------------	-----------------------	-----------------------------	----------------------------

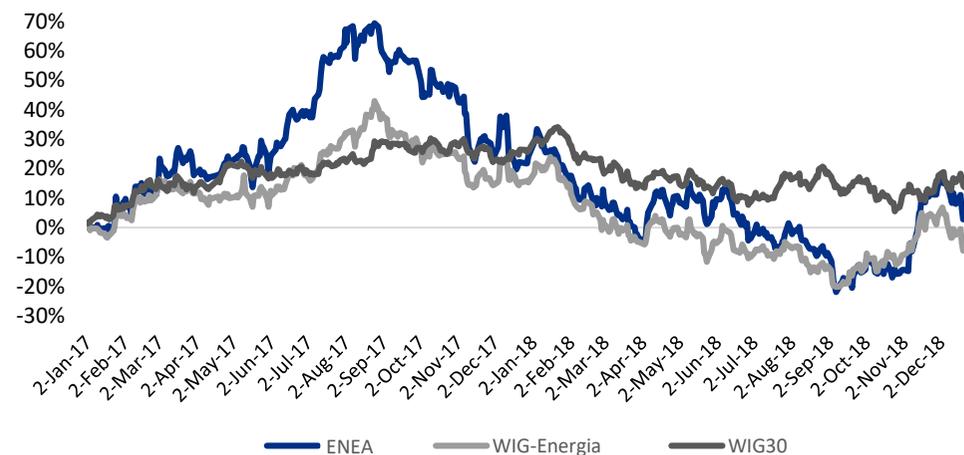
The table below presents data related to the Company's shares in 2018

Data	2018
Number of shares	441,442,578
Minimum price [PLN]	9.58
Maximum price [PLN]	11.5
Closing price [PLN]	9.9
Starting price [PLN]	11.5
Average volume	1,121,578

Quotations of ENEA S.A.'s shares in 2017 and 2018



Change in the price of ENEA S.A.'s shares vs. the changes in the WIG30 and WIG- Energy indices



In 2018, the share price of ENEA S.A. dropped from PLN 11.50 to PLN 9.90, i.e. by PLN 1.60 or 13.9%. From January-December 2018, the highest closing price for ENEA S.A.'s shares was achieved on 8 January 2018 (PLN 12.60) and the lowest - on 10 September 2018 (PLN 7.38).





5. Governing bodies

Composition of Management Board of ENEA S.A.

From early 2018, the Company's Management Board was composed of the following persons: Mirosław Kowalik – President of the Management Board, Piotr Adamczak – Vice-President for Commercial Affairs, Piotr Olejniczak – Vice-President for Financial Affairs and Zbigniew Piętka – Vice-President for Corporate Affairs.

Mirosław Kowalik President and CEO



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 Vice-President of the Board and Business Development Director. During 1999-2015, he worked on various managerial positions for ASLTOM Power Group, recently as Marketing and Sales Director. Connected with the ABB concern during 1995–1998. Mr. 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: chairs the work of the Management Board and directly coordinates the activities of the Company and ENEA Group in accordance with the adopted Strategy.

Piotr Adamczak Vice-President for Commercial Affairs



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 S.A., 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 Office Manager, and from 2013 of 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. Mr. 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 Vice-President for Financial Affairs



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 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, he 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. Mr. Olejniczak is a graduate of 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. 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 Vice-President for Corporate Affairs



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. Mr. 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 2018, no formalised diversity policy was implemented ENEA S.A. 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 Supervisory Board of ENEA S.A.

On 13 March 2018, the Company received the notice of resignation, effective as of the same date, of Paweł Skopiński from his function of Member of Supervisory Board of ENEA S.A. On 22 March 2018, the Company received a statement of the Minister of Energy, dated the same date, on exercising the right to appoint, pursuant to § 24 item 1 of the Company's Statute, a Member of Supervisory Board of ENEA S.A. In accordance with the above right, Ireneusz Kulka was appointed to the Supervisory Board as of 22 March 2018. On 16 April 2018, the Management Board of ENEA S.A. became aware of the statement of the Minister of Education dated 13 April 2018 on the dismissal of the Company's Supervisory Board Member in accordance with the right vested in the Minister of Energy pursuant to § 24 item 1 of the Company's Statute. In accordance with this right, as of 15 April 2018, Ireneusz Kulka was dismissed from the Supervisory Board of the Company. Moreover, on 16 April 2018, the Extraordinary General Meeting of ENEA S.A. dismissed Rafał Bargiel and Piotr Kossak from the Supervisory Board of ENEA S.A., and appointed Ireneusz Kulka and Paweł Jabłoński to the Supervisory Board of the Company, whereas the resolution on appointing Paweł Jabłoński entered into force as of obtaining a binding positive opinion of the Council for Companies with State Treasury Shareholding and State-Owned Legal Persons in relation to this candidate, namely as of 20 April 2018. On 31 July 2018, the Company received a resignation, dated the same date, of Rafał Szymański from his position of a Member of the Supervisory Board of ENEA S.A.

On 24 September 2018, the Extraordinary General Meeting of ENEA S.A. adopted a resolution appointing Paweł Andrzej Korobłowski to the Supervisory Board of the Company.

As at the day of publication of this report, the Company's Supervisory Board of the 9th tenure was comprised of nine members and it acts in the following composition:

Stanisław Kazimierz Hebda, Chairman of the Supervisory Board. Date of appointment: 28 December 2017

Stanisław Kazimierz Hebda serves as 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 Chairman of the Audit Committee at Korporacja Ubezpieczeń Kredytów Eksportowych S.A. 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.

Paweł Jabłoński, Vice-Chairman of the Supervisory Board. Date of appointment: 20 April 2018

Paweł Jabłoński is an attorney-at-law entered on the list kept by the Warsaw Bar Association. In 2010, he graduated in Law from the Faculty of Law and Administration of the Warsaw University. He worked, among others, in the Warsaw branch of Gide Loyrette Nouel, and then, since 2015, he run his own attorney-at-law firm providing services to businesses and natural persons. In his professional practice, he was dealing e.g. in matters related to property law, due diligence of power and heating companies, regulatory proceedings, and running civil litigations in matters related to the transmission service easement and correctness of power consumption measurements. Currently, he is a member of the Expert Team to the Prime Minister.

Piotr Mirkowski, Secretary of the Supervisory Board. Date of appointment: 15 January 2016

In 2009-2015, Piotr Mirkowski was a Member of the Supervisory Board of the public listed company Radpec S.A. In 2007-2015, he was associated 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 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 completed Postgraduate Studies at the Warsaw University of Technology in Heating and Energy Auditing. He holds certificates of an ISO Auditor and an ISO Representative.



Wojciech Klimowicz, Member of the Supervisory Board. Date of appointment: 2 July 2015

Wojciech Klimowicz has been associated with ENEA S.A. since 2003 and currently works in the Sales Department. Mr. Klimowicz graduated from the Adam Mickiewicz University in Poznań with a Master's degree, Faculty of Social Sciences, majoring in Political Science (specialisation: 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 in the area of power engineering and corporate governance. Since 1983, he has been associated with ENEA S.A. and its legal predecessor; currently he is an employee of the Operational Management Department. Since 1997, he has been a member of numerous supervisory boards of commercial law companies. Mr. 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 associated with ENEA S.A. since 2008. Currently, he holds the position of Organisation and Security Department Director. Previously he was related to the International Fairs of Poznań. Mr. Brzeziński is a graduate of the Faculty of Mechanical Engineering and Management at Poznań University of Technology. He also completed 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

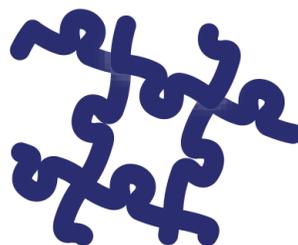
Roman Stryjski is a Professor of the University of Zielona Góra, Director of the Institute of Computer Science and Production Management. Formerly, he was professionally connected with the Higher Engineering School in Zielona Góra and the Pedagogical University in Zielona Góra for many years. Member 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. Mr. Stryjski is a Doctor habil. of technical sciences of Martin Luther University Halle-Wittenberg.

Ireneusz Kulka, Member of the Supervisory Board. Date of appointment: 16 April 2018

Ireneusz Kulka is an experienced manager with many years of experience in business management. His area of expertise covers the broadly understood Customer Area including Product Development, Sales, and Maintenance of Services provided to Customers in Telecommunications and Power Industry. Mr. Kulka holds a doctoral degree in Economics, and he also graduated from the IESE Advanced Management Program at the University of Navarra.

Paweł Korobłowski, Member of the Supervisory Board. Date of appointment : 24 September 2018

Paweł Andrzej Korobłowski graduated from the Faculty of Electrical Engineering at the Warsaw University of Technology in 1991 with a Master of Science degree, and in 1997 he defended his doctoral thesis, obtaining a doctoral degree in Technical Sciences. In 2002, he graduated from the Faculty of Management at the University of Warsaw. From 1992 to 2001, Mr. Korobłowski worked at the state-owned company PKP (Polish State Railways) and from 2017-2018, in the private-limited company PKP Energetyka, holding the positions of Strategy Office Director, Risk Management Office Director and Director for System Analyses, heading the Market Analyses Department. Since 12 September 2018, Mr. Korobłowski has been the Deputy Director of the Department of Power and Heat Engineering at the Ministry of Energy. Mr. Korobłowski was a member of the supervisory boards of the following companies: Telekomunikacja Kolejowa, PKP Informatyka and Elester-PKP.



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

Detailed information can be found in Chapter 7 "Corporate governance".

Remuneration rules for members of Management Board of ENEA S.A.

The remunerations rules for Members of Management Board of ENEA S.A. effective in 2018 had been implemented by virtue of a resolution of the Extraordinary General Meeting of ENEA S.A. of 15 December 2016 on the rules for determining remunerations of Management Board members which was passed in connection with the coming into force 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 remuneration rules for Members of Management Board Members of ENEA S.A.

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

- a. during the term of the Agreement, the Management Board Members are entitled to a fixed monthly remuneration and a 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. In the case where a Management Board Member violates non-competition obligation after he/she has 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 that Management Board Member. In addition, the Company has the right to demand the Management Board Member to pay liquidated damages.
- c. in the event of expiry of the Management Services Agreement as a result of expiry of Management Board Member's term of office, the Company has the right, for the period of 1 month after the Agreement's 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 their 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 subsidiary of the group within the meaning of Article 4 item 14 of the Act of 16 February 2007 on competition and consumer protection
 - resignation from the function performed

Remuneration rules for members of Supervisory Board of ENEA S.A.

The remuneration rules for Members of Supervisory Board of ENEA S.A. in effect in 2018 have been implemented by virtue of a resolution of the Company's Extraordinary General Meeting of 15 December 2016. Pursuant to the provisions of the abovementioned resolution of the EGM, 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 GUS and the following multiplier:

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

The resolution of the Extraordinary General Meeting further stipulates that:

- a. the Supervisory Board Members are entitled to the abovementioned remuneration regardless of the number of meetings convened
- b. 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 remuneration received from 1 January 2018 to 31 December 2018 by persons being members of Management Board of ENEA S.A. who signed Management Services Agreements with the Company is presented in the table below:

Name	Position	Net remuneration in PLN [exclusive of VAT] ¹⁾	Additional benefits
Mirosław Kowalik	President of the Management Board	720,000.00	-
Piotr Adamczak	Vice-President of the Management Board	660,000.00	-
Piotr Olejniczak	Vice-President of the Management Board	660,000.00	-
Zbigniew Piętko	Vice-President of the Management Board	660,000.00	-
Mikołaj Franzkowiak ²⁾	Vice-President of the Management Board	304,880.82	-
Wiesław Piosik ³⁾	Vice-President of the Management Board	304,880.82	-

In the period of performing managerial functions in 2018, Members of Management Board of ENEA S.A. did not receive remuneration for performing during this time any functions in subsidiaries of ENEA S.A. The remuneration received by managing persons did not include any non-financial components.

The table below presents the remuneration of persons being members of Supervisory Board of ENEA S.A. in the financial year 2018:

Name	Net remuneration [PLN]
Stanisław Kazimierz Hebda	97,652.04
Paweł Jabłoński ⁸⁾	59,480.89
Piotr Mirkowski	85,311.24
Sławomir Brzeziński	85,311.24
Wojciech Klimowicz	85,311.24
Paweł Andrzej Korobłowski ¹⁰⁾	22,986.67
Ireneusz Kulka ⁵⁾	66,276.74
Tadeusz Mikłosz	85,311.24
Roman Stryjski	85,311.24
Rafał Bargiel ⁶⁾	25,119.42
Piotr Kossak ⁷⁾	25,119.42
Paweł Skopiński ⁴⁾	17,199.85
Rafał Szymański ⁹⁾	49,764.89

In the financial year 2018, Members of Supervisory Board of ENEA S.A. 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 S.A. shares held by members of the Management and Supervisory Boards

Name	Position	Number of ENEA S.A. shares as at 31 December 2018	Number of ENEA S.A. shares as at 21 March 2019	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 S.A. shares. As at the date of release of this periodic report, no other persons from the Management or Supervisory Boards hold any allotment certificates to ENEA S.A. shares.

As at the date of release of this periodic report, no persons from the Management or Supervisory Boards hold any shares, or allotment certificates to any shares, in subsidiaries of ENEA S.A.

¹⁾ 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 2017 for former Management Board members

²⁾ Position held until 24 August 2017

³⁾ Position held until 24 August 2017

⁴⁾ Position held until 13 March 2018

⁵⁾ Position held until 22 March 2018

⁶⁾ Position held until 16 April 2018

⁷⁾ Position held until 16 April 2018

⁸⁾ Position held until 20 April 2018

⁹⁾ Position held until 31 July 2018

¹⁰⁾ Position held until 24 September 2018



6. Other information significant for the assessment of the issuer's situation which may affect future results

Regulatory environment

The activities of ENEA S.A. are carried out in an environment subject to specific legal regulations both at the domestic level as well as at the level of the European Union. Since legal regulations in the energy sector are often a derivative of political decisions, there is always a risk of frequent changes in this scope, which cannot be foreseen by the Company and which can result in the lack of consistency and uniformity of provisions based on which ENEA S.A. conducts its activities. Notwithstanding the foregoing, the activities of the Group are regulated by the current shape of the national legal system defining the framework for business activity in Poland, including in particular in the scope of the tax system, protection of competition and consumers, employee rights, or environment protection. It cannot be excluded that changes in these areas, both in specific legal acts as well as individual interpretations relating to significant areas of activity of the Group, can lead to possible liabilities of the Group's companies.

Internal energy market

In 2018, negotiations on the so-called trilogy on the final provisions of the Winter Package, which are of fundamental importance for the functioning of the energy sector, were completed. In particular, it should be noted that during the negotiations on the Regulation of the European Parliament on the internal energy market, the lack of support from national power markets for generating units not meeting the so-called standard of 550 gr CO₂/ kWh emissions was established. However, as part of the compromise sought by the Polish delegation, it was agreed that units emitting more than 550g CO₂/kWh, which concluded power contracts as part of the main auctions finally resolved by 31 December 2019, may receive remuneration for the performance of the power obligation for the entire period for which support was obtained from the power market. This is a very important compromise in view of the fact that the power market is a state aid instrument which required the approval of the European Commission and must function in accordance with the regulations of the internal market of the European Union.

Moreover, in the course of trilogues, the EU RES Directive set the EU RES 2030 target of 32% in gross final energy consumption and the possibility of support for new biomass units with a capacity above 100 MW in the event of achieving electricity efficiency at the level of 36% and the Energy Efficiency Directive set the reduction of energy consumption in the EU by 32.5% by 2030.

The Energy Union Management Regulation (Governance) introduced the obligation to draw up a National Energy and Climate Plan as part of the implementation of the Energy Union, covering five dimensions: energy security, internal energy market, energy efficiency, decarbonisation, research, innovation and competitiveness.

The main objective of the Energy Union governance mechanism is to enable the achievement of the objectives of the Energy Union, in particular the objectives of the climate and energy policy framework by 2030 in terms of greenhouse gas emission reduction, renewable energy and energy efficiency.

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 the energy sector"¹⁾ constituting an attachment to the Polish Energy Policy by 2040 project, the domestic electricity demand will reach nearly 200 TWh in 2030 and 230 TWh in 2040. At the same time the total increase in energy demand for electricity in 2020-2040 is 40.4%. The demand for peak power in this period will increase by 35.5%.

¹⁾https://www.gov.pl/documents/33372/436746/Wnioski_z_analiz_do_PEP2040_2018-11-23.pdf/1481a6a9-b87f-a545-4ad8-e1ab467175cf



Key objectives and provisions of the Winter Package:

Decarbonisation:

- Based on the WP regulations, in the long term, i.e. by 2050, the EU plans to transition to a zero-carbon economy – for this purpose, the so-called Energy Road Map for the EU by 2050 is being developed.

Intensive development of renewable energy sources (amendment of the RES Directive, i.e. RED II):

- On 14 June 2018, a memorandum of understanding on long-negotiated provisions was agreed. With regard to the overall binding target for the share of RES in 2030, a 32% target was set with no binding national targets. In addition, a revision of the 2023 target was agreed.
- In the context of state aid, the conditions for eligibility of biomass-fired power plants for financial support were specified. In the case of installations from 50 to 100 MW, the support was made dependent on the fulfilment of efficiency levels in accordance with the reference document BAT LCP (Best Available Techniques). For units with capacity above 100 MW, at least 36% electricity efficiency is required.
- For the transport sector, the RES target for 2030 was set at 14% and by this year the elimination of the use of palm oil was agreed.

Increasing energy efficiency, with a binding EU target of 35% by 2030 – the draft Energy Efficiency Directive, related to support (transformation, modernisation) in the area of heating and cooling:

- On 20 June 2018, negotiations on the final form of the legislation finished with an increase in the non-binding pan-European energy efficiency target of 32.5% compared to the 2007 energy consumption forecasts.
- For the annual savings of energy sold to end users, the target of 0.80% was set.

Development of and support for electromobility in the EU, primarily in public transport (draft regulations constituting the so-called Clean Mobility Package, published by the European Commission in November 2017);

Draft design of a Single Electricity Market (SEM) – a new energy legal framework for the European Union introduced by the draft:

A detailed description can be found on Page 98, under the „Internal energy market” heading.

Energy Union Management System (EU Governance) – a regulation, the wording of which was agreed on 20 June 2018, regulates, among others:

- Obligation for each Member State to notify, by the end of 2018, a draft of the first National Integrated Energy and Climate Plan (“NIECP”) for the period 2021 to 2030 - inter alia, the Member State's declared share of RES.
- Obligation of Member States to evenly spread the growth of RES over 10 years (development trajectory – reaching reference points – 18% of the required growth will be achieved in 2022, 43% in 2025, and 65% in 2027).
- Lack of clearly defined means of enforcing the objectives from the Member States in the event of failure to meet the set objectives – issuance of non-compulsory recommendations of the European Commission.

Mandatory development of grid infrastructure (cross-border interconnections); with the target of establishing the EU DSO Entity, new powers and competences of ACER and ENTSO-e at EU level.

Last year, based on the rules stipulated in:

- Act of 8 December 2017 on the power market,
- Capacity market regulations approved by decision of the President of the Energy Regulatory Office of 30 March 2018,
- Regulation of the Minister of Energy:
 - of 18 July 2018 on the execution of the capacity obligation, its settlement and demonstration, as well as the conclusion of transactions on the secondary market,
 - of 22 August 2018 on the parameters for the main auctions for the delivery years 2021-2023,
 - of 3 September 2018 on financial collateral to be provided by power suppliers and participants in the preliminary auctions

Polskie Sieci Elektroenergetyczne S.A. conducted the following capacity market processes:

- general certification,
- certification for the main auctions for the years 2021-2023,
- main auction for 2021 – on 15 November 2018
- main auction for 2022 – on 5 December 2018,
- main auction for 2023 – on 21 December 2018.

Contracted capacity obligations

ENEA [MW]	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
1-year contract (existing units)	37	37	37												
5-year contract (modernized units)	2,711	2,711	2,711	2,711	2,711										
15-year contract (new units)	915	915	915	915	915	915	915	915	915	915	915	915	915	915	915
Total	3,663	3,663	3,663	3,626	3,626	915									

Estimated revenues from the capacity market

ENEA [PLN m] ¹⁾	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
1-year contract (existing units)	9	7	8												
5-year contract (modernized units)	651	651	651	651	651										
15-year contract (new units)	220	220	220	220	220	220	220	220	220	220	220	220	220	220	220
Total	880	878	879	871	871	220									

ENEA Połaniec S.A. participated in all the aforementioned processes and, as a result, concluded 2 capacity contracts for 5-year delivery periods 2021-2025, for Units No. 2 and No. 7. This results from the strategy of ENEA Group approved by decisions of the Management Board of ENEA S.A. before individual main auctions. The remaining units, with the exception of Unit No. 9, have been notified to participate in the secondary market. By decision of ENEA Group's Steering Committee on the Capacity Market, a contract will be concluded between ENEA Wytwarzanie and ENEA Elektrownia Połaniec on joint operation on the capacity market and mutual stand-by.

ENEA Wytwarzanie sp. o.o. also participated in all the aforementioned processes and, as a result, concluded:

1. Nine capacity contracts for 5-year delivery periods 2021-2025, for Units Nos. 1-10 excluding Unit No. 3,
2. One power contract for a 15-year delivery period of 2021-2035 for Unit No. 11,
3. 1-year capacity contracts for delivery years 2021, 2022 and 2023, for three Capacity Market units from the RES Segment (Water) with the total capacity of 37.1 MW

These assumptions resulted from the strategy of ENEA Group approved by decisions of the Management Board of ENEA S.A. prior to individual main auctions. Unit No. 3 and coal units in Białystok Heat and Power Plant and MEC Piła have been notified to participate in the secondary market.

The European Union Emission Trading Scheme (EU ETS)

On 8 April 2018, Directive (EU) 2018/410 of the European Parliament and of the Council introducing changes to the greenhouse gas emission allowance trading system came into force.

The Directive establishes, inter alia, two financial mechanisms:

- Modernisation Fund - for the modernisation of energy systems in low income Member States. It is intended to be financed by proceeds from the auction of allowances in the years 2012 to 2030. The Fund is to be used primarily to support the development of energy efficiency and investments in renewable energy sources.
- Innovation Fund - to provide financial support for RES development, carbon capture and storage and innovative low-emission projects. It is to be supplied with funds from allowances, which otherwise would be allocated free of charge or sold through auctions.

In addition, the framework for Phase IV of the EU ETS as well as new rules for the Market Stabilisation Mechanism (MSM) have been established. Pursuant to them, since the beginning of 2019, the reduction rate of allowances in circulation has increased from 12% to 24%. Allowances are gradually transferred from the auctioning system to the market stability reserve. Starting from 2024, the rate of 12% will be restored. In Phase IV of the EU ETS, which will start at the beginning of 2021 and last until 2030, the linear reduction factor will also be increased from 1.74% to 2.2%. Both of these elements have an impact on the reduction of supply on the EU ETS market, and thus on the increase in prices of CO₂ emission rights observed in 2018. At the peak of the increases, quotations of CO₂ emission allowances increased more than three times as compared to the beginning of the year. The increased volatility on the CO₂ emission allowances market also had a significant impact on the increased volatility on energy markets throughout Europe, also in Poland.

Financial markets (MiFID 2)

On 3 January 2018, came into force Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (MiFID 2), which is a legal act primarily concerning financial markets, but also affecting companies from the energy sector. Several key issues are relevant to the energy sector. Firstly, emission allowances and derivatives based on emission allowances have been unconditionally included in the list of financial instruments. Also, to the list were added commodity derivatives (including forward contracts for electricity and gas), which are equivalent to contracts concluded on organised markets, i.e. regulated markets, MTFs and OTFs. An exception will be the contracts traded on the OTF markets, settled by physical delivery, concerning the so-called wholesale energy products - i.e. transactions concerning electricity and gas falling within the scope of the REMIT regulation (the so-called REMIT carve-out). Classification of certain products as financial instruments will have an impact on the rules of trading in these instruments – conditions of trading, security and clearing. As a consequence, the existing Commodity Forward Instruments Market operated by TGE S.A. will ultimately be transformed into an OTF (organised trading platform). MiFID 2 also amended the rules for exemptions from the need to obtain permits from the financial supervision authority (KNF) to conduct brokerage activities with respect to financial instruments. As a result of this change, energy companies had to analyse their activities and adapt to the new requirements, or decide to obtain the status of an investment firm. MiFID 2 was implemented into the Polish legal system by the Act of 1 March 2018 amending the Act on trading in financial instruments and certain other acts, which entered into force on 21 April 2018.

Limits on Property Rights

GREEN

In the area of PMOZE_A (certificates of origin of energy generated from renewable sources), there has been a permanent surplus of rights on the market, which was reflected by the low price levels recorded in 2016 and in H1 2017. As at 27 April 2018, it is estimated that after the fulfilment of the obligation for 2017 around 25 TWh of active PMOZE_A will remain on registers. 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 the surplus. In addition, the amendment to the RES Act (of 20 July 2017) and the interpretation of the Minister of Energy in the scope of the lack of possibility of settling the replacement fee as long as the unit replacement fee does not reach the maximum level (300.03 PLN/MWh), resulted in a strong increase in prices of PMOZE_A to the level of PLN 70/MWh and established a sustained upward trend.

LIGHT BLUE

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. In the first half of 2017, the prices reached a level of PLN 470/MWh. The valuation of the instrument came close to the level of the unit replacement fee (PLN 300.03/MWh) only after the publication of the first draft amendment to the RES Act in June 2017, conditionally unlocking the possibility of settling the replacement fee. Since this point in time, the prices of "light blue" property rights have remained above the replacement fee, but they are close to it (above PLN 317/MWh), with account taken of the purchaser's benefit resulting from the possibility of deducting the excise tax (PLN 20/MWh) for the fulfilment of the obligation through redemption of certificates of origin. The price trend is maintained due to the fact that the conditions for paying the replacement fee have been met since the beginning of 2018. This should continue as long as the average three-month PMOZE_BIO price is above the level of the unit replacement fee.

COGENERATION

The current system of property rights for cogeneration remained in effect until the end of 2018 and throughout 2018 legislative work was under way on a new support system operating on the basis of an auction system. The work was completed with the adoption of the Act of 14 December 2018 on the promotion of electricity from high-efficiency cogeneration, which entered into force on 25 January 2019.

WHITE

In 2017, for the first time the moment of fulfilment of the obligation was set to the end of June, in connection with the new Act on Energy Efficiency of 20 May 2016. As a result, there are currently four indices for “white” property rights on the market, i.e.:

- PMEF – energy efficiency certificates issued on the basis of a system of tenders pursuant to the previous legal basis, subject to expiry as of 30 June 2019;
- PMEF-2017 – energy efficiency certificates issued for completed investments, for applications submitted in 2017 (outside the system of tenders), which, like “cogeneration” property rights, expired after 30 June 2018;
- PMEF-2018 – energy efficiency certificates issued for completed investments, for applications submitted in 2018 (outside the system of tenders), which, like “cogeneration” property rights, shall expire after 30 June 2019;
- PMEF_F – energy efficiency certificates issued for non-started investments pursuant to the Act of 20 May 2016, without expiry date.

On 20 July 2017, results of the last tender for investments in the field of energy efficiency, announced by the Energy Regulatory Office on 21 September 2016, were published. The projects selected in individual categories amounted in total to nearly 55% of the pool (806.743/toe in total). The growth in the number of PMEF on the market resulted in the fall of prices of the instrument in H2 2017. In the end, however, index prices returned to the average level of PLN 712/toe due to the appearance of information from the Ministry of Energy that if there is a risk that after the obligation for 2018, i.e. after 30 June 2019, unused PMEFs will remain on the registers, then measures may be taken to change the date of their redemption, i.e. extend their validity. The recent amendment to the Act on Energy Efficiency, although it facilitated the process of application for support for activities in favour of energy efficiency, in connection with the failure to initiate a tender procedure, it simultaneously reduced the PMEF_F supply though the limitation of support for a project to the amount of one average annual energy saving. This translated into the valuation of PMEF_F at a level of PLN 1,500/toe (similar to the unit replacement fee).

Termination of/withdrawal from property right purchase agreements by ENEA S.A.

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 S.A. of (from) property right sale agreements. In addition, some proceedings are pending against ENEA S.A. for payment of the fee for property rights resulting from the deduction of payment for the damage caused to ENEA S.A. 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 net.

Variability and liquidity on the wholesale market

The doubled obligation to trade applicable as of the beginning of 2018 significantly contributed to the improvement of liquidity on all floors of the Polish Power Exchange. Therefore, in the framework of the annual frontal contract in the first quarter of 2018, transactions were made in a volume of 165.5%, larger than in relation to the analogical product in Q1 2017. High prices for the first quarter were also recorded on the RDN where the average price from Fixing 1 stood at a level of PLN 184.83/MWh, given a level of PLN 155.11/MWh in 2017. The increase of the spot price was largely influenced by changes in the generation structure of conventional plants, by higher prices of generation fuels, and higher environmental costs incurred. More expensive emission allowances resulted also in the change of moods in term contracting on the Polish Power Exchange, where transactions on the annual contract BASE Y-19 in the first quarter were made at an average price higher by PLN 25.75 than in the analogical period of the previous year in relation to BASE Y-18 product. On 11 October 2018, a bill amending the Energy Law Act of 10 April 1997 was submitted to the Sejm, which, among other things, imposes an obligation on power generators to sell their energy on commodity exchanges, on a market organised by an entity operating a regulated market on the territory of the Republic of Poland or on an organised trading platform operated by a company operating a commodity exchange within the meaning of the Act on Commodity Exchanges on the territory of the Republic of Poland. The aforementioned changes in the scope of the exchange obligation have been included in the Act of 9 November 2018 amending the Energy Law and certain other acts. The introduction of the proposed amendments resulted in including all generated electricity in the so-called exchange obligation as of the entry into force of the aforementioned Act, i.e. as of 1 January 2019.

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.

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 whose aim is to stimulate electromobility development in Poland and the use of alternative fuels, including electricity, in transport. The Act set out 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, Andrzej Duda, on 5 February 2018 and came into effect come into effect 14 days after the day of its publication in the Journal of Laws.

Amendment to RES Act

On 29 June 2018, the President of the Republic of Poland signed the Act of 7 June 2018 amending the Act on renewable energy sources and certain other acts ("RES Act"). The purpose of the RES Act was to adapt the Polish regulations on state aid to the requirements that the European Commission set for the Republic of Poland in the notification procedure of the RES development support system. The RES Act regulates changes to the principles of the auction system. The effect of the implemented changes is also the abolition of the limit for participation in RES auctions for biomass combustion units with a total installed electrical capacity greater than 50 MW. In addition, in terms of biomass, the Act sets the share of agricultural biomass in the total biomass weight share at:

- 85% for multi-fuel combustion installations and dedicated multi-fuel combustion installations with an installed electrical capacity greater than 5 MW
- 10% for dedicated biomass combustion installations and hybrid systems with an installed electrical capacity greater than 20 MW.

These provisions are important, among others, from the point of view of Unit No. 9 of the Połaniec Power Plant because the unit will be able to participate in RES auctions for the first time.

In Q1 2019, work began on the draft of another act amending the Act on Renewable Energy Sources and some other acts. According to the justifications presented, the objective of the changes is to implement the tasks set out in the Polish energy policy until 2020, by reducing the burden on end users due to support systems for renewable energy sources and rising electricity prices. At the same time, the amendment will make it possible to conduct auctions for the purchase of electricity from renewable energy sources in 2019 by specifying in the transitional provisions the maximum quantities and values to be sold and setting reference prices, constituting the maximum value of the offer which may be submitted by the generator in the auction offer.

Impact of the Act amending the Excise Duty Act and certain other acts

On 28 December 2018, the Act amending the Excise Duty Act and certain other acts ("the Act") was passed, effective from 1 January 2019.

The Act, *inter alia*:

- reduced excise duty for electricity sold to the final customer from 20 PLN/MWh to 5 PLN/MWh,
- froze the 2019 prices and rates of electricity charges to the final consumer to be applied by sellers at the level of the prices applied in 2018,
- allowed sellers to apply to the Settlement Administrator (Zarządca Rozliczeń) defined in the Act for financing to cover the difference in revenues ("Price difference amount") from electricity trading for the benefit of final consumers.

The Act was amended with effect from 6 March 2019 ("Amended Act"). The text of the Act and its explanatory memorandum indicate that the legislator seeks to balance the interests of electricity users and energy companies. The text of the Act and its explanatory memorandum indicate that the legislator seeks to balance the interests of electricity users and energy companies. This leads to a conclusion that sellers should be compensated for their basically lost revenues. In some key areas, the Act makes references to the Regulation, which has not been published as on the day of this report.

Determination of the provision for onerous contracts as at 31 December 2018

As a result of the adoption of the Act, the Group analysed whether it is obliged, in terms of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets, to create provisions for what is known as onerous contracts. According to reporting provisions, if a given contract or a group of contracts generate losses, the company should recognise an appropriate provision in the period in which the loss became unavoidable, unless it is not able to reliably determine the amount of the provision.

In view of the lack of implementing regulations to reliably determine the amount by which the Group will reduce revenues resulting from its contracts as a result of the obligation to change prices and rates in settlements with customers in 2019, for customers other than the tariff ones, The Group has estimated the financial effects of the Act to the extent possible and reliable. When estimating the value of the necessary provision, the following assumptions were made:

- 1) existing legal status as at 31 December 2018,
- 2) with respect to the determination of the costs of performance within the meaning of IAS 37, only direct costs (energy acquisition costs, property rights with the current rate of excise duty) were assumed, and indirect costs (own costs and profit) were disregarded. The question which of the costs should be taken into account when estimating the provision for onerous contracts was the subject of consideration by the IFRIC in 2017. The IFRIC stated that this issue was not clearly regulated, and the adoption of a solution is a matter of judgment of the preparer,
- 3) for the purpose of determining the costs of energy purchase, market values have been assumed, without taking into account the fact that the cost of energy production within the Capital Group may be different than the market value. Sales volumes of electricity were adopted on the basis of amounts estimated for 2019 for the G segment in amounts similar to 2018. In 2018, households (including those mostly applying the G tariff) accounted for 22% of the total sales volume of the Company, while business customers accounted for the remaining 78% of the total sales volume.

As a result of the above assumptions, the following was established:

- a) assuming prices binding in 2018 for customers from G tariff groups in the tariff regulated by the President of the Energy Regulatory Office, the Company estimated the excess of minimum unavoidable costs of meeting the obligation over benefits from the contract at PLN 79 million. The loss results from the adoption of model costs of purchase of electricity in 2019 (costs of electricity and property rights and the excise tax rate at the level resulting from the Act) and the simultaneous application of sales prices from 2018. The sales volume results from the level of sales to customers in Tariff G planned for 2019. The Group established a provision for the above amount in the books of 2018.
- b) based on the literal provisions of the Act and assuming the price list prices (excluding discounts and rebates) in force as at 30 June 2018 for other customers (i.e. business customers and other customers applying tariffs other than G), the estimated benefits from the performance of contracts were determined and compared with the minimum unavoidable costs of performance of these contracts. The analysis did not show any excess of such costs over benefits and therefore no provisions were created. The amended Act issued after 31 December 2018 specifies that the sales price applicable in their contract as at 30 June 2018 should be adopted for these customers, which will result in a decrease in revenues from the sale of electricity, resulting in a surplus of costs over revenues from already concluded contracts.
- c) due to uncertainty as to the manner of determining the Amount of the price difference, recognition of any compensation assets as at 31 December 2018 has been waived.

Impact on subsequent reporting periods

As a result of the introduction of the Act in question, with effect from 1 January 2019, the Group applies prices and rates of electricity charges at the level of 2018 specified in the tariff approved by the President of the Energy Regulatory Office for customers from the G tariff groups in settlements with end users. The provision, estimated and recognised as at 31 December 2018, is the best estimate of minimum losses, but it does not include the right to compensation, which may have a positive impact on the sales results for this tariff group.

With respect to other customers (mainly business ones), the Group applies contractual prices for 2019, in the absence of an approved regulation of the Minister responsible for energy. The adjustment to the provisions of the Act and the amended Act is assumed by the Group within the deadlines resulting from these provisions. The Group estimates that for this group of customers, the individual decrease in revenues will be determined by the difference in unit prices of electricity, which is reflected in the difference in average quotations of BASE 2018 and BASE 2019 on the wholesale electricity market and changes in market prices and percentage levels with respect to the obligation to obtain the required certificates of origin for redemption ("Obligations"). Revenues from electricity sales in 2018 for business customers amounted to PLN 3,568 million for the sales volume in this segment at the level of 15,974 GWh, which gives an average unit sales price of 223.36 PLN/MWh.

Electricity costs for the product with the highest liquidity, i.e. BASE Y listed on the Polish Power Exchange for 2019 (BASE Y-19) in the product quotation period amount to 237.11 PLN/MWh. The analogous price for the contract for 2018, i.e. BASE Y-18, amounted to 167 PLN/MWh. Differences in market valuation of Obligations which, in addition to the cost of purchasing electricity, are a component of the sale price to end users, despite a significant change in their structure, are very close to one year on year. As a result, the total cost in 2018 was 189.21 PLN/MWh, and for 2019 it is estimated at 258.49 PLN/MWh.

The Group does not identify premises for significant diversification of own costs and margins for the same structure of customers between 2018 and 2019. On the basis of the aforementioned available information, it is possible to adopt approximate values of the input parameters referred to in the Amended Act. However, there is considerable uncertainty as to whether they will be set at an analogous or similar level in the implementing regulations. Under the Act and the Amended Act, the Group is entitled to receive compensation resulting from the price cap taking into account both direct and indirect costs and margins; this applies to both the amounts included in the amount of the provision for losses in 2018 and potential losses that may arise in 2019. However, given the lack of implementing provisions, the Group is not in a position to determine the amount of compensation as at the date of this report and to determine how much compensation will compensate for potential losses.

The Group discloses known or determinable amounts, which are only a component of the result on sale of energy in order to indicate the potential scale of the difference between costs and revenues from sale. The difference calculated on the basis of such amounts may differ materially from the actual amounts that will be recognised after the issue of the implementing legislation.

The Group analyses the regulations on an ongoing basis and, at the time of publication of the implementing regulations and assumptions allowing to remove uncertainties and make reliable estimates, will identify the results of the analyses in terms of confidential information within the meaning of the MAR Regulation.

Situation in the domestic bituminous coal mining sector

The electricity price curve will be strongly dependent on the cost of production fuel sourcing. The need for restructuring of the mining sector in the mid-term shall translate into a change of prices of supplied energy resources. The direction of changes is not clear, however as the main element of the domestic electric generation cost it leads to the emergence of new risks connected with the term contracting process. In 2018, the output of the domestic sector was slightly lower than in 2017, at a price increase of low-double-digit per cent. It is expected that the current level of domestic extraction in the country will be maintained.

Expansion of generation portfolio

Irrespective of the fact that the 1,075 MW unit was commissioned at Kozenice 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.



Licences

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

Company	Licence for:
ENE A S.A.	<ul style="list-style-type: none"> trade in electricity - valid until 31 December 2025 trade in gaseous fuels - valid until 31 December 2030
ENE A Operator Sp. z o.o.	<ul style="list-style-type: none"> distribution of electricity - valid until 1 July 2030
ENE A Wytwarzanie Sp. z o.o.	<ul style="list-style-type: none"> generation of electricity - valid until 31 December 2030 trade in electricity - valid until 31 December 2030 generation of heat- valid until 31 December 2025 transmission and distribution of heat - valid until 31 December 2025
ENE A Trading Sp. z o.o.	<ul style="list-style-type: none"> trade in electricity - valid until 31 December 2030 trade in gaseous fuels - valid until 31 December 2030 cross-border trade in natural gas - valid until 31 December 2030
ENE A Ciepło Sp. z o.o.	<ul style="list-style-type: none"> trade, generation, transmission and distribution of heat - a valid until 30 September 2028 trade in electricity - valid until 1 September 2028 generation of electricity - valid until 30 November 2028 trade in gaseous fuels - valid until 10 January 2029
MEC Piła Sp. z o.o.	<ul style="list-style-type: none"> generation of heat- valid until 31 December 2025 transmission and distribution of heat - valid until 31 December 2025 generation of electricity - valid until 31 December 2030
PEC Oborniki Sp. z o.o.	<ul style="list-style-type: none"> generation of heat - valid until 31 December 2025 transmission and distribution of heat - valid until 31 December 2025
ENE A Elektrownia Połaniec S.A.	<ul style="list-style-type: none"> generation of electricity – valid until 1 November 2025 trade in electricity - valid until 31 December 2030 generation of heat- valid until 1 November 2025 transmission and distribution of heat - valid until 1 November 2025
LW Bogdanka S.A.	<ul style="list-style-type: none"> extraction of bituminous coal from the Bogdanka deposit covered by the Puchaczów V mining area - valid until 31 December 2031 extraction of bituminous coal from the Lublin Coal Basin deposit - area K-3 covered by the Stręczyn mining area - valid until 17 July 2046 extraction of bituminous coal from the Ostrów deposit located in the following communes: Ludwin, Łęczna, Ostrów Lubelski, Puchaczów, Sosnowica, Uścimów in the Lubelskie Voivodeship - valid until 31 December 2065

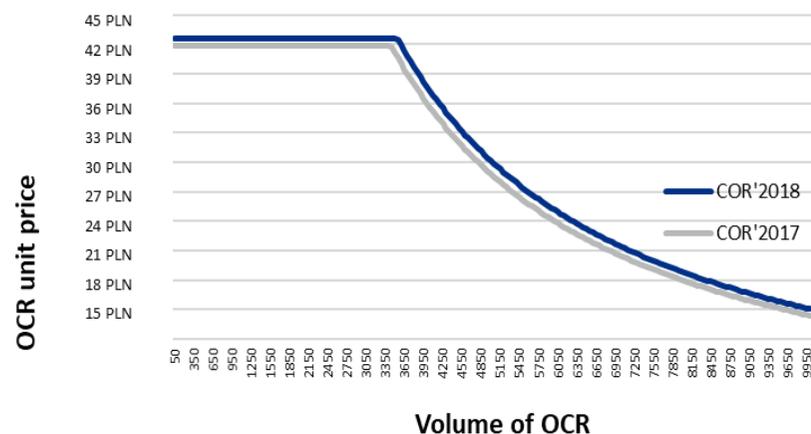


Operating Capacity Reserve (OCR)

- OCR mechanism is conducted by Polskie Sieci Elektroenergetyczne – Transmission System Operator (TSO) within the system services catalogue
- For producers of energy it is an economic incentive to offer generating capacities to the TSO in the peak hours of demand for power
- OCR includes the available generating capacity, being the surplus of the power available to the TSO over the contracts concluded to satisfy demand for electricity
- The unit price for OCR depends on the volume of generating capacity available to the TSO over the demand for electricity covered:
 - within energy sale agreements
 - on the Balancing Market as part of the free exchange

The unit price for OCR depends on the volume of generating capacity available to the TSO over the demand and may not be higher than the reference price which was 41.20 PLN/MWh for 2016, 41.79 PLN/MWh for 2017, 42.58 PLN/MWh for 2018 and 43.73 PLN/MWh for 2019.

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



Parameters of the OCR settlement model in 2017-2018:

Parameter	FY 2017	FY 2018
Hourly budget [PLN]	144,070.61	150,815.81
Reference price [PLN/MWh]	41.79	42.58
Hourly volume of required OCR [MWh]	3,447.49	3,514.94
Number of demand peak hours	3,765	3,780
OCR annual budget [PLN m]	542.4	570.1

In 2016, the rules were changed for settling OCR, which in previous periods resulted in the fact that in the hours during which the OCR unit price reached the maximum level the TSO did not fully use the budget designated for that service. Since 2016, new adjustment settlements were introduced (monthly and annual), which re-verify settlements and any unused funds for OCR are distributed among the units participating in the reserve. Since 2017, consumption units with the possibility of reducing the demand (DSR) are included within OCR. As of 2018, the OCR budget was increased.

2018 Tariff for electricity distribution services in the context of quality regulation and the so-called “anti-smog tariff”

The new model of quality regulation came into effect on 1 January 2016. According to its assumptions, the President of the Energy Regulatory Office made part of Operator’s of the Distribution System (ODS) regulated revenue dependent on the quality of services provided by these entities. The service quality assessment takes 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 approved 2018 Tariff for electricity distribution services, the quality regulation impact on the revenue achievable by the Company is negligible for 2018. 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. The conducted analyses indicate that its impact on ODS’s revenues is currently neutral.

Increased number of customers taking advantage of the possibility of changing suppliers in 2018

The large number of active electricity sellers resulted in aggressive pricing policies of trading companies and pressure on the margin achieved from the sale of electricity to retail customers. In addition, it should be noted that more and more customers decide to change their energy supplier, although the dynamics of these changes was lower than in 2017. The number of TPA (Third Party Access) customers among enterprises (tariff groups A, B, C) at the end of December 2018 amounted to 201,005, i.e. increased by 6.8% (on 8.3% in 2017). On the other hand, among households (tariff group G), 604,612 customers benefited from the TPA rule as at 2018, i.e. an increase of 10.6% (on 18.2% in 2017) as compared to the end of December 2017. ¹⁾

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.

Significant trends in the Distribution area

New technologies emerging, Customers’ rising expectations, and a dynamically changing economic environment in Poland and worldwide anticipate changes to the way of operation of the Distribution System Operator (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, and electromobility,
- implementation of R&D projects.



¹⁾ ure.gov.pl/urzad/informacje-ogolne/aktualnosci/7389,Kolejni-odbiorcy-energii-elektrycznej-skorzystali-z-prawa-wyboru-sprzedawcy.html?search=17331048

New technologies

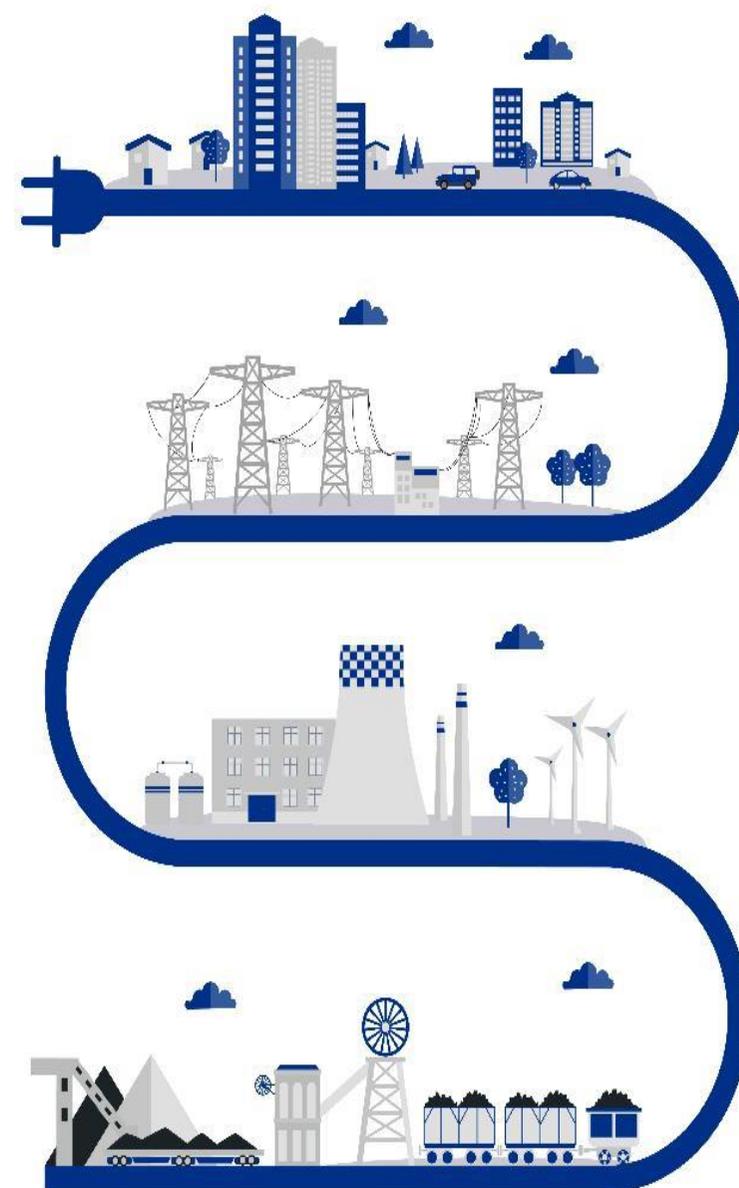
Emerging new technologies, growing customer expectations and dynamically changing economic environment in Poland and around the world result in changes in the way DSO operates. They result in the necessity to implement a number of innovative solutions in the area of distribution, leading to the modernisation and expansion of the distribution network, taking into account the leading trends in the energy sector. The key trends are related to:

- development and implementation of smart grids,
- development and implementation of modern IT systems supporting network management,
- the emergence of new institutional and technical solutions such as clusters, energy cooperatives, prosumer market, energy storage, electromobility,
- conducting research and development (R&D) projects.

Quality regulation model

In 2018, the President of the Energy Regulatory Office carried out an evaluation of the quality regulation model for 2016-2020, developed in 2015. As a result of this evaluation, the President of ERO published a document entitled "Qualitative Regulation in the years 2018-2025 for Distribution System Operators (who unbundled their activities as of July 1, 2007)". The most important changes that have been introduced to the model of quality regulation, which will be in force from 2018, are as follows:

- introduction of the so-called area indicators - instead of 2 reliability indicators (SAIDI, SAIFI), area indicators were introduced with a division into 4 areas: large cities, towns with county rights, towns, and villages,
- determination of a method for setting new long-term objectives (by 2025),
- elimination from the calculation of reliability indicators of weather events of a catastrophic nature,
- granting bonuses for achievement of final objectives of the quality regulation,
- establishing a link between the penalty for failure to meet annual targets to the return on capital forming part of regulated revenue.



General Data Protection Regulation (GDPR)

GDPR is an EU legal act which entered into force on 25 May 2018 in all member states. It introduces new rules for the processing of personal data and imposes new obligations on data controllers. In its activities, ENEA Group takes into account the requirements of the new regulations, including ensuring an appropriate level of security for the processed personal data, primarily with a view to protecting the rights and freedoms of persons whose data are processed.

Court and administrative proceedings

As at the day of submitting this report, there are no pending proceedings regarding the liabilities or debt claims, to which ENEA S.A. or its subsidiary is a party. A detailed description of the proceedings is included in note 50 to the condensed consolidated mid-year financial statements of ENEA Group for the period from 1 January to 31 December 2018.

Collective disputes

There are no pending collective disputes in any of the key companies being members of ENEA Group. In order to eliminate the risk and occurrence of a potential collective dispute, the management boards of the companies remain in constant dialogue with the social partners.

Social Contract

ENEA Group conducts talks with the Social Party in order to conclude a new social contract.

Rating

On 1 October, Fitch Ratings affirmed ENEA S.A.'s long-term local- and foreign-currency Issuer Default Ratings at 'BBB' with stable outlooks. The affirmation reflects the Company's changed business profile with a higher contribution to EBITDA from riskier – according to Fitch – segments, i.e. electricity generation and coal mining. Still, the more predictable distribution of electricity remains an important part of the Company's operations.



Reduction of pollutant emissions

In accordance with EU regulations, and in particular Directive of the European Parliament and of the Council 2010/75/EU of 24 November 2010 on industrial emissions (integrated pollution prevention and control) (IED), as of 1 January 2016 new, more strict environment protection standards are applicable. Therefore all electricity producers in Poland who use first of all carbon-intensive technologies are obliged to adjust their power units to the new environmental requirements. To address the problems of entrepreneurs, EU law envisages a possibility of using derogation mechanisms. The alleviation of the IED requirements in the form of a derogation makes it possible to obtain additional time for adjusting generation units to the stricter air pollutant emission standards. 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 – Units Nos. 1-10

2018/2017	SO ₂			NO _x			Dust ¹⁾			CO ₂		Gross production of electricity [MWh]
	SO ₂ emissions [Mg]	SO ₂ emissions ratio [kg/MWh]	Fee for SO ₂ emissions [PLN k]	NO _x emissions [Mg]	NO _x emissions ratio [kg/MWh]	Fee for NO _x emissions [PLN k]	Dust emissions [Mg]	Dust emissions ratio [kg/MWh]	Fee for dust emissions [PLN k]	CO ₂ emissions [Mg]	CO ₂ emissions ratio [kg/MWh]	
2018	7,442.22	0.659	3,944.4	7,644.85	0.677	4,051.8	246.73	0.022	86.4	9,728,131.28	862	11,291,279.16
2017	9,601.85	0.747	5,089.0	1,876.85	0.924	6,294.7	281.64	0.022	98.6	11,192,829.31	871	12,853,580.92
% change	-22.49	-11.78	-22.49	-35.63	-26.73	-35.63	-12.40	0.00	-12.37	-13.09	-1.03	-12.15

Kozienice Power Plant – Unit No. 11 vs. Units Nos. 1-10

2018	SO ₂			NO _x			Dust			CO ₂		Gross production of electricity [MWh]
	SO ₂ emissions [Mg]	SO ₂ emissions ratio [kg/MWh]	Fee for SO ₂ emissions [PLN k]	NO _x emissions [Mg]	NO _x emissions ratio [kg/MWh]	Fee for NO _x emissions [PLN k]	Dust emissions [Mg]	Dust emissions ratio [kg/MWh]	Fee for dust emissions [PLN k]	CO ₂ emissions [Mg]	CO ₂ emissions ratio [kg/MWh]	
Unit No. 11 ²⁾	1,339.20	0.229	475.3	2,005.51	0.343	735.1	105.67	0.018	27.1	4,348,838.24	745	5,839,183.70
Units Nos. 1-10	7,442.22	0.659	3,944.4	7,644.85	0.677	4,051.8	246.73	0.022	86.4	9,728,131.28	862	11,291,279.16

¹⁾ In June 2018, FGD IV was overhauled, therefore, part of the flue gases from 200 MW units were emitted without desulphurisation by the K2 flue gas stack, which was connected with a periodical increase in the amount of dust emitted

²⁾ Data taking into account emissions of pollutants from the start-up boiler house

Reduction of pollutant emissions

Białystok Heat and Power Plant

2018/2017	SO ₂			NO _x			Dust ¹⁾			CO ₂		Gross production of electricity [MWh]
	SO ₂ emissions [Mg]	SO ₂ emissions ratio [kg/MWh]	Fee for SO ₂ emissions [PLN k]	NO _x emissions [Mg]	NO _x emissions ratio [kg/MWh]	Fee for NO _x emissions [PLN k]	Dust emissions [Mg]	Dust emissions ratio [kg/MWh]	Fee for dust emissions [PLN k]	CO ₂ emissions [Mg]	CO ₂ emissions ratio [kg/MWh]	
2018	169	0.115	89.4	386	0.263	204.6	35	0.024	13.1	280,147	191	1,465,833.919 ¹⁾
2017	1,395	0.898	739.5	282	0.181	149.3	63	0.041	23.2	525,280	338	1,553,521.680 ¹⁾
% change	-87.9	-87.2	-87.9	37.1	45.3	37.1	-45.3	-42.0	-43.2	-46.7	-43.5	-5.6

¹⁾ gross generation of electricity + heat [MWh]

ENEA Elektrownia Połaniec

2018/2017	SO ₂			NO _x			Dust ¹⁾			CO ₂		Gross production of electricity [MWh]
	SO ₂ emissions [Mg]	SO ₂ emissions ratio [kg/MWh]	Fee for SO ₂ emissions [PLN k]	NO _x emissions [Mg]	NO _x emissions ratio [kg/MWh]	Fee for NO _x emissions [PLN k]	Dust emissions [Mg]	Dust emissions ratio [kg/MWh]	Fee for dust emissions [PLN k]	CO ₂ emissions [Mg]	CO ₂ emissions ratio [kg/MWh]	
2018	8,876.89	0.81	4,704.75	7,759.52	0.70	4,112.55	617.66	0.06	216.18	8,219,329.0	746.34	11,012,854.30
2017	7,112.70	0.71	3,769.73	11,901.09	1.19	6,307.58	555.78	0.06	194.52	7,029,514.0	704.77	9,974,193.20
% change	24.80	14.08	24.80	-34.80	-41.18	-34.80	11.13	0.00	11.14	16.93	5.90	10.41

¹⁾ gross generation of electricity + heat [MWh]

Compliance with formal and legal requirements

ENEA Wytwarzanie

ENEA Wytwarzanie Sp. z o.o. takes advantage of a derogation resulting from the IED, namely the Transitional National Plan (TNP):

- in relation to sulphur dioxide and dust emissions: Kozenice Power Plant (Units Nos. 1-10) – together with Białystok Heat and Power Plant,
- in relation to NO_x emissions: Białystok Heat and Power Plant – individually.

In the period of validity of TNP, i.e. from 1 January 2016 to 30 June 2020, annual emission caps are applicable (the caps decrease year over year). The emission cap in the last year of applicability of TNP is defined at a level corresponding to the emission standard for a given pollutant, resulting from IED (in the case of Kozenice Power Plant 200 mg/m³_{usr} for SO₂ and 20 mg/m³_{usr} for dust).

The emission of pollutants under TNP for Q1-Q4 2018 and the utilisation of the annual emission limits are presented in the table below.

Plant		SO ₂		Dust		NO _x	
		[Mg]	% utilisation	[Mg]	% utilisation	[Mg]	% utilisation
Kozenice Power Plant	emission	6,766.67		196.20		N/A	
	annual emission cap	10,018.00	67.55	1,127.00	17.41	N/A	N/A
Białystok Heat and Power Plant	emission	173.04		20.38		341.72	
	annual emission cap	1,688.34	10.25	143.37	14.21	966.99	35.34
Total	emission	6,939.71		216.58		341.72	
	annual emission cap	11,706.34	59.28	1,270.37	17.05	966.99	35.34

Pursuant to the regulation of the Minister of Environment of 1 March 2018 on emission standards for certain installation types, fuel combustion sources and waste combustion or co-combustion installations (Polish Journal of Laws of 2018, item 680), in relation to Unit No. 11 for emission of all pollutants and in relation to Units Nos. 1-10 for NO_x emissions, the following conditions for the compliance with the emissions standards apply:

- none of the approved average monthly concentrations of substances exceeds 100% of the emission standard,
- none of the approved average daily concentrations of substances exceeds 110% of the emission standard,
- 95% of all approved average hourly concentrations of substances during the calendar year does not exceed 200% of the emission standard.

If even one of the conditions specified in items a), b), c) is not met, there is a risk that a penalty will be imposed for each hourly exceedance counted from the beginning of the year.

In 2018, there were no violations of formal and legal requirements.

Kozenice Power Plant meets the objectives set by the national and community law (IED directive, BAT conclusion). The power plant operates five flue gas desulphurisation (FDG) installations, which guarantee the required reduction of SO₂ emissions from flue gases of all units. All units of the power plant are equipped with highly efficient electrostatic precipitators, which are upgraded on an ongoing basis in order to maintain high dust removal efficiency. All units (excluding Unit No. 3) are also equipped with selective catalytic NO_x reduction (SCR) installations. The last SCR installation is currently under construction - for the 500 MW Unit No. 9 (including replacement of the electrostatic precipitator). During the last years, the domestic and rain-industrial sewage treatment plants for Units Nos. 9-11 have been upgraded.



Issues regarding Mining Area – LW Bogdanka:

Land reclamation

- in 2018, reclamation works were commenced in the areas affected by mining damage in Nadrybie Wieś. The works consist in making a fish pond and elevating the area using mining waste, covering it with earth masses and afforestation. Completion date: Autumn 2019
- maintenance of organized greenery, a waste disposal facility and post-industrial areas in the area of Pole Bogdanka, Nadrybie and Stefanów reclaimed in previous years, as well as railway facilities in Zawadowo is carried out on an ongoing basis

Surface protection

- the impact of mining operation conducted in 2018 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
- the maximum subsidence in the Puchaczów V mining area remains in the area of Bogdanka and Nadrybie Wieś villages and amounts to ca. 5.0 m in the central part of the subsidence trough in this region
- just as it the previous years, the damage to buildings in 2018 was caused mainly in rural buildings, whereby the reported damage to buildings did not cause any hazard to users and was repaired on an ongoing basis
- in 2018, the aggregate cost of redressing the damage caused by mining operation amounted to approx. PLN 5.37 m

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 out (60%) and to the National Environmental Protection and Water Management Fund (NFOŚiGW) (40%)
- LW Bogdanka S.A. 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 2018

Air protection

LW Bogdanka S.A. 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, including:

- rock mass drainage in the area of mine workings
- re-use of water for fire protection and process purposes
- pumping water to the Surface
- 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. 14,957 m³/24 hours
- mine waters are characterised by the total contents of chlorides and sulphates in the amount of 990 mg/dm³
- surface re-use of mine water (Zakład Przeróbki Mechanicznej Węgla, Łęczyńska Energetyka Sp. z o.o. – under Water Treatment Station)

Waste management:

- in 2018, the total increase in mining waste was 6,646.2 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 3,093.1 thousand tonnes
- 97% 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 (3,553.0 thousand tonnes) is stored in the extraction waste neutralisation facility in Bogdanka
- LW Bogdanka S.A. 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.)



7. Corporate governance

DECLARATION ON CORPORATE GOVERNANCE APPLICATION

The set of principles followed

Creating shareholder value, also through the Company's transparency, is one of ENEA Group's priorities. Having that in mind, the Management Board of ENEA S.A. represents that in 2018 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 principles), published on WSE website under https://www.gpw.pl/lad_korporacyjny_na_gpw (Polish).

Waived rules and recommendations for corporate governance

The intention of the Management Board of ENEA S.A. is to apply all the principles of corporate governance. Due to the fact, however, that some principles may make it necessary to incur excessive burdens by the Company which could exceed potential benefits resulting from market needs, in 2018 the Company waived the application of some principles and recommendations of 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 S.A.'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 S.A. 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 functioning of the committees operating in the Supervisory Board, it generally applies the provisions of Annex I to the European Commission Recommendation referred to in the analysed rule, with a proviso that the Company's internal instruments do not strictly require that the majority of members of the Nominations and Remuneration Committee meet the independence criteria. The Nominations and Remuneration Committee should be composed of at least one independent member within the meaning of the EC Recommendation, and if more than one person meeting the above independence criteria is appointed to the Supervisory Board, this committee should be composed of the largest possible number of independent members.

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

The Company's comment: The Company explains that in accordance with the Supervisory Board Regulations in effect at the Company, the majority of members of the Audit Committee, including its Chair, is independent of the Company within the meaning of Article 129 of the Act of 11 May 2017 on statutory auditors, audit firms and public supervision, while the Company's internal documents do not provide for the requirement that the Chair of the Audit Committee should meet the independence criteria indicated in principle II.Z.4. The Management Board declares thereby that it considers the circumstances referred to in this rule as good corporate practice and does not exclude that it may in future 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 current wording of the Company's Statute does not stipulate that prior to 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 an related entity, the Supervisory Board shall give its consent to such a transaction. The possibility of a potential conflict of interest is secured by, among others, the provisions of the Company's Statute which require the consent of the Supervisory Board to conclude the agreements referred to in § 20.3 of the Company's Statute.

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 S.A.

VI.R.2. The remuneration policy should be closely related e 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 S.A. 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 functioning of the committees operating in the Supervisory Board, it generally applies the provisions of Annex I to the European Commission Recommendation referred to in the analysed rule, with a proviso that the Company's internal instruments do not strictly require the majority of members of the Nominations and Remuneration Committee to meet the independence criteria. The Nominations and Remuneration Committee should be composed of at least one independent member within the meaning of the EC Recommendation, and if more than one person meeting the above independence criteria is appointed to the Supervisory Board, this committee should be composed of the largest possible number of independent members.

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 S.A.

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 S.A. 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 S.A. 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 Group's Controlling 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 Management Board adopts the material and financial plan prepared by the Group's Controlling Department, and the Supervisory Board approves that plan. During the year, the Company's Management Board supervises the realisation of goals specified in the approved material and financial plan. The management cockpit developed by the Group's Controlling Department in cooperation with other Departments 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 S.A. confirms that as at 31 December 2018 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, performed 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. supporting the effectiveness of internal control system, risk management and Compliance system, through: independent evaluation of the above mentioned systems, examination and evaluation of control mechanisms in the processes implemented by ENEA Group companies, recommending improvements, inter alia, in the area of corporate governance, and monitoring the effectiveness of implementation of the issued recommendations.

Information on shares and shareholding

The detailed description of the structure of the share capital, shareholding structure, changes in its structure in 2018 and potential changes within its structure is to be found in Chapter 4 "Shares and shareholding".

Securities with special control authorisation

Till the date of preparation of this report, ENEA S.A. 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 other than those resulting from the generally applicable regulations, including the Act of 16 December 2016 on the principles of state property management, which stipulates that the shares of ENEA S.A. held by the State Treasury cannot be sold.



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

The General Meetings of ENEA S.A. are held on the basis of the Commercial Companies Code and ENEA S.A.'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 S.A.'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(3) 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 Company's sole shareholder,
- 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.

Right to participate in GM

Pursuant to Article 406¹ § 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 (registration date of participation in the general meeting). Moreover, the right to participate in the General Meeting of ENEA S.A. with the right to speak is vested in members of the Management and Supervisory Boards in the composition 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 ENEA S.A. 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 ENEA S.A. This request, containing justification or a draft resolution concerning the proposed item of the agenda, shall be submitted to the Management Board of ENEA S.A. 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 S.A., 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 amending 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.

Management Board of ENEA S.A.

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. The current Management Board of ENEA S.A. is composed of four members. The composition of the Management Board of the Company as at the date of preparation of this report is presented in Chapter 5 "Governing bodies".

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 (such situation does not currently occur in ENEA S.A.), 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 § 13(8) and (9) of the Company's Statute and the principles resulting from the provisions of generally binding laws. The rules and procedure for electing a member of the Management Board elected by the employees have been stipulated § 14(7) of the Company's Statute.

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 shareholders meeting of Subsidiaries.

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 S.A.. 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 S.A., adopted by the resolution of the Management Board of 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(2) of the Company's Statute, shall require a resolution by the 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 S.A. with a detailed description of the Management Board is available at www.enea.pl in the "Investor Relations" -> "Corporate Governance" tab.

Supervisory Board of ENEA S.A.

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, (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 S.A. is composed of nine 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 2018 and as at the date of preparation of this report, is presented in Chapter 5 "Governing bodies"

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 S.A. adopted by resolution of the Supervisory Board on 15 December 2009, as amended.

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. 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 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.

Operation of the Supervisory Board of ENEA S.A.

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, Chairman of the Supervisory Board may shorten this period to 2 days, specifying the manner of issuing the invitation. In the invitation to a Supervisory Board meeting, 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 Chairman of the Supervisory Board, and in his absence by the Vice Chairman or another member of the Supervisory Board elected at the meeting. Chairman of the Supervisory Board, and in his absence 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 ENEA S.A Supervisory Board Bylaws, and in particular shall have an exclusive right:

- to open, manage and closing the meetings of the Supervisory Board
- to grant and withdraw the right to speak to members of the Supervisory Board
- to issue procedural orders
- to order votes, ensure that they are taken properly and announce their results
- to settle procedural points
- to adjourn the meetings of the Supervisory Board
- to issue instructions to the person recording the course of the Supervisory Board meeting
- to distribute written resolutions of the Supervisory Board
- to take any other actions as may be necessary for the efficient operation of the Supervisory Board

While considering each submitted matter, Supervisory 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, Chairman may determine the amount of time per a speaker
- 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 unauthorized manner
- Chairman shall have the right to take back the floor from speakers who do not follow Chairman's instructions or who take the floor in a manner inconsistent with the Bylaws
- Chairman shall decide on the conclusion of the discussion after having heard the members of the Supervisory Board 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 Supervisory 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, Chairman has the casting vote at the adoption of a resolution by the Supervisory Board.

Notwithstanding 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 (copies) 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 ENEA S.A. Supervisory Board Bylaws, which contain a detailed description of the operation of the Supervisory Board, is available at www.enea.pl in the "Investor Relations" -> "Corporate governance" tab.

Supervisory Board's Committees

Pursuant to the provisions of the Supervisory Board Bylaws, the following standing committees operate within the Supervisory Board:

- Audit Committee
- Nominations and Remuneration Committee

The committee consists of at least three members appointed by the Supervisory Board from among its members for a period corresponding to the term of office of the Board. The members of the committee shall elect Chair of the committee from among themselves. Chair of the committee manages the work of the committee and supervises the work of the committee, in particular the organisation and course of the committee's meetings.

Audit Committee

As at the day of publication of this Report, i.e. 21 March 2019, the Audit Committee operates in the following composition:

Audit Committee	
Name	Position
Ireneusz Kulka ¹⁾	Chair
Roman Stryjski ^{2) 4)}	Member
Piotr Mirkowski ^{2) 4)}	Member
Sławomir Brzeziński ⁴⁾	Member
Wojciech Klimowicz ^{3) 4)}	Member

¹⁾ Independent Member within the meaning of Article 129 Item 1 point 3 of the Act of 11 May 2017 on certified auditors, audit companies and public supervision.

²⁾ Independent Member within the meaning of Article 129 Item 1 point 3 of the Act of 11 May 2017 on certified auditors, audit companies and public supervision and within the meaning of corporate governance principles included in the Code of Best Practice for WSE Listed Companies 2016.

³⁾ Member with knowledge and skills in accounting or auditing financial statements.

⁴⁾ Member with knowledge and skills in the industry in which the issuer operates. The manner of acquiring the knowledge and skills referred to in points 3) and 4) has been indicated in *Composition of the Supervisory Board of ENEA S.A.* in Chapter 5.

Operation of the Audit Committee

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 ENEA S.A. Supervisory Board Bylaws.

Chair of the Audit Committee and most of its members 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:

- 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.

Cooperation with the audit company

Main assumptions of the Policy for the selection of an audit firm to conduct an audit in ENEA S.A.

The audit firm selection policy applicable in ENEA S.A. mainly assumes the avoidance of any conflicts of interests in such a way that, prior to the acceptance or continuation of audit engagement, the audit firm declares whether the independence requirements are fulfilled (both with regard to the audit firm and statutory auditor), and in particular whether any threats to independence arise in relation to ENEA S.A. The audit firm confirms annually to the audit committee its independence and discusses any threat to its independence as well as the safeguards applied to mitigate those threats. In addition, when selecting an audit firm, the audit team's experience in auditing, its competence, financial criteria and human resources are taken into account. The selection of an audit firm shall respect the principle of impartiality and independence of the audit firm, in accordance with the legal provisions on mandatory rotation of audit firms and key statutory auditors, mandatory grace periods and results of audit firm inspections contained in the annual report published by the Audit Supervision Authority. The audit firm selection policy shall also ensure the rotation of audit firms and statutory auditors in accordance with the provisions of the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (Dz.U. of 2017, item 1089, as amended) ("Act on Statutory Auditors").

Main assumptions of the Policy on the provision of acceptable services other than audits by an audit firm

ENEA S.A. and its subsidiaries may use acceptable services (defined in Article 136 of the Act on Statutory Auditors) provided by an audit firm conducting an audit of ENEA S.A.

The policy of providing acceptable services other than audits by an audit firm includes a closed catalogue of acceptable services, the provision of which shall be possible only in the scope not related to the tax policy of the companies belonging to ENEA Group. The acceptable service other than audit may be provided by an audit firm conducting an audit of ENEA S.A. provided that it has been previously approved by the audit committee following an assessment of threats to and safeguards for the audit firm, the key statutory auditor and other audit team members. Additionally, should the audit firm conducting an audit of ENEA S.A. provide acceptable services other than audits for at least three consecutive financial years, then the remuneration for the provision of such services is limited to 70% of the average remuneration over the last three consecutive financial years paid for the statutory audit of ENEA S.A. and, where appropriate, its subsidiaries and consolidated financial statements of this group of companies. In case of prohibited services, i.e. services other than acceptable services, they cannot be provided directly or indirectly in ENEA S.A. and its subsidiaries by the audit firm conducting an audit of ENEA S.A. from the beginning of the audited period until the issuance of a report from the audit.

In 2018, the Company received acceptable services other than audits provided by the audit firm examining the financial statements, and the approval by the audit committee of the Supervisory Board of ENEA S.A. of acceptable services other than audits followed the assessment of threats to and safeguards for the independence. The recommendation of the audit committee of the Supervisory Board of ENEA S.A. on the selection of the audit firm to conduct an audit satisfied the applicable conditions and was drawn up following the Company's selection procedure meeting the applicable conditions.

Activity of the Audit Committee in 2018

Audit Committee

The Audit Committee held 8 meetings and adopted 8 Resolutions, regarding without limitation the following:

- approval of the Report of the Audit Committee of the Supervisory Board of ENEA S.A. on its activities in 2017,
- approval by the Audit Committee of the Supervisory Board of ENEA S.A. of the final report No. 1/2018 on the general audit of the assessment of the internal control system in ENEA S.A. in order to accept and provide the Supervisory Board of ENEA S.A. with management information concerning the general assessment of the internal control system in ENEA S.A.,
- approval of the statement for the Supervisory Board on the results of the audit of the financial statements of ENEA S.A. and ENEA Group for the financial year ending on 31 December 2017,
- evaluation of the methods of review of the condensed interim non-consolidated financial statements of ENEA S.A. for the period from 1 January 2018 to 30 June 2018 and the condensed interim consolidated financial statements of ENEA Group for the period from 1 January 2018 to 30 June 2018,
- adoption of the Report of the Audit Committee of the Supervisory Board of ENEA S.A. on the activities in the first half of 2018,
- consent to the provision of services by PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością Audit sp.k. (formerly: PricewaterhouseCoopers Sp. z o.o.) in Lubelski Węgiel "Bogdanka" S.A. as a permitted non-audit service,
- issuing an opinion to the Annual Audit and Internal Control Plan for 2019 for ENEA Group and the Budget of the Management Audit Division for 2019 and submitting the above documents together with an opinion to the Supervisory Board of ENEA S.A. for approval and on the adoption of the Training Plan.

Nominations and Remuneration Committee

Operation of the Nominations and Remuneration Committee

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 Supervisory 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 ENEA S.A. Supervisory Board Bylaws.

In particular, these 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 Supervisory Board concerning the remuneration and forms of employment of members of the Management Board, taking into account their performance;
- 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 Supervisory Board.

Activity of Nominations and Remuneration Committee in 2018

Nominations and Remuneration Committee

The Nominations and Remuneration Committee held 7 meetings and adopted 13 Resolutions. The subject matter of the meetings of the Committee was, inter alia, development of recommendations for the Supervisory Board, regarding:

- amendments to the Resolution concerning the Approval of Management Objectives (KPIs) for Members of the Management Board of ENEA S.A. for the year 2017,
- proposals of Management Goals for members of the Management Board of ENEA S.A. for 2018,
- execution of annexes to the Management Services Agreements with Members of the Management Board of ENEA S.A., as well as authorizing Chairman of the Supervisory Board of the Company to sign the said annexes,
- issuing an opinion on the achievement of Management Objectives in 2017

As at the day of publication of this Report, i.e. 21 March 2019, the Nominations and Remuneration Committee operate in the following compositions:

Nominations and Remuneration Committee	
Name	Position
Paweł Jabłoński	Chair
Stanisław Hebda	Member
Tadeusz Mikłosz	Member
Piotr Mirkowski ¹⁾	Member
Paweł Korobłowski	Member

¹⁾Independent Member within the meaning of Article 129 Section III. 1 point 3 of the Act of 11 May 2017 on certified auditors, audit companies and public supervision and within the meaning of corporate governance principles included in the Code of Best Practice for WSE Listed Companies 2016.



The Non-Financial Statement of ENEA Group for 2018

TABLE OF CONTENTS

1. Methodology of preparing the Non-Financial Statement of ENEA Group for 2018.
2. Description of business model.
3. Information concerning expected events and issues being the subject matter of ongoing negotiations.
4. Non-financial key performance indicators.
5. Non-financial risks relating to the business activity of ENEA Group.
6. Environmental issues – description of due diligence policies and procedures as well as their results.
7. Labour issues – description of due diligence policies and procedures as well as their results.
8. Social issues – description of due diligence policies and procedures with their results.
9. Human rights issues – description of due diligence policies and procedures with their results.
10. Anti-corruption and anti-bribery measures – description of due diligence policies and procedures with their results.
11. List of indicators and key information included in the Statement.

1. METHODOLOGY OF PREPARING “THE NON-FINANCIAL STATEMENT OF ENEA GROUP FOR 2018”

1.1. LEGAL BASIS

The legal basis of this statement (hereinafter referred to as “the Statement”) which forms a separate part of the document “Report of the Management Board on the business activity of ENEA S.A. and ENEA Group in 2018” is Article 49b and Article 55 of the Accounting Act of 29 September 1994 (Reference of the Polish Journal of Laws: Dz.U.2018.395). It has been prepared using GRI (Global Reporting Initiative) Standards.

The Statement covers non-financial information on ENEA Group for the period from 1 January to 31 December 2018 on issues which ENEA Group considers significant for the assessment of development, results and situation, as well as the impact of its business activity on issues referred to in Article 49b(2) item 3 of the Accounting Act. The assessment of materiality has been made on the basis of analyses and surveys of Stakeholders’ expectations.

1.2. SUBJECT SCOPE

“The Non-Financial Statement of ENEA Group for 2018” covers all subsidiaries of ENEA Group included in the “Consolidated financial statements of ENEA Group for the financial year ended on 31 December 2018”. The following two subsidiaries of ENEA Group have been included additionally: 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 2018”. A subsidiary of ENEA Group included neither in the “Consolidated financial statements of ENEA Group for the financial year ended on 31 December 2018” nor in “The Non-Financial Statement of ENEA Group for 2018” is Energo-Tour Sp. z o.o. in liquidation.

1.3. PREPARATION OF THE STATEMENT

In order to exercise due diligence the survey on the expectations of ENEA Group’s Stakeholders was conducted prior to the preparation of the Statement.

The on-line survey was conducted between 26 November 2018 and 30 November 2018. The survey was addressed to employees, counterparties, social partners, representatives of managers and institutional investors of ENEA Group and included questions relating to environmental, social, labour, human rights and anti-corruption and anti-bribery issues. Over 40 Employees of ENEA Group were directly engaged in the preparation of the Statement. They took part in workshops enabling the identification of the undertaken actions, relating to material non-financial aspects. The appointed group was also tasked with the coordination of the process of data collection and aggregation among companies involved in the reporting process.

The survey of Stakeholders’ expectations revealed the material aspects of reporting, referred to in clause 1.4 of the Statement.

1. METHODOLOGY OF PREPARING “THE NON-FINANCIAL STATEMENT OF ENEA GROUP FOR 2018”

1.4. MATERIAL ASPECTS OF REPORTING

Material aspects of reporting	Materiality of aspect		Impact of aspect	
	medium	high	within the Group	outside the Group
ECONOMIC AND STRATEGIC AREA				
- ENEA Group’s influence on the development of the national economy and the position of Poland in the global economy,	•		•	•
- actions contributing to ensuring the country’s energy security,		•	•	•
- ensuring technological progress and creating new areas for electricity use,		•	•	•
- adaptation of the organisation in view of challenges related to the technological revolution, e.g. automation and robotisation,	•		•	•
SOCIAL AREA				
- charitable activities and influence on local communities,		•	•	•
- activities aimed at developing students’ talents and facilitating their entry onto the labour market,	•		•	•
- activities building civic sensitivity in society,		•	•	•
- fulfilling and anticipating Customers’ expectations through products and services offered,		•	•	•
LABOUR AREA				
- activities contributing to the safety and comfort in the place of work,		•	•	•
- skills’ development and providing highly specialised training courses for Employees,		•	•	•
- activities aimed at strengthening the sense of Employee’s belonging to the company,		•	•	•
- activities contributing to the quality of communication and strengthening the relationship between the Partners,		•	•	•
HUMAN RIGHTS AREA AND ANTI-CORRUPTION AND ANTI-BRIBERY AREA				
- activities enabling to ensure that all Employees have the same access to trainings and skills’ development,	•		•	•
- activities contributing to building an ethical work culture and preventing discrimination,		•	•	•
- improving purchasing practices applied to providers ensuring transparency in cooperation,	•		•	•
- activities contributing to developing an organisational culture based on respect and mutual trust between Employees, Partners and Superiors,		•	•	•
ENVIRONMENTAL AREA				
- investments in research and development contributing to the reduction of the negative impact on the environment,		•	•	•
- practices and activities for environmental protection,		•	•	•
- activities enabling to reduce exploitation of natural environmental resources,		•	•	•
- showing citizens good practices concerning responsible use of the natural environment in everyday life.		•	•	•

2. DESCRIPTION OF THE BUSINESS MODEL

The business model adopted by ENEA Group enables the supply of integrated raw material and energy products and services and of other innovative services to a wide range of Customers. The business activity of the Group in four segments which are mining, generation, distribution and wholesale and retail trading in electricity is aimed at ensuring that Customers who value quality, comprehensiveness, and reliability are offered products and services at the proper level.

The main business activities of ENEA Group are:

- **Electricity and heat generation** /ENEA Wytwarzanie Sp. z o.o., ENEA Elektrownia Połaniec S.A., Przedsiębiorstwo Energetyki Ciepłej Sp. z o.o., Miejska Energetyka Ciepła Piła Sp. z o.o., ENEA Ciepło Sp. z o.o./,
- **Electricity trading** /ENEA S.A., ENEA Trading Sp. z o.o./,
- **Electricity distribution** /ENEA Operator Sp. z o.o., ENEA Pomiary Sp. z o.o., ENEA Serwis Sp. z o.o./,
- **Heat distribution** /ENEA Wytwarzanie Sp. z o.o., Przedsiębiorstwo Energetyki Ciepłej Sp. z o.o., Miejska Energetyka Ciepła Piła Sp. z o.o., ENEA Ciepło Sp. z o.o./,
- **Mining of bituminous coal** /Lubelski Węgiel "Bogdanka" S.A. Group/.

ENEA Group implements the process of mining through Lubelski Węgiel "Bogdanka" S.A. company, which is one of the leading bituminous coal producers on the Polish market. The Company covers part of the raw material demand of ENEA Group's companies from the Generation Area.

Power plants located in Koźienice and Połaniec, the heat and power installation in Białystok, wind power plants located in Bardy, Darżyno and Baczyna, 21 hydroelectric power plants and biogas plants located in Gorzesław and Liszków are engaged in the processes of energy generation.

Electricity distribution is carried out through the distribution network on the basis of a concession granted by the President of the Energy Regulatory Office to ENEA Operator Sp. z o.o. Retail electricity trading is carried out by ENEA S.A. through sales centres for business Customers and 32 modern Customer Service Centres.

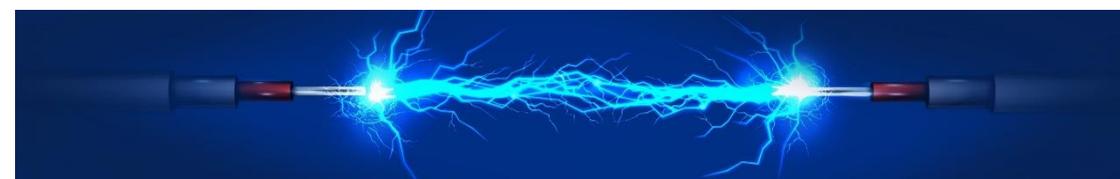
MINING

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



DISTRIBUTION

- Electricity supply
- Planning distribution network and ensuring its development
- Operation, maintenance and repairs of the distribution network
- Measurement data management



GENERATION

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



TRADING

Retail trading:

- Trading in electricity and gaseous fuel on the retail market
- Product and service offer tailored to customer needs
- Comprehensive Customer Service

Wholesale trading:

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

2. DESCRIPTION OF THE BUSINESS MODEL

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 is implementing the “Development Strategy of ENEA Group in the 2030 perspective”.

60 strategic initiatives have been adopted by ENEA, more than 50% of which are of an innovative nature. The implementation of initiatives increasing business potential will support, among other things, the 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, clean coal technologies, hybrid RSE, energetic micro- and macroclusters, electromobility).



More information on the “Development Strategy of ENEA Group until 2030” is presented on Pages 32-33 of “Report of the Management Board on the operations of ENEA S.A. and ENEA Group in 2018” and in the material available at: <https://ir.enea.pl/pl/ir/relacje-inwestorskie/grupa-enea/strategia-rozwoju>.

3. INFORMATION CONCERNING EXPECTED EVENTS AND ISSUES BEING THE SUBJECT MATTER OF ONGOING NEGOTIATIONS

Internal energy market

In 2018, negotiations on the so-called trilogy on the final provisions of the Winter Package, which are of fundamental importance for the functioning of the energy sector, were completed. In particular, it should be noted that during the negotiations on the Regulation of the European Parliament on the internal energy market, the lack of support from national power markets for generating units not meeting the so-called standard of 550 gr CO₂/ kWh emissions was established. However, as part of the compromise sought by the Polish delegation, it was agreed that units emitting more than 550g CO₂/kWh, which concluded power contracts as part of the main auctions finally resolved by 31 December 2019, may receive remuneration for the performance of the power obligation for the entire period for which support was obtained from the power market. This is a very important compromise in view of the fact that the power market is a state aid instrument which required the approval of the European Commission and must function in accordance with the regulations of the internal market of the European Union.

Moreover, in the course of trilogues, the EU RES Directive set the EU RES 2030 target of 32% in gross final energy consumption and the possibility of support for new biomass units with a capacity above 100 MW in the event of achieving electricity efficiency at the level of 36% and the Energy Efficiency Directive set the reduction of energy consumption in the EU by 32.5% by 2030.

The Energy Union Management Regulation (Governance) introduced the obligation to draw up a National Energy and Climate Plan as part of the implementation of the Energy Union, covering five dimensions: energy security, internal energy market, energy efficiency, decarbonisation, research, innovation and competitiveness.

The main objective of the Energy Union governance mechanism is to enable the achievement of the objectives of the Energy Union, in particular the objectives of the climate and energy policy framework by 2030 in terms of greenhouse gas emission reduction, renewable energy and energy efficiency.

Electricity demand

According to the documents: "Updated Forecast of Fuel and Energy Demand until 2030" and "Conclusions from Prospective Analyses Made for Energy Policy of Poland until 2050" in the coming years demand for electricity will increase in all sectors of the economy. Thus, until 2030, net electricity generation is expected to increase to the level of 193.3 TWh and until 2050 electricity generation will increase by about 40% – from 158 TWh in 2010 to 223 TWh in 2050 ¹⁾. Notwithstanding the above, the Ministry of Energy is currently working on a new energy policy for Poland, which will set out the government's long-term vision for the energy sector.

European system EU ETS

On 8 April 2018, Directive (EU) 2018/410 of the European Parliament and of the Council introducing changes to the greenhouse gas emission allowance trading system came into force.

The Directive establishes, inter alia, two financial mechanisms:

- Modernisation Fund - for the modernisation of energy systems in low income Member States. It is intended to be financed by proceeds from the auction of allowances in the years 2012 to 2030. The Fund is to be used primarily to support the development of energy efficiency and investments in renewable energy sources.
- Innovation Fund - to provide financial support for RES development, carbon capture and storage and innovative low-emission projects. It is to be supplied with funds from allowances, which otherwise would be allocated free of charge or sold through auctions.

In addition, the framework for Phase IV of the EU ETS as well as new rules for the Market Stabilisation Mechanism (MSM) have been established. Pursuant to them, since the beginning of 2019, the reduction rate of allowances in circulation has increased from 12% to 24%. Allowances are gradually transferred from the auctioning system to the market stability reserve. Starting from 2024, the rate of 12% will be restored. In Phase IV of the EU ETS, which will start at the beginning of 2021 and last until 2030, the linear reduction factor will also be increased from 1.74% to 2.2%. Both of these elements have an impact on the reduction of supply on the EU ETS market, and thus on the increase in prices of CO₂ emission rights observed in 2018. At the peak of the increases, quotations of CO₂ emission allowances increased more than three times as compared to the beginning of the year. The increased volatility on the CO₂ emission allowances market also had a significant impact on the increased volatility on energy markets throughout Europe, also in Poland.

Property Rights Limits

GREEN

In the area of PMOZE_A (certificates of origin of energy generated from renewable sources), there has been a surplus of rights on the market, which resulted in low price levels recorded in 2016 and in H1 2017. As at 27 April, it is estimated that after the fulfilment of the obligation for 2017 around 25 TWh of active PMOZE_A will remain on registers. 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 the surplus.

¹⁾ bip.me.gov.pl/files/upload/21394/Wnioski%20z%20analiz%20prognostycznych_2014-08-11.pdf

3. INFORMATION CONCERNING EXPECTED EVENTS AND ISSUES BEING THE SUBJECT MATTER OF ONGOING NEGOTIATIONS

In addition, the amendment to the RES Act (of 20 July 2017) and the interpretation of the Minister of Energy concerning the lack of possibility of paying a replacement fee as long as the unit substitution fee has not reached the maximum level (PLN 300.03/MWh) resulted in a strong increase in prices of PMOZE_A above the level of PLN 70/MWh and established the ongoing sustained upward trend.

LIGHT BLUE

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. In the first half of 2017, the prices reached a level as high as PLN 470/MWh. The valuation of the instrument came close to the level of the unit replacement fee (PLN 300.03/MWh) only after the publication of the first draft amendment to the RES Act in June 2017, conditionally unlocking the possibility of settling the replacement fee on a conditional basis. Since this point in time, the prices of “light blue” property rights has remained above the replacement fee, but they are closer to it (above PLN 317/MWh), with account taken of the buyer’s benefit resulting from the possibility of deducting the excise tax (PLN 20/MWh) for the fulfilment of the obligation through redemption of certificates of origin. The price trend is maintained due to the fact that the conditions for paying the replacement fee have been met since the beginning of 2018. This should continue as long as the average three-month PMOZE_BIO price is above the level of the unit replacement fee.

COGENERATION

The current system of property rights for cogeneration will remain in effect until the end of 2018 and legislative work is under way on a new support system operating on the basis of an auction system. The work was completed with the adoption of the Act of 14 December 2018 on the promotion of electricity from high-efficiency cogeneration, which will enter into force on 25 January 2019.

WHITE

In the previous year, for the first time, the moment of fulfilment of the obligation was set to the end of June, in connection with the new Act on Energy Efficiency of 20 May 2016. As a result, there are currently four indices for “white” property rights on the market, i.e.:

- PMEF – energy efficiency certificates issued on the basis of a system of tenders pursuant to the previous legal basis, subject to expiry as of 30 June 2019;

- PMEF – energy efficiency certificates issued for completed investments, for applications submitted in 2017 (outside the system of tenders), which, like “cogeneration” property rights, shall expire after 30 June 2018;
- PMEF-2018 – energy efficiency certificates issued for completed investments, for applications submitted in 2018 (outside the system of tenders), which, like “cogeneration” property rights, shall expire after 30 June 2019;
- PMEF_F – energy efficiency certificates issued for non-started investments pursuant to the Act of 20 May 2016.

On 20 July 2017, results of the last tender for investments in the field of energy efficiency, announced by the Energy Regulatory Office on 21 September 2016, were published. The projects selected in individual categories amounted in total to nearly 55% of the pool (806.743/toe in total). The growth in the number of PMEF on the market resulted in the fall of prices of the instrument in H2 2017. In the end, however, index prices returned to the average level of PLN 712/toe due to the appearance of information from the Ministry of Energy that if there is a risk that after the obligation for 2018, i.e. after 30 June 2019, unused PMEFs will remain on the registers, then measures may be taken to change the date of their redemption, i.e. extend their validity. The recent amendment to the Act on Energy Efficiency, although it facilitated the process of application for support for activities in favour of energy efficiency, in connection with the failure to initiate a tender procedure, it simultaneously reduced the PMEF_F supply though the limitation of support for a project to the amount of one average annual energy saving. This translated into the valuation of PMEF_F at a level of PLN 1,500/toe (similar to the unit replacement fee).

The 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 whose aim is to stimulate electromobility development in Poland and the use of alternative fuels, including electricity, in transport. The Act is to set out 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, Andrzej Duda, on 5 February 2018 and will come into effect come into effect 14 days after the day of its publication in the Journal of Laws.

3. INFORMATION CONCERNING EXPECTED EVENTS AND ISSUES BEING THE SUBJECT MATTER OF ONGOING NEGOTIATIONS

Amendment to the RES Act

On 29 June 2018, the President of the Republic of Poland signed the Act of 7 June 2018 amending the Act on renewable energy sources and certain other acts ("RES Act"). The purpose of the RES Act was to adapt the Polish regulations on state aid to the requirements that the European Commission set for the Republic of Poland in the notification procedure of the RES development support system. The RES Act regulates changes to the principles of the auction system. The effect of the implemented changes is also the abolition of the limit for participation in RES auctions for biomass combustion units with a total installed electrical capacity greater than 50 MW. In addition, in terms of biomass, the Act sets the share of agricultural biomass in the total biomass weight share at:

- 85% for multi-fuel combustion installations and dedicated multi-fuel combustion installations with an installed electrical capacity greater than 5 MW
- 10% for dedicated biomass combustion installations and hybrid systems with an installed electrical capacity greater than 20 MW.

These provisions are important, among others, from the point of view of Unit No. 9 of the Połaniec Power Plant because the unit will be able to participate in RES auctions for the first time.

In Q1 2019, work began on the draft of another act amending the Act on Renewable Energy Sources and some other acts. According to the justifications presented, the objective of the changes is to implement the tasks set out in the Polish energy policy until 2020, by reducing the burden on end users due to support systems for renewable energy sources and rising electricity prices. At the same time, the amendment will make it possible to conduct auctions for the purchase of electricity from renewable energy sources in 2019 by specifying in the transitional provisions the maximum quantities and values to be sold and setting reference prices, constituting the maximum value of the offer which may be submitted by the generator in the auction offer.

2018 Tariff for electricity distribution services in the context of quality regulation and the so-called "anti-smog tariff"

The new model of quality regulation came into effect on 1 January 2016. According to its assumptions, the President of the Energy Regulatory Office made part of Distribution System Operator's (DSO) regulated revenue dependent on the quality of services provided by these entities. The service quality assessment takes place through measurement of several indicators, including power supply reliability and the time of connection to the power grid. 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. Performed analyses indicate that the impact of the above mentioned regulation on the revenue which ENEA S.A. could reasonably generate is negligible.

Significant trends in the Distribution area

New technologies emerging, Customers' rising expectations, and a dynamically changing economic environment in Poland and worldwide anticipate changes to the way of operation of the 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

Model of quality regulation

In 2018, the President of the Energy Regulatory Office carried out an evaluation of the quality regulation model for 2016-2020, developed in 2015. As a result of this evaluation, the President of ERO published a document entitled "Qualitative Regulation in the years 2018-2025 for Distribution System Operators (who unbundled their activities as of July 1, 2007)". The most important changes that have been introduced to the model of quality regulation, which will be in force from 2018, are as follows: introduction of the so-called area indicators - instead of 2 reliability indicators (SAIDI, SAIFI), area indicators were introduced with a division into 4 areas: large cities, towns with county rights, towns, and villages; determination of a method for setting new long-term objectives (by 2025); elimination from the calculation of reliability indicators of weather events of a catastrophic nature; granting bonuses for achievement of final objectives of the quality regulation; establishing a link between the penalty for failure to meet annual targets to the return on capital forming part of regulated revenue.

General Data Protection Regulation (GDPR)

GDPR is an EU legal act which entered into force on 25 May 2018 in all EU member states. It introduces new rules for the processing of personal data and imposes new obligations on data controllers. In its business activity ENEA Group complies with the requirements of the new provisions, ensuring the adequate level of security of the personal data processed, as well as the protection of rights and freedoms of persons whose data is processed by the Group.

4. NON-FINANCIAL KEY PERFORMANCE INDICATORS

Key performance indicators relating to the business activity of ENEA Group	Year		
	2016	2017	2018
Electric power installed [MW _e]	3,307.8 MW _e ¹⁾	6,256.6 MW _e ²⁾	6,256.6 MW _e
Total (net) electricity generation	13,567 GWh	20,973 GWh	26,503 GWh
Trading Segment: number of electricity consumers (Power Delivery Points - as of the end of the reporting period)	2,405.0 thou.	2,422.4 thou.	2,486.3 thou.
Trading Segment: sales of electricity and gaseous fuel to retailers	17.989 TWh	18.916 TWh	21.457 TWh
Distribution Segment: number of Customers / electricity consumers (as of the end of the reporting period)	2,520.2 thou.	2,553.7 thou.	2,588.9 thou.
Distribution Segment: length of distribution lines together with connections	121.30 thou. km	122.37 thou. km	122.82 thou. km
SAIDI - System Average Interruption Duration Index ³⁾	241.76 min	618.70 min ⁴⁾	149.94 min ⁵⁾
SAIFI - System Average Interruption Frequency Index ³⁾	3.72	4.31	3.03 ⁵⁾

¹⁾ Not taking into account Elektrownia Połaniec S.A., taken over by ENEA in March 2017.

²⁾ In 2017, as a result of launching a new power unit at ENEA Wytwarzanie Sp. z o.o. in Koźienice and the takeover of Elektrownia Połaniec, ENEA Group significantly enhanced its generation capacities.

³⁾ SAIFI and SAIDI indices relate to planned and unplanned interruptions (including catastrophic interruptions) in the supply of electricity. In 2017, SAIDI and SAIFI indices were significantly affected by the extensive destruction of the network caused by cyclones Xaver and Gregory.

⁴⁾ In 2018, the indicator was revised by 0.01 minutes.

⁵⁾ Values of SAIDI and SAIFI reliability indices are values of uncleaned indices. According to the new Quality Regulation in 2018-2025 for Distribution System Operators, these indices are subject to purification. The presented ratios for 2018 have not yet been finally recalculated (as at 23 January 2019). This means that the final indicators for 2018 may still slightly change.

5. NON-FINANCIAL RISKS RELATING TO THE BUSINESS ACTIVITY OF ENEA GROUP

ENEA Group manages its business-related risks in a systematic manner. The concept of enterprise risk management (ERM) within ENEA Group is based on a coordinated model. **The process of enterprise risk management (ERM) aims at maximum protection of the Group against the effects of materialisation of the identified risks.**

In the adopted model, ENEA S.A. coordinates the process of enterprise risk management through dedicated organisational units. Implementation of the adopted assumptions is possible thanks to the structure of ENEA S.A. which includes **the Risk Management Department**, consisting of two offices responsible, respectively, for financial risk management and enterprise risk management, business continuity management and insurance management. At the same time, the structure of companies belonging to the Group includes units responsible for the area of risk management, which cooperate with the Risk Management Department of ENEA S.A. There is an organisational division within the Companies into Front-, Middle- and Back Office.

The efficiency of the enterprise risk management process is ensured by:

- a system of business continuity management which aims at the identification of processes critical to the business activity of the companies belonging to ENEA Group and the implementation of such mechanisms and procedures which will ensure their continuity in an emergency situation,
- identification of non-financial risks at the level of individual companies belonging to ENEA Group, resulting from the specific nature of business activity exercised,
- division of the process into specific segments for which documentation has been prepared in the form of policies, procedures and methodologies,
- division of the process into stages covering the identification and assessment of new risks, monitoring of existing risks and their reporting,
- operational management of risk by the companies belonging to ENEA Group within the limits granted and in accordance with principles approved by the ENEA Group Risk Committee.

Policies, Procedures and Methodologies regulating issues relating to risk management in ENEA Group:

- 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
- 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,
- Insurance Policy of ENEA Group,
- The Policy of ENEA Group for ensuring integrity and transparency in the electricity and natural gas wholesale market,
- The Policy of ENEA Group for Preventing Abuse in Financial Instruments Markets in the Area of Commodity Derivatives, Greenhouse Gas Emission Allowances and Bundled Products.

The risk management model is additionally described on Pages 53-56 of “Report of the Management Board on the operations of ENEA S.A. and ENEA Group in 2018”.

5. NON-FINANCIAL RISKS RELATING TO THE BUSINESS ACTIVITY OF ENEA GROUP

As part of risk mapping in ENEA Group, the following risks, which may have a significant negative impact on social, labour, environmental, anti-corruption and anti-bribery or human rights issues, have been identified:

Labour area

- generation gap risk,
- the risk of civil unrest, resulting from the lack of agreement between social partners when analysing the requests of the social stakeholders relating to a new social contract, verification of the provisions of the Corporate Collective Labour Agreement, introduction of human resources management tools, which have not been applied before,
- the risk of accident at work or occupational disease,
- the risk of disputes with Employees, groups of Employees, union organisations.

Social Area

- the risk of infringement of provisions pertaining to personal data protection caused by human error; intentional action of an Employee or Co-worker; unfamiliarity or non-compliance with the internal provisions and regulations by Employees or Co-workers; errors or intentional actions of counterparties; errors or failures of IT system; hackers' attack,
- the risk of the infringement of information obligation resulting from the improper disclosure of confidential information; communicating information that is confidential, may have an impact on price generation or on investors' actions and decisions to the press; the improper performance of information obligation by: not complying with the immediacy requirement, not complying with the deadline indicated explicitly in other provisions, failure to provide the information required or providing imprecise information, which may be misleading,
- the risk of improper information management in a crisis situation, lack of information in a crisis situation, providing the public with contradictory information or disclosure of information by unauthorised Employees.
- the risk of disputes with Employees, groups of Employees, union organisations,
- the risk of increase in the number of claims of third parties – property owners – pertaining to the payment of arrears for transmission easement / tenancy of immovable property,
- the risk of causing damage or losses to Customers and third parties as a consequence of the business activity exercised,
- the risk of delays in the completion of investments of key importance to connections,
- the risk of delays or the absence of decisions on connections which are of crucial importance to Customers,
- the risk of failures or damages to infrastructure of crucial importance to production and electricity supply,
- commodity risks related to the production of electricity (resulting from non-compliance by the counterparty with contractual obligations relating to fuel supply or transport service, insufficient diversification of sources of supply).

Environmental area ¹⁾

- the risk of failure to adjust electricity and heat generation technology to enhanced environmental protection provisions (BAT conclusions, IED Directive), including the atmospheric emissions of NO_x, SO₂, HCl, HF, NH₃, mercury, particles, as well as the failure to adjust the layout of measuring devices to these provisions and the failure to reduce the amount of heavy metals contained in sewage from flue gas desulphurisation (FGD) installation,
- the risk of the failure of flue gas desulphurisation (FGD) installation, catalytic flue gas denitrification (SCR) installation and the risk of the failure of electrofilters aimed at the reduction of particles' emission,
- the risk of non-compliance with the conditions specified in the applicable permissions with regard to:
 - waste water treatment and water supply, including not compliance with the requirements related to the instream flow and permitted temperature of spent cooling water,
 - waste, including sludge from flue gas desulphurisation (FGD) installations,
 - atmospheric emissions, including NO_x, SO₂ and particles,
- the risk of non-compliance with the one year time-limit for the storage of slag-ash mixtures from the wet disposal of combustion waste or failure to meet the obligation of video surveillance installation on the landfill where slag-ash mixtures are stored,
- the risk of the loss of side product status by plaster,
- the risk of exceeding the mass of stored waste (concerns remaining waste, excluding for combustion side products),
- the risk of the increased amount of ammonia in combustion waste and in plaster.

Human rights area

- the risk of infringement of provisions pertaining to personal data protection;

Anti-corruption and anti-bribery area

- the risk of a situation of splitting contracts, fraud in applying the procedure of so-called emergency contracts,
- the risk of granting financial, material or organisational assistance by ENEA Foundation to entities which fail to comply with the law or undertake activities in conflict with the interest of ENEA Group or public good.

¹⁾NO_x – nitric oxides, SO₂ - sulphur dioxide, HCl – hydrogen chloride, HF – hydrogen fluoride, NH₃ – ammonia, (FGD) – flue-gas desulfurisation installation, (SCR) – catalytic flue gas denitrification installation.

5. NON-FINANCIAL RISKS RELATING TO THE BUSINESS ACTIVITY OF ENEA GROUP

Examples of identified non-financial risks and ways of their management in the environmental area			
AREA	COMPANY NAME	NON-FINANCIAL RISK	RISK MANAGEMENT
MINING	Lubelski Węgiel "Bogdanka" S.A.	<ol style="list-style-type: none"> the risk of hazard for the aquatic environment, the risk related to improper handling of chemicals, the risk of failure to adjust technology to new legal regulations and other regulations related to environmental protection. 	<ol style="list-style-type: none"> Due to the risk of hazard for the aquatic environment there is an ongoing monitoring and permanent supervision of activities in this scope. The Company carries out inspections and modernisations of individual installations on an ongoing basis and conducts the regular training aimed at raising the awareness and competences of Employees in the above mentioned area. The Company takes actions aimed at informing the staff about the rules relating to the safe use of chemicals on a regular basis. Ongoing and permanent monitoring of legal provisions in this area is also carried out. In order to eliminate the risk of failure of the organisation to adjust to new binding laws and regulations, the company monitors legal acts to be implemented and those already implemented as well as the decisions of industry authorities on an ongoing and permanent basis.
GENERATION	ENEA Wytwarzanie Sp. z o.o.	<ol style="list-style-type: none"> the risk of negative impact on the environment resulting from nitrogen oxides and particles emissions, the risk of negative impact on natural resources adjacent to Koziencice Power Plant, the risk of incorrect and late issuing of reports to be submitted to the National Centre for Emissions Management (KOBIZE) which leads to administrative penalties for the late accounting of emission volumes, 	<ol style="list-style-type: none"> In 2018, the Company completed investments which will reduce the emissions of nitrogen oxides and particles into the atmosphere thanks to the development of the catalytic flue gas denitrification (SCR) installation on the 500 MW Unit No. 10 and the modernisation of the electrostatic dust precipitator, 200 MW Unit no 6. The Company continues the permanent environmental supervision at Koziencice Power Plant and its immediate vicinity introduced in 2016 and is involved in the protection of species including, among other things: conducting permanent environmental supervision during the modernisation of the Plant's track located in the vicinity of the habitat of the smooth snake. The risk is reduced by the efficient supervision of the implementation of the monitoring plan of CO₂ emissions which forms an integral part of the decision of the Office of the Marshal of the Mazowieckie Voivodeship currently in force, authorising the emission of greenhouse gases. The verification of the annual report on emissions is carried out in two stages: pre-verification and final report.
GENERATION	ENEA Elektrownia Połaniec S.A.	<ol style="list-style-type: none"> The risk of adverse impact of Elektrownia Połaniec on the natural environment resulting from the operation of the sewage treatment plant, the emissions of nitrogen oxides and particles into the atmosphere. 	<ol style="list-style-type: none"> The Company minimises the identified risk by carrying out infrastructure investment projects and modernisation works. In 2018, the Company completed the modernisation of the FGD sewage treatment plant and the development of the SCR catalytic converter at Unit No. 4, which resulted in nitrogen oxides emission reduction from ca. 500mg/Nm³ to below 200 mg/Nm³. The company also modernised the electrostatic dust precipitators of Units Nos. 2-7, thus reducing emissions of particles.
GENERATION	ENEA Ciepło Sp. z o.o. Elektrociepłownia Białystok division	<ol style="list-style-type: none"> The risk related to environmental aspects which are elements of activities or products with a significant impact on the environment in the scope of: the abstraction of underground water, the disposal of combustion waste, the generation and discharge of industrial wastewater and storm sewer water, as well as rainwater to surface water and the recharge of rainwater into the soil, the emission of SO₂, NO₂ and particles. The risk of emergency situations having an impact on the natural environment and relating to, among other things, chemicals spill from a storage tank, oil spill from transformers and turbine sets; the fire of power devices, coal and wood dust; the damage of a container with radioactive source; the contamination of water used for social and personal purposes. 	<ol style="list-style-type: none"> On the basis of the adopted key characteristics and specified operational criteria, the company carries out permanent monitoring of identified significant environmental aspects. In the area of identified possible emergency situations, ways of responding to such situations, measures preventing failure occurrence and activities aimed at ensuring preparedness to react in the case of failure have been defined. An Emergency Rescue Group exists within the company – a dedicated unit which takes part in operations in the case of an emergency.

5. NON-FINANCIAL RISKS RELATING TO THE BUSINESS ACTIVITY OF ENEA GROUP

Examples of identified non-financial risks and ways of their management in the environmental area

AREA	COMPANY NAME	NON-FINANCIAL RISK	RISK MANAGEMENT
GENERATION	ENEA Ciepło Sp. z o.o.	1. Environmental risks related to air pollutant emissions: NO _x , particles, SO ₂ , CO ₂ , CO, HCl, HF (identified in the procedure PŚ-4.3-01 "Environmental aspects identification").	1. The Company has a system of permanent air pollutant emissions monitoring covering two independent polluters at the premises of Ciepłownia Zachód which ensure permanent control of the level of pollutant emissions. In order to prevent the risk of pollutant emissions to materialise, the company complies with Instruction I-OŚ-15 "Analysis of the risk of monitoring CO ₂ emissions", which identifies and defines the likelihood of risk and the consequences of hazards. The matrix and risk table have been defined in the instruction. Furthermore, the control of subsequent stages of activities, from establishing the quantity of fuel consumed, through supervising the combustion process, the control of data collection and processing, to the calculation of the volume of all pollutant emissions, has an impact on the reduction of individual environmental risks. The company also makes investments which reduce the negative impact on the environment. An example of this type of investment is the change of the way how Ciepłownia "Zachód" is fired, aimed at the conversion of the coal-fired WR-25-014S no 1 boiler into a boiler fired by natural gas. The investment, which is to be carried out in 2019, will significantly reduce particles and gas emissions.
GENERATION	ENEA Wytwarzanie Sp. z o.o. RES Segment	1. The risk of the interruption of the morphological continuity of rivers where hydroelectric power plants or weirs are localised. 2. The risk of impact of windmills on chiropterofauna and avifauna which may result in the increase in mortality of a given population.	1. The company prepared counterfactual analyses concerning the application of the best solutions in a given hydroelectric power plant in order to ensure the continuity of rivers. Moreover, the company cooperates with state units in order to build fish ladders where necessary, e.g. on the Reda river (completed investments) and on the Drawa river (ongoing investment). 2. The company recommends and supervises the monitoring of the impact of its wind farms on the population of chiropterofauna and avifauna. The increase in mortality of any of mentioned populations has not been observed for the time being.

Examples of identified non-financial risks and ways of managing them in the occupational health and safety area

AREA	COMPANY NAME	NON-FINANCIAL RISK	RISK MANAGEMENT
DISTRIBUTION	ENEA Operator Sp. z o.o.	1. The risk related to accidents at work.	1. In order to eradicate potential hazards, the "Our choice - Safe Work" OHS campaign is rolled out in the company. As part of the action, educational meetings take place on the topics of safe work with a chainsaw and methods and rules of emergency evacuation from a height. Moreover, the company takes actions aimed at raising awareness with regard to potential hazards through the dissemination of educational materials, e.g. information posters, voltage detectors, OHS gadgets. An electronic newsletter is published in the company which promotes safety and healthy working conditions. In addition, the company assesses occupational risk in compliance with the approved methodology of the Polish Power Transmission and Distribution Association entitled "Occupational risk in companies distributing electricity"

5. NON-FINANCIAL RISKS RELATING TO THE BUSINESS ACTIVITY OF ENEA GROUP

Examples of identified non-financial risks and ways of managing them in the occupational health and safety area				
AREA	COMPANY NAME	NON-FINANCIAL RISK		RISK MANAGEMENT
GENERATION	ENEA Elektrownia Połaniec S.A.	1. The risk of the Contractors not performing their tasks in compliance with the OHS provisions and rules in force on the premises of Połaniec Power Plant. 2. The risk of having only theoretical knowledge on extinguishing fires and using fire extinguishers.	1. In order to familiarise the Employees of individual Contractors with the internal OHS requirements, the document "Basic requirements for Contractors performing works for the Połaniec Power Plant, rules of appointing coordinators, their duties and rights as well as duties of Połaniec Power Plant Employees when ordering works to Contractors" was prepared. The document explains, among others, that before undertaking any tasks on the premises of Połaniec Power Plant, all persons are obliged to: <ul style="list-style-type: none"> - complete the introductory OHS training organised by the representatives of Połaniec Power Plant and take an exam testing their knowledge acquired during the training; - read the OHS and fire protection provisions and rules in force on the premises of Połaniec Power Plant. 2. In order to acquire new and necessary skills related to life saving or extinguishing fires and evacuation, the number of practical exercises was increased. The periodic training programme involves practise with portable fire extinguishing equipment, including: using water mist extinguisher simulators (propane-powered "Burning bathtub"), putting out raw material with dry powder and CO ₂ extinguishers: biomass, woodchip; using indoor hydrants. Moreover, first aid courses with a mannequin and AED was introduced. Also, courses involving the use of Połaniec Power Plant's safety equipment were organised.	
GENERATION	ENEA Ciepło Serwis Sp. z o.o.	1. The risk resulting from the works related to the removal of asbestos-cement insulation from the heating network. Risk of occupational diseases.	1. In the company, there are periodic trainings linked with OHS and fire protection organised for manual workers and their supervisors, who are or may be exposed to dust arising from asbestos due to their tasks. There are also measurements of harmful, noxious and dangerous factors linked with such positions as: welder, woodchip supply coordinator, biomass equipment supervisor, biomass specialist, heavy machinery operator, driver, Employee appointed to remove the asbestos-cement insulation, heating devices and installations fitter.	
GENERATION	ENEA Ciepło Sp. z o.o.	1. Risks connected with performing duties with some of the machines and devices constituting the machinery park and were purchased before 1 January 2003 and the risks related to work at height. Risk of occupational diseases.	1. In order to prevent the identified risks from occurring, a supervision process concerning work environment as well as instructions on safe work at a particular position were implemented in the company. Additionally, there are actions being taken in the company to adjust the company's existing machines to the minimum OHS requirements regarding the Employee's operations with the machines when performing tasks.	
MINING	Lubelski Węgiel "Bogdanka" S.A.	1. The risk of a fatal, severe or collective accident at work, failure to ensure the appropriate safety conditions at work and failure to fulfil the requirements set out by the Work Security Management System (PN-EN 18001 and OHSAS 18001 Standards).	1. In order to prevent the occurrence of significant OHS risks, the Employee training process is being constantly refined. Their knowledge and compliance with the safety regulations are controlled. The company is implementing the initiatives described in the programme of work safety improvement – in 2019, a VR training platform is to be created and implemented.	
SUPPORT	ENEA Centrum Sp. z o.o.	1. Risk of a traffic accident and fire-related risks.	1. The basis for occupational risk identification and assessment in the company is the risk assessment sheet assigned to a particular position. Due to the identified risks, the company carries out actions in the form of evacuation drills, safe driving trainings, first aid courses for the company's Employees and regular controls of workplace and working spaces.	

5. NON-FINANCIAL RISKS RELATING TO THE BUSINESS ACTIVITY OF ENEA GROUP

Examples of identified non-financial risks and ways of managing them in the labour area				
AREA	COMPANY NAME		NON-FINANCIAL RISK	RISK MANAGEMENT
GENERATION	ENEA Elektrownia Połaniec S.A.	1.	The risk of a failure to ensure the optimal competency level in order to maintain the appropriate implementation level of the company's tasks in the years 2018–2022 (during the generation shift).	1. The most common methods of risk management involve: identification of personnel needs in the company, analysis of the Employees' pension rights, constant monitoring of the Employee turnover, planning and effective implementation of recruitment processes, trainings (including on-the-spot trainings), creating multiannual employment plans.
DISTRIBUTION	ENEA Operator Sp. z o.o.	1.	The risk resulting from the difficulty to obtain competent Employees, which is the consequence of the low interest in the profession of electrical technician (risk of generation gap).	1. The company manages risk by launching cooperation with vocational schools within the framework of the project concerning schools under ENEA Group's patronage and attempts to adjust the curriculum in those schools to its needs. At the same time, the company actively participates in job fairs and takes actions to promote itself as a potential employer. For this purpose, it organises internships and work placements as part of the "Install yourself at ENEA" programme. In 2018, the company concluded nine contracts with vocational schools in its area of activity. The scope of the contracts includes subsidy for teaching laboratories, help with organising trips, competitions, scholarships for the most talented students, help with gaining specialist professional skills. Moreover, the company participates in the Dual Education project, which enables students to gain professional experience, professional knowledge and practical skills under the supervision of specialists from the Group. ENEA Operator Sp. z o.o. also signed a trilateral contract with the University of Zielona Góra and the Vocational and Continuing Training Centre "Elektryk" in Nowa Sól, which provides for the creation of a pilot class under its own patronage in order to promote the electrical technician profile classes among students and recruit the graduates as Employees in the future.
SUPPORT	ENEA Serwis Sp. z o.o.	1.	Generation gap risk.	1. Actions with regard to the generation gap in 2018 involve: entering into eight agreements with endorsed schools in Szczecin, Poznań, Gorzów Wielkopolski, Bydgoszcz, Leszno, Nowa Sól, Sulęcín and Gniezno, as well as the contract for student placement within the framework of the (practical) dual studies.

Examples of identified non-financial risks and ways of managing them in the social area				
AREA	COMPANY NAME		NON-FINANCIAL RISK	RISK MANAGEMENT
MINING	Lubelski Węgiel "Bogdanka" S.A.	1.	The risk of abandoning communication and dialogue with the representatives of the local community and the risk of the occurrence of social unrest expressed through protests and strikes against the potential need to implement the company's further actions to adjust the level of its activity to a difficult market situation.	1. The main methods of preventing the materialisation of the risk are: cooperation of the unit responsible for CSR coordination in the company with all divisions and subsidiaries and annual publication of non-financial reports, entering into contracts/agreements with partners from the areas of science, NGOs and business, a series of dialogue sessions with Stakeholders, regular meetings with Trade Unions and the Social Committee.
MINING	Lubelski Węgiel "Bogdanka" S.A.	1.	The risk of improper implementation of the Corporate Social Responsibility Strategy, failure to reach the expected social goals and lack of interest in the CSR initiatives of the company.	1. The Board's adoption of the Corporate Social Responsibility Strategy for 2018-2021 compiled by an interdisciplinary team consisting of representatives of the units responsible for particular strategic areas, agreed on based on reports from dialogue sessions with the Stakeholders, previously implemented based on the AA1000 standard using the LWB Stakeholder matrix.

5. NON-FINANCIAL RISKS RELATING TO THE BUSINESS ACTIVITY OF ENEA GROUP

Examples of identified non-financial risks and ways of managing them in the social area			
AREA	COMPANY NAME	NON-FINANCIAL RISK	RISK MANAGEMENT
DISTRIBUTION	ENEA Operator Sp. z o.o.	1. The risk of protests by various social groups connected with the implementation of investment projects (in particular linear investment) of ENEA Operator Sp. z o.o. – the NIMBY (“not in my backyard”) effect. Establishing protest committees, groups of people, self-declared “representatives” and other entities sabotaging the construction processes.	1. The document “Standards of developing and implementing communication and PR strategies for the key network investments of ENEA Operator” was adopted, which sets out internal communication standards both between organisational units of ENEA Operator and between the investor and Contractors. The document also sets out external communication standards, meaning integration of external Stakeholders, including local communities and governments, into the communication process.
TRADING	ENEA S.A.	1. The risk of undermining the relations with the company’s key Stakeholders, including Customers, as a result of improper communication and dialogue.	1. In order to prevent the materialisation of the risk, the company: <ul style="list-style-type: none"> - develops multichannel communication with the external environment, - implements the Corporate Social Responsibility Strategy and the “good neighbour” policy by pursuing original social projects and getting involved in social projects and programmes implemented by the Utilities, - constantly monitors situations and events that might entail social unrest, - conducts regular Customer satisfaction surveys.

Examples of identified non-financial risks and ways of managing them in the human rights area			
AREA	COMPANY NAME	NON-FINANCIAL RISK	RISK MANAGEMENT
TRADING	ENEA S.A.	1. The risk of the occurrence of mobbing, discrimination or other unacceptable behaviours.	1. The company prevents the materialisation of the risk through appropriate education of the Employees and keeping them informed, organises trainings for managers and other Employees and publishes article series devoted to the issues of mobbing, discrimination and other unacceptable behaviours. The company has implemented the “Policy against mobbing and discrimination, as well as other unacceptable behaviours in ENEA S.A.”. Further plans include a satisfaction level survey containing questions concerning unacceptable behaviours.



5. NON-FINANCIAL RISKS RELATING TO THE BUSINESS ACTIVITY OF ENEA GROUP

Examples of identified non-financial risks and ways of managing them in the customer area			
AREA	COMPANY NAME	NON-FINANCIAL RISK	RISK MANAGEMENT
TRADING	ENEA S.A., ENEA Centrum Sp. z o.o.	<ol style="list-style-type: none"> 1. Cyber risks, which include: the risk of unavailability of billing systems, the risk of an attack on IT infrastructure, the risk of loss of continuity of ICT environments and infrastructure, the risk of no connection with the Internet. 2. The risk of infringement of provisions of law and internal regulations pertaining to personal data protection. 3. The risk related to violation of the provisions on competition and consumer protection. 	<ol style="list-style-type: none"> 1. The risks are mitigated by the IT services in ENEA Centrum. Further upgrade of the ICT security system as well as its adjustment to new laws, in particular the requirements set out by the Act on the national cybersecurity system, are planned for 2019. One of the crucial areas of this upgrade is the development of the processes of responding to ICT security incidents, as it is a highly significant element of ensuring continuity of the services provided to our Customers. 2. ENEA Group acts according to the current legislation concerning the protection of natural persons with regard to the processing of personal data¹⁾. In order to prevent the occurrence of the indicated risk in the Group's companies, a Data Protection Officer was appointed, whose duties involve monitoring compliance with the personal data protection provisions. The Data Protection Officer is also the contact point for all cases related to data protection, also for Customers and counterparties. The following were implemented as part of personal data protection documentation in ENEA Group: Personal Data Protection Policy in ENEA Group, ICT Security Rules in ENEA Group, Principles of Processing Personal Data in ENEA Group, Personal Data Processing Risk Management Methodology in ENEA Group. 3. The main actions for minimising the risk are: analysis of Customers' complaints and reports, followed by modification of processes and Employee training in order to eliminate the consumer rights violations, standardisation of Customer contract templates and responses to recurring customers' reports, cooperation with the Association of Energy Trading concerning raising the Customers' awareness with the campaign "This is no joke – choose wisely. Check who offers you electricity and gas", whose purpose is to warn against dishonest sellers.

¹⁾ Since 25 May 2018, all Member States of the European Union are bound by the Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC – also known as the General Data Protection Regulation (GDPR).



6. ENVIRONMENTAL ISSUES – DESCRIPTION OF DUE DILIGENCE POLICIES AND PROCEDURES AS WELL AS THEIR RESULTS

ENEA Group is aware of its operations' environmental impact and makes every effort to minimise any possible negative effects of its activity. The approach to using natural resources is regulated by the Code of Ethics of ENEA Group, which sets out the “**Rules of conduct of ENEA Group**”, which point to the concern for the natural environment. In line with this, ENEA Group:

- cares for the natural environment and takes all actions necessary to protect it, regardless of the place and type of performed operations,
- uses the natural resources and energy in a reasonable way,
- strives for ensuring proper natural environment protection, observing the provisions of the generally applicable law, as well as the internal regulations,
- joins actions and actively participates in educational campaigns for environmental protection and development of environmental awareness,
- takes actions to prevent any breakdowns dangerous for the natural environment.

Compliance Policy of ENEA Group is a significant document on environmental protection. The content of the document indicates attention to sustainable development and the natural environment, which is, *inter alia*, reflected by:

- actions to minimise pollution emissions and to ensure reasonable natural resources management,
- initiatives for retaining the balance between the Group's operations and the natural environment,
- carrying out investments using eco-friendly technologies,
- supporting RES,
- cooperation with environmental organisations.

In 2018, ENEA Group companies recorded no significant non-financial fines or sanctions for non-compliance with laws or regulations pertaining to environmental protection.

ENEA Group's priority is to generate and deliver electricity in a reliable, safe and eco-friendly way by using the best available solutions and technologies minimising the Group's operations' negative impact on the environment. For ENEA Group, it is also important to retain the animate and inanimate nature near the companies in an unchanged or optimal condition. For this purpose, the Group's companies carry out operations allowing to maintain the biodiversity, as well as stability of ecosystems and ecological processes.

Due to the need to introduce separate principles of exploitation of the natural environment in particular sectors, the Group's companies implement the basic processes in accordance with the adopted policies, instructions and rules which oblige them to minimise the negative environmental impact through **limiting the air pollutant emissions** and safe waste management, including its appropriate segregation, recycling or utilisation in line with the provisions on environmental protection. Furthermore, the Group's companies apply procedures indicating the methodology of monitoring and measuring the environmental impact related to the identified environmental aspects, as well as the rules of analysis and documentation of results and effects of environmental activities.

ENEA Group's area of particular interest is **water and sewage management**. Due to the fact that the Group's operations entail consumption of significant amounts of water, the companies observe the internal instructions regulating the above mentioned area.

Waste management is also very important. The companies apply procedures whose purpose is to identify the waste generated in the process of business activity and to determine the method of handling the waste generated. The above principles often bind also the external entities performing work on the premises of and for the companies.

6. ENVIRONMENTAL ISSUES – DESCRIPTION OF DUE DILIGENCE POLICIES AND PROCEDURES AS WELL AS THEIR RESULTS

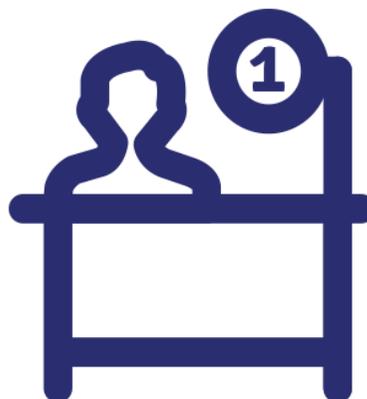
The major due diligence policies, standards and procedures implemented in the area of environmental management in ENEA Group companies include:

Policies, procedures, instructions and other documents dealing with environmental issues implemented in ENEA Group companies	
ENEAS.A.	– Environmental policy
ENEAWytwarzanie Sp. z o.o.	<ul style="list-style-type: none"> – Integrated System of Quality, Environment and OHS Management Policy based on the requirements of the standards: PN-EN ISO 9001:2015, PN-EN ISO 14001:2015, PN-N-18001:2004 /OHSAS 18001:2007. – Book of the Integrated System of Quality, Environment and OHS Management – Procedure “Supervision of legal and other requirements”, – Procedure "Identification and evaluation of environmental aspects", – Procedure "Environmental monitoring", – 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", – 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 (Elektrownia Kozenice), – Procedure “Emergency preparedness and response at Koronowo”, – Procedure “Goals management”, – Procedure "Management overview, analysis and improvement", – Other detailed procedures and conduct instructions setting out the principles of performing operations that impact the environment, monitoring, performing measurements and metrological supervision of measuring devices used to monitor the effects of environmental activity.
ENEACiepło Sp. z o.o.	– Integrated policy on quality, environment and occupational safety and health,
ENEACiepło Serwis Sp. z o.o.	<ul style="list-style-type: none"> – Book of integrated management system, – Procedure PŚ-4.3-01 “Environmental aspects identification”, – Procedure PŚ-4.4-01 “Responding to hazardous situations and emergencies”, – Procedure PŚ-4.4-02 “Waste management”, – Procedure PŚ-4.5-01 “System of monitoring and measurement of parameters affecting the environment”, – 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”, – Internal instructions on monitoring and reporting CO₂ emissions: <ul style="list-style-type: none"> > Instruction I-OŚ-01 “Records and documentation management”, > Instruction I-OŚ-02 “Definition of changes impacting the allocation of emission allowances for installations”, > Instruction I-OŚ-03 “Calculation of CO₂ emissions”, > Instruction I-OŚ-04 “Quality of the information system used for data flow-related operations”, > Instruction I-OŚ-05 “Estimation of fuel consumption during a belt weigher breakdown”, > Instruction I-OŚ-06 “Outsourced processes control”, > Instruction I-OŚ-07 “Identification of the installed data-determining devices”, > Instruction I-OŚ-08 “Staff management for the purposes of the ETS”, > Instruction I-OŚ-09 “Evaluation of the monitoring plan’s appropriateness”, > Instruction I-OŚ-10 “Management of data flow-related operations”, > Instruction I-OŚ-11 “Implementing corrections and rectifying measures”, > Instruction I-OŚ-12 “Supervision of measuring equipment intended for monitoring CO₂emissions”, > Instruction I-OŚ-13 “Internal reviews and validation of data”, > Instruction I-OŚ-14 “Uncertainty assessment”, > Instruction I-OŚ-15 “Analysis of the risk of monitoring CO₂ emissions”.

6. ENVIRONMENTAL ISSUES – DESCRIPTION OF DUE DILIGENCE POLICIES AND PROCEDURES AS WELL AS THEIR RESULTS

Policies, procedures, instructions and other documents dealing with environmental issues implemented in ENEA Group companies	
ENEA Ciepło Sp. z o.o. Oddział Elektrociepłownia Białystok	<ul style="list-style-type: none"> – Integrated System of Quality, Environment and OHS Management Policy, – Book of the Integrated System of Quality, Environment and OHS Management, – Procedure “Goals management”, – Procedure "Identification and evaluation of environmental aspects", – Procedure "Environmental monitoring", – Procedure "Identification of threats and determining how to respond to environmental emergencies at Białystok Heat and Power Plant", – Procedure "Prevention and reduction of the impact of emergency situations on the environment at Białystok Heat and Power Plant", – Procedure “Conduct in the case of environmental breakdowns of Białystok Heat and Power Plant”.
Miejska Energetyka Ciepła Piła Sp. z o.o.	<ul style="list-style-type: none"> – Instruction “Waste management”, – Procedures referred to in the monitoring plan of CO₂ emissions.
Przedsiębiorstwo Energetyki Ciepłej Sp. z o.o.	<ul style="list-style-type: none"> – Environmental policy.
ENEA Operator Sp. z o.o.	<ul style="list-style-type: none"> – Programme “Zakładowy Bank Zanieczyszczeń Środowiska 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 6 kg and for operations performed on them.
ENEA Oświetlenie Sp. z o.o.	<ul style="list-style-type: none"> – Waste management at ENEA Oświetlenie Sp. z o.o.
ENEA Elektrownia Połaniec S.A. ENEA Bioenergia Sp. z o.o.	<ul style="list-style-type: none"> – Procedure for identification and evaluation of environmental aspects, – Environmental monitoring procedure, – Environmental management programme.
Lubelski Węgiel "Bogdanka" S.A. ¹⁾	<ul style="list-style-type: none"> – Policy of the integrated system of quality, environment and OHS management with related environmental procedures.

¹⁾ Environmental issues related to the area of Mining – Lubelski Węgiel „Bogdanka” S.A. was also described on Page 114 of “Report of the Management Board on the operations of ENEA S.A. and ENEA Group in 2018”.



6. ENVIRONMENTAL ISSUES – DESCRIPTION OF DUE DILIGENCE POLICIES AND PROCEDURES AS WELL AS THEIR RESULTS

One of the main priorities of ENEA Group related to the environmental area is conscious and rational management of the existing resources and operating in a safe, environmentally friendly way and in line with all legal requirements. Significant actions undertaken by the Group's companies in the environmental area involve the initiatives contributing to electricity savings and elimination of environmentally hazardous materials from its operations. Spreading environmental awareness and increasing the Employees' knowledge of rational exploitation of the environment are inseparable elements of this activity.

In 2018, ENEA Group held numerous operations contributing to the reduction of negative impact on the environment. Activities in this area involve large-scale investments and minor changes in the methods of using the environment in daily work.

In 2018, **ENEA Wytwarzanie Sp. z o.o.** made a number of investments, with a positive impact on the natural environment due to lowering the emission level of nitrogen oxides and particles.¹⁾ The most important include:

- development of the catalytic flue gas denitrification installation (SCR) for boilers AP-1650 of the 500 MW Units No. 9 and No. 10,
- development of additional trip valves on the heavy fuel oil installation,
- modernisation of flue gas desulphurisation (FGD) installations Nos. I, II and IV,
- modernisation of electrostatic precipitators for 200 MW Units Nos. 1-8,
- Installation of continuous measurement system on the emitters, resulting from the BAT conclusions,
- construction of installation for heavy metals reduction in the FGD wastewater,
- turbine set upgrade in the Units No. 9 and No. 10 in order to decrease the unit consumption of heat.

Actions aimed to exploit **alternative energy sources** were also implemented within the Group. Thus, the Group completed the investment in a photovoltaic power plant in Poznań with the maximum capacity of 19.2 kW in 2018. The installation consists of 64 photovoltaic panels. The generated electricity is synchronised with the energy network. It is a pro-environmental renewable energy source.

In 2018, **ENEA Elektrownia Połaniec S.A.** completed the modernisation of the FGD sewage treatment plant and development of Unit No. 4 of the SCR catalytic converter, which resulted in the nitrogen oxides emission reduction from approx. 500mg/Nm³ to below 200 mg/Nm³. The company also modernised the electrostatic dust precipitators of Units Nos. 2-7, thus reducing emissions of particles.

In 2018, the Group completed the **modernisation of the lighting infrastructure** in some of the cities and communes. The actions involved substituting the old, overexploited fittings with new, energy-efficient fittings with better performance. The solution contributed to the reduction of electricity consumption and costs, at the same time increasing the citizens' security.

ENEA Centrum Sp. z o.o. made investments for **ENEA Wytwarzanie Sp. z o.o.** related to the **modernisation and monitoring of the installations** connected with launching Unit No. 11 and increasing the monitoring efficiency of other installations. The undertaken operations included:

- development of the STARLIMS system in the Department of Chemical Laboratories in ENEA Wytwarzanie Sp. z o.o.,
- connecting the MIKROS system in Unit No. 11 with the existing MIKROS system of Units Nos. 1-10,
- modification of the Wisła Programme.

Furthermore, the following measures were introduced: monitoring of the unloading installation for cars with limestone powder and hydrated lime, monitoring of the gypsum loading area, monitoring of storage reservoirs, monitoring of the slag and ash storing site with the possibility of accessing the archive records. The investments made it possible to increase the security level and the level of monitoring efficiency in relation to the quality and quantity of the supplied raw material and pollution emissions.

Also, actions were undertaken to decrease the environmental impact in daily work. Template clearing documents were modified in the **Customer Service Centres**, which led to the reduction of the amount of paper and generated savings in terms of the paper needed to print out invoices. Also, the project "Printing and mailing cost optimisation" was implemented, which contributed to the minimisation of the printed documents' volume. To achieve this, the entities in the region of Zielona Góra stopped sending payment sheets by mail. Moreover, solutions are implemented across the whole Group that allow sending electronic invoices and responding to complaints in the electronic form.

¹⁾A detailed list of changes in emissions is presented on Pages 111-112 of "Report of the Management Board on the operations of ENEA S.A. and ENEA Group in 2018."

6. ENVIRONMENTAL ISSUES – DESCRIPTION OF DUE DILIGENCE POLICIES AND PROCEDURES AS WELL AS THEIR RESULTS

Total electricity consumption in ENEA Group [MWh] ^{1) 2)}	2018
Total electricity consumption by ENEA Group companies	3,288,483.85

¹⁾ 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.

²⁾ Including ENEA Operator Sp. z o.o.: energy consumption for its own needs 39,173 MWh (total energy consumption 1,271,048 MWh – network losses 1,231,875 MWh).

The Group's main priority relating to energy efficiency are measures implemented for the purpose of reducing electricity losses generated in the process of its distribution. ENEA Operator Sp. z o.o. fulfils the assumptions of the adopted "Strategy of Distribution Area of the Capital Group – initiative: Implementation of comprehensive actions contributing to the reduction of balance difference" and implements the "Balance difference reduction programme at ENEA Operator Sp. z o.o.". As a result of these actions, the level of the company's electricity consumption in 2018 was lower than in 2017. This has also been influenced by the new investment expenditures, as well as an upgrade of networks, connection of new electricity sources and exploitation and operation activities.

Total water uptake in ENEA Group [m ³] ³⁾	2018
Total water consumption by ENEA Group companies:	2,912,857,178.93
water uptake from water intake / municipal water supply system	241,504.43
surface water uptake ⁴⁾	2,896,571,028.00
deep water uptake	841,364.00
drainage water uptake	12,565,217.00
water uptake from another source	2,638,065.50

³⁾ The total water consumption does not include data for administrative buildings/office buildings used by the companies which make lump-sum payments for water under a contract with administrators of such buildings and for which there is no detailed data on water consumption in such buildings.

⁴⁾ For generation, Elektrownia Kozienice uses mostly water from the river Vistula. It should be emphasised that the reversible uptake of water for cooling purposes constitutes as much as 99.68% of Elektrownia's total water uptake.

Total weight of the waste generated in ENEA Group:[Mg] ⁵⁾	2018
Total weight of the waste generated in ENEA Group:	8,318,352.47
hazardous waste	823.69
non-hazardous waste ⁶⁾	8,317,528.78

⁵⁾ Waste value does not take into account the administrative buildings which pay rent for all utilities in a lump sum.

⁶⁾ The increase in the amount of non-hazardous waste is linked with the increase in the amount of the extractive waste, code 010412, generated by LW "Bogdanka" S.A. Amount of mining waste in 2018 stood at 6,646,153.20 Mg. This increase occurred *inter alia* due to geological and mining conditions, intensified preparatory work, including reconstruction of the galleries.

6. ENVIRONMENTAL ISSUES – DESCRIPTION OF DUE DILIGENCE POLICIES AND PROCEDURES AS WELL AS THEIR RESULTS

In the years 2016-2018, CO₂ emission per 1 MWh of generated energy in ENEA Group was reduced by over 7%. Detailed information on the CO₂ emission ratio [kg/MWh] is presented in the “Environment” section on Pages 111-112 of “Report of the Management Board on the operations of ENEA S.A. and ENEA Group in 2018”.

CO ₂ emissions level in the companies of the Generation Segment [Mg]	2017	2018
ENEA Wytwarzanie Sp. z o.o.	12,663,362.31	14,077,048.27 ¹⁾
ENEA Ciepło Sp. z o.o.	17,973	301,107 ²⁾
Przedsiębiorstwo Energetyki Ciepłej Sp. z o.o.	15,190.22	14,576.44
Miejska Energetyka Ciepła Piła Sp. z o.o.	84,345	83,932
ENEA Elektrownia Połaniec S.A.	7,029,514	8,219,329

¹⁾Total CO₂ emissions for Units Nos. 1-10, Unit No. 11 and the start boiler plant and ENEA Wytwarzanie – RES Segment.

²⁾Including ENEA Ciepło Sp. z o.o. Oddział Elektrociepłownia Białystok 280,147 Mg. In 2018, ENEA Ciepło Sp. z o.o. merged with Elektrociepłownia Białystok.

Energy production from RES in ENEA Group [GWh]	2017	2018
Total production from renewable energy sources, including:	1,826	2,025
ENEA Wytwarzanie – Heat Segment Elektrociepłownia Białystok – Biomass burning ³⁾	69	149
ENEA Wytwarzanie – RES Segment – hydroelectric power plants	173	159
ENEA Wytwarzanie – RES Segment – wind power plants	190	130
ENEA Wytwarzanie – RES Segment – biogas plants	10	6
ENEA Ciepło – biomass burning ⁴⁾	-	23
ENEA Elektrownia Połaniec – Biomass co-combustion ⁵⁾	339	180
ENEA Elektrownia Połaniec – Biomass combustion ⁵⁾	1,045	1,378

Due to the separation of Elektrociepłownia Białystok from ENEA Wytwarzanie on 30 November 2018, a change in the data presentation occurred:

³⁾ In 2018, data covering 11 months.

⁴⁾ In 2018, data from December 2018.

⁵⁾ Data for ENEA Elektrownia Połaniec for the year 2017 presented for the period from 14 March 2017 after the inclusion of ENEA Elektrownia Połaniec in ENEA Group.

7. LABOUR ISSUES – DESCRIPTION OF DUE DILIGENCE POLICIES AND PROCEDURES AS WELL AS THEIR RESULTS

7.1. EMPLOYMENT, INCENTIVE, TRAINING ¹⁾

One of the rules of conduct in ENEA Group is creating a friendly place to work. It means that ENEA Group implements solutions fostering atmosphere that facilitates cooperation in general. The above is reflected by the **attention to education, development of the Employees' competencies and raising their professional skills**. At the same time, the Group applies the principles of equal treatment and the objective criteria of employee assessment reflected by the **terms and conditions of employment, promotion, remuneration and career paths**. The key condition of applying the adopted principle and implementation of the adopted assumptions is compliance with labour provisions. Therefore, ENEA Group companies apply the rules set out by:

- **ENEA Group's Code of Ethics** – a document determining the main principles and regulations regarding ethics and values of ENEA Group. The Rules of the Code define the possible ways of reporting doubts concerning ethics, violations and irregularities,
- **Rules of the Ethics Commission of ENEA Group** – a document regulating the rules of the Ethics Commission's functioning and the procedure of reporting, accepting and verification of reports on doubts concerning ethics or violations of the Code of Ethics,
- **Compliance Policy of ENEA Group** – the primary document regulating Compliance issues in ENEA Group, which describes in particular the standards concerning compliance with the law, Employees' proper conduct and key standards of ethics, which take into account the interest of ENEA Group and constitute a significant element of the corporate culture. The Policy also defines the possible ways of reporting the identified violations and irregularities,
- **Implementation of human capital development operations procedure in ENEA Group** – a document consolidating and determining the forms of conduct relating to improvement of the Employees' qualification,
- **Estimate Budget of Common Social Activity in 2018** in ENEA Group – a document regulating the issues of subsidies for the Employees' social benefits in 2018.

Apart from the guidelines introduced at the Group level, due to the highly diverse character and scope of activity of individual companies and in order to regulate the cooperation principles with the Employees, as well as develop clear rule-based relations, these individual companies apply also certain procedures and policies. Within ENEA Group there are *inter alia* documents setting out the Employee recruitment procedures, rules of bonuses, instructions concerning timesheets, instructions concerning employee assessment, rules of recording and settling business trips, rules of parting with the Employees and rules of the Employees' adaptation. The aim of the documents adopted in the area of labour issues management is to ensure compliance of the internal regulations with the provisions of the Labour Code, provisions of corporate governance and other provisions relating to labour rights and obligations. The most important include:

Policies, procedures, instructions and other documents dealing with labour issues implemented in ENEA Group companies

HR-related derived acts in ENEA Group	<ul style="list-style-type: none"> – Code of Conduct of ENEA Group, – ENEA Group Management Committee's procedure regarding personnel policy in connection with appointing members of the companies' Management Boards and Supervisory Boards, – Implementation of human capital development operations procedure in ENEA Group, – Adaptation rules in ENEA Group.
---------------------------------------	--

¹⁾ More information on the implementation of the HR Policy in ENEA Group in 2018 can be found on Page 58 of "Report of the Management Board on the operations of ENEA S.A. and ENEA Group in 2018".

7. LABOUR ISSUES – DESCRIPTION OF DUE DILIGENCE POLICIES AND PROCEDURES AS WELL AS THEIR RESULTS

7.1. EMPLOYMENT, INCENTIVE, TRAINING

Policies, procedures, instructions and other documents dealing with labour issues implemented in ENEA Group companies	
ENE A S.A.	<ul style="list-style-type: none"> – Intercompany Collective Bargaining Agreement for the Employees of the Energy Industry, – Internal Collective Bargaining Agreement for the Employees of ENEA S.A. and its Subsidiaries – ENEA S.A. Rules of Work – Rules of the Social Labour Inspectors appointment in ENEA S.A. CG, – OHS training programmes for ENEA S.A., – Policy against mobbing and discrimination, as well as other unacceptable behaviours in ENEA S.A., – Rules of Bonuses for the Employees of ENEA S.A., – Rules of Bonuses for the Employees of ENEA S.A. based on the Management-Through-Goals System, – ENEA S.A. Competency Model, – Recruitment Procedure in ENEA S.A. – Rules of applying for and awarding decorations in ENEA Group, – Rules of the “Meritorious for ENEA Group” Badge.
ENE A Operator Sp. z o.o.	<ul style="list-style-type: none"> – Intercompany Collective Bargaining Agreement for the Employees of the Energy Industry, – Internal Collective Bargaining Agreement for the Employees of ENEA S.A. and its Subsidiaries listed in the Appendix no. 10 to the Agreement, – Rules of Work in ENEA Operator Sp. z o.o., – Policy against mobbing and discrimination, as well as other unacceptable behaviours in ENEA Operator Sp. z o.o., – Recruitment Procedure – Rules of Functioning of the Management-Through-Goals System in ENEA Operator Sp. z o.o., – Rules of organising business trips in ENEA Operator Sp. z o.o., – Periodic OHS training procedure in ENEA Operator Sp. z o.o., – Procedure of live working training in ENEA Operator Sp. z o.o.
Lubelski Węgiel „Bogdanka” S.A.	<ul style="list-style-type: none"> – Rules of Work, – Internal Collective Bargaining Agreement, – Rules of the Company Social Benefits Fund, – Code of Conduct, – Information Security Policy, – Personal Data Protection Policy.
ENE A Centrum Sp. z o.o.	<ul style="list-style-type: none"> – Intercompany Collective Bargaining Agreement for the Employees of the Energy Industry, – Internal Collective Bargaining Agreement for the Employees of ENEA S.A. and its Subsidiaries listed in the Appendix no. 10 to the Agreement, – Rules of Work in ENEA Centrum Sp. z o.o., – Policy against mobbing and discrimination, as well as other unacceptable behaviours in ENEA Centrum Sp. z o.o., – Rules of Bonuses for the Employees of ENEA Centrum Sp. z o.o. based on the Management-Through-Goals System. – Rules of parting with the Employees in ENEA Centrum Sp. z o.o.

7. LABOUR ISSUES – DESCRIPTION OF DUE DILIGENCE POLICIES AND PROCEDURES AS WELL AS THEIR RESULTS

7.1. EMPLOYMENT, INCENTIVE, TRAINING

Policies, procedures, instructions and other documents dealing with labour issues implemented in ENEA Group companies	
ENEA Elektrownia Połaniec S.A.	<ul style="list-style-type: none"> – Rules of Work, – Internal Collective Bargaining Agreement for the Employees of ENEA Elektrownia Połaniec S.A., – Rules of Managerial Staff Remuneration – Health Protection Programme, – Hazard Identification and Occupational Risk Assessment Procedure – Policy against mobbing and discrimination, as well as other unacceptable behaviours in ENEA Elektrownia Połaniec S.A., – Agreement with Trade Unions of 30 December 1999 concerning the principles of cooperation, – Agreement on the contribution to meeting the costs related to trade union activities entered into with the Companies demerged in the restructuring process, – Agreement on the contribution to meeting the costs related to running the Employee Savings and Loan Associations concluded with the Companies demerged in the restructuring process, – Rules of the Company Social Benefits Fund, – Instructions on staff evaluation, – Instructions on personnel administration, – Instructions on medical examinations, – Instructions on records of working time,
ENEA Wytwarzanie Sp. z o.o.	<ul style="list-style-type: none"> – Intercompany Collective Bargaining Agreement for the Employees of the Energy Industry, – Company Collective Bargaining Agreement for the Employees of ENEA Wytwarzanie Sp. z o.o., Social Agreement for the Employees of ENEA Wytwarzanie Sp. z o.o., – Rules of Work for the Employees of ENEA Wytwarzanie Sp. z o.o., – Rules of the Company Social Benefits Fund, – Policy against mobbing and discrimination, as well as other unacceptable behaviours in ENEA Wytwarzanie Sp. z o.o., – ENEA Wytwarzanie Sp. z o.o. Personnel Management Procedure, – Rules of Bonuses for the Employees of ENEA Wytwarzanie Sp. z o.o., – Rules of Annual Bonus for the Employees of ENEA Wytwarzanie Sp. z o.o., – Recruitment Procedure.

Investing in the **development of the Employees** constitutes an integrated part of building favourable working conditions. With this in mind, ENEA Group organises during the year **a number of training courses and initiatives** which, on the one hand, enhance the competence of Employees and, on the other hand, help to maintain the competitiveness of the industry. Therefore, managers of organisational units prepare in consultation with their Employees a summary of the need for competence development training to be carried out throughout the year.

7. LABOUR ISSUES – DESCRIPTION OF DUE DILIGENCE POLICIES AND PROCEDURES AS WELL AS THEIR RESULTS

7.1. EMPLOYMENT, INCENTIVE, TRAINING

ENEA Group also applies financial and non-financial methods of Employee motivation. **The most common additional benefits in ENEA Group include:**

- the right to an annual bonus,
- long-service bonus,
- prize and a day off on Power Engineer’s Day, jubilee award,
- subsidy on costs of electricity consumed in the household after one year's work experience,
- co-financing of self-arranged holidays, holidays for children and youth, nurseries and kindergartens (depending on income),
- the right to medical care, group insurance,
- the right to co-financing of MultiSport Card or a subsidy on sports activity,
- subsidy on cultural activities (co-financing of cinema, theatre and museum tickets),
- more favourable retirement and pension severance payments than those resulting from the Labour Code,
- the right to an Occupational Pension Scheme after one year's work experience,
- the right to a loan and the right to allowance for Employees in a difficult financial and health situation,
- co-financing of corrective eye glasses,
- financing or co-financing of prophylactic and therapeutic holidays and treatment in a sanatorium,
- financing of the Employees’ participation in training courses and co-financing of studies.

Employees of ENEA Group can also benefit from **non-financial methods of motivation, including:**

- Idea Box – a programme enabling the implementation of one’s own initiatives and the improvement of one’s own and Co-workers’ performance,
- integration of Employees through participation in employee volunteering,
- the possibility for Employees to get involved for the good of local communities, e.g. by participating in the programme “Potęga poMocy” (The Power of Help),
- contests for Employees and their children,
- flexible working time.

ENEA Group employs 16,531 persons under employment contracts, including 2,950 women and 13,581 men.

Number of persons employed under employment contracts ¹⁾ (as at 31 December 2018)	16,531
women	2,950
men	13,581

¹⁾ The number of persons employed under employment contracts covers all persons employed under employment contracts in the companies of ENEA Group as at 31 December 2018, including Employees temporarily suspended from work, i.e. on parental leave, unpaid leave exceeding 30 days and rehabilitation benefits.

7. LABOUR ISSUES – DESCRIPTION OF DUE DILIGENCE POLICIES AND PROCEDURES AS WELL AS THEIR RESULTS

7.1. EMPLOYMENT, INCENTIVE, TRAINING

Total number of persons employed under employment contracts	16,531
full-time employees – women	2,931
full-time employees – men	13,533
part-time employees – women	19
part-time employees – men	48

Total number of persons employed under employment contracts	16,531
persons employed under employment contracts for an indefinite period of time – women	2,594
persons employed under employment contracts for an indefinite period of time – men	11,801
persons employed under other contracts (including persons serving a probationary period, fixed-term employees, internship and replacement contracts) – women	356
persons employed under other contracts (including persons serving a probationary period, fixed-term employees, internship and replacement contracts) – men	1,780

Total number of persons employed under employment contracts	16,531
top management – women	0
top management – men	1
directors – women	36
directors – men	139
junior managers – women	207
junior managers – men	799
operational Staff – women	291
operational Staff – men	9,765
administrative Staff – women	2,416
administrative Staff – men	2,877

7. LABOUR ISSUES – DESCRIPTION OF DUE DILIGENCE POLICIES AND PROCEDURES AS WELL AS THEIR RESULTS

7.1. EMPLOYMENT, INCENTIVE, TRAINING

Total number of new Employees employed under employment contracts in 2018 ¹⁾	2,121
women	438
men	1,683
Employees aged under 30	1,022
Employees aged 30-50	884
Employees aged over 50	215

¹⁾ The number of new Employees employed during the year refers to Employees newly hired in the companies of ENEA Group, both through external and internal recruitment.

Total number of employees employed under employment contracts who left in 2018 ²⁾	1,720
women	268
men	1,452
Employees aged under 30	499
Employees aged 30-50	693
Employees aged over 50	528

²⁾ The number of Employees who left during the year refers to the termination of employment contracts entered into between the companies of ENEA Group and their Employees.

7. LABOUR ISSUES – DESCRIPTION OF DUE DILIGENCE POLICIES AND PROCEDURES AS WELL AS THEIR RESULTS

7.2. GENERATION GAP MANAGEMENT

As a responsible business partner, ENEA Group has, for years, been pursuing a policy aimed at ensuring the continuity of electricity supply and providing products and services of expected quality. At the same time, the Group is aware of the challenges it faces in terms of both technology and owned resources. Employees are a key element in this area. In order to ensure adequate staff and counteract the generation gap, the Group undertakes the following initiatives:

- cooperation between the companies belonging to the Group and local vocational and technical schools, including schools preparing for work in power industry (endorsed schools programme),
- dual vocational education system as part of the cooperation with universities,
- promotion of ENEA Group as a potential, trustworthy employer at universities and job fairs,
- organisation of the “Install yourself at ENEA” Work Placement and Traineeship Programme,
- supporting students in the learning process by organising meetings and educational trips.

In 2018, ENEA Operator Sp. z o.o. signed nine patronage agreements with vocational education schools. The scope of the signed agreements provides for the co-financing of teaching laboratories, assistance for organising trips, competitions, scholarships for the most talented students, as well as support for gaining specialist professional qualifications. Learners of these schools participate in obligatory student internships in the company. At the same time, actions are taken in the field of early employment of a new Employee in place of an Employee declaring termination of employment contract in connection with retirement, in order to train him/her on-the-job and obtain the necessary specialist qualifications. Additionally, as part of the “Install yourself at ENEA” project, ENEA Operator Sp. z o.o. accepts students for paid work placements and unpaid or paid internships of the duration from 3 to 12 months and takes part in the Dual Education project which enables students to gain professional experience, professional knowledge and practical skills under the supervision of specialists from ENEA Group.

In 2018, ENEA S.A. established cooperation with Adam Mickiewicz University in Poznań. In the course of the cooperation, it participated in the Development Academy and promoted job offers among students. Moreover, ENEA S.A. organised an educational trip for learners of the technical school in Poznań to the energy training ground in Łagów. ENEA S.A. also carried out activities aimed at shaping the image of a potential employer among students during fair events e.g.:

- Absolvent Talent Days in Poznań,
- Career Days in Poznań,
- Job Fairs in Szczecin,
- Offerty Job Fairs in Bydgoszcz.

In cooperation with the University of Economics in Poznań, ENEA Trading Sp. z o.o. organised the third edition of the "Energy Market Modelling" competition.



7. LABOUR ISSUES – DESCRIPTION OF DUE DILIGENCE POLICIES AND PROCEDURES AS WELL AS THEIR RESULTS

7.3. COMMUNICATION AND FREEDOM OF ASSOCIATION

As part of a transparent information policy, ENEA Group undertakes actions to ensure that its Employees have equal access to reports on activities taken and events taking place in the Group. Supporting dialogue with Stakeholders, including Employees, is an important element of building positive relations within the organisation. In order to ensure an efficient flow of information within the Group, we apply different forms of communication, out of which the most frequent ones include:

- **Corporate Intranet** – where news concerning ENEA Group is published,
- **Employee Zone** – where news, information and documents concerning labour matters of Employees of ENEA Group are published,
- **Newsletter (“ENE News”)** – where news and announcements concerning ENEA Group are published,
- **Mailing** – via e-mails sent to Employees, important messages concerning selected groups or all Employees are sent.
- **Idea Box** – it is an e-mail box to which Employees of ENEA Group send their initiatives, ideas on improvement of procedures and processes as well as performed tasks that may improve work,
- **HR-write-to-us** – it is an e-mail box to which Employees of ENEA Group send questions concerning labour matters published in the Employee Zone on the Intranet.

During the year covered by the reporting, **conducting the Employees’ satisfaction survey** was one of the forms of communication among the **companies of ENEA Group**. The survey covered eleven areas defined as key to Employees’ satisfaction. The following areas were subject to the same survey:

- **My workplace** – a survey indicating the level of Employees’ satisfaction with the availability and quality of tools, applied OHS rules, IT systems and solutions as well as the surrounding work environment, e.g. staff facilities,
- **A friendly workplace** – a survey taking into account social factors, such as respect, equal treatment, objective evaluation and a sense of job stability.
- **My team** – a survey taking into account the closest social environment of members of the team which a given survey participant works in,

- **Communication** – that takes into account the aspect of individual communication, e.g. the possibility to express one’s own and company-wide opinion related to e.g. communication of changes,
- **Cooperation with the superior** – a wide range of possibilities to assess managerial skills of the superior as one of the key factors of Employee satisfaction and – in many cases – a link between Employees and the organisation,
- **Feedback** – that takes into account the factors of organisational culture based on providing information and enabling Employees to improve and develop on the basis of the feedback on the quality of work received from the superior,
- **Development opportunities and trainings availability** – that indicate the level of satisfaction related to the realisation of professional ambitions both in terms of promotions and the acquisition of new qualifications and competences,
- **Work organisation and cooperation between organisational units** – that concern both the aspects of the organisation of work on the site and the impact on the cooperation between different parts of the organisational structure,
- **Assessment of pay conditions and employee benefits** – a particularly important and sensitive aspect of management, based on financial and related motivation (benefit programmes, company-wide benefits, bonus systems or pay rise schemes),
- **Perception of the company’s image and organisational culture** – that provide the opportunity to evaluate, from Employees’ perspective, the expenditures incurred by the company on shaping its image and building its organisational culture,
- **Me in the company** – an area that shows the subjective sense of Employees’ involvement in both the tasks performed in the position and in the company’s matters in a wider sense.

The companies of the Group also undertake activities aimed at increasing the involvement of Employees in improving the current method of communication and increasing job satisfaction. ENEA Centrum Sp. z o.o. introduced an initiative called **“Employee with Energy Competition”**, whose aim is to appreciate Employees distinguished by their attitude and commitment, and to support communication. On the other hand, ENEA Wytwarzanie Sp. z o.o. organised a competition for Employees in the area of innovation.

7. LABOUR ISSUES – DESCRIPTION OF DUE DILIGENCE POLICIES AND PROCEDURES AS WELL AS THEIR RESULTS

7.3. COMMUNICATION AND FREEDOM OF ASSOCIATION

Apart from the solutions adopted at the Group level, individual companies apply various forms of information exchange among their Employees. The most commonly applied forms include regular operational meetings, strategic sessions and videoconferencing, with the participation of the Management Boards of the companies and managers of organisational units. Moreover, managers of organisational units support dialogue by organising meetings with junior managers while discussing current operational matters. Daily communication with blue-collar Employees is also ensured by the presence of superiors in the areas which they are responsible for. In addition to regular meetings, annual or quarterly discussions are held in the companies to summarise the past period and discuss mutual expectations.

ENEA Group respects the right of its Employees to form, join trade unions and be active members of them. The management boards of the companies hold regular meetings with representatives of trade unions.

Trade unions operating at the leading companies and employing the largest number of Employees in ENEA Group	
ENEA S.A.	<ul style="list-style-type: none"> – Organizacja Międzyzakładowa NSZZ „Solidarność” ENEA, – Międzyzakładowy Związek Zawodowy Energetyków w ENEA Wytwarzanie Sp. z o.o., – Międzyzakładowy Związek Zawodowy Pracowników Grupy Kapitałowej ENEA, – Międzyzakładowy Związek Zawodowy „Synergia” Pracowników Grupy Kapitałowej ENEA, – Międzyzakładowa Organizacja Związkowa Związku Zawodowego Inżynierów i Techników przy ENEA S.A.
ENEA Operator Sp. z o.o.	<ul style="list-style-type: none"> – Organizacja Międzyzakładowa NSZZ „Solidarność” ENEA, – Międzyzakładowy Związek Zawodowy Pracowników Grupy Kapitałowej ENEA, – Międzyzakładowy Związek Zawodowy Pracowników Ruchu Ciągłego Grupy Energetycznej ENEA S.A., – Międzyzakładowy Związek Zawodowy Energetyków Zakładowa Organizacja Związkowa w ENEA Operator Sp. z o.o., – Międzyzakładowa Organizacja Związkowa Związku Zawodowego Inżynierów i Techników przy ENEA S.A., – Międzyzakładowy Związek Zawodowy „Synergia” Pracowników Grupy Kapitałowej ENEA.
ENEA Elektrownia Połaniec S.A.	<ul style="list-style-type: none"> – Międzyzakładowy Związek Zawodowy przy Elektrowni Połaniec, – Międzyzakładowa Organizacja Związkowa NSZZ „Solidarność” Pracowników Elektrowni Połaniec i Spółek, – Międzyzakładowy Związek Zawodowy Pracowników Ruchu Ciągłego, – Międzyzakładowa Organizacja Związkowa „Energetyk”, – Międzyzakładowy Związek Zawodowy Pracowników Dozoru przy Elektrowni w Połańcu.
ENEA Wytwarzanie Sp. z o.o.	<ul style="list-style-type: none"> – Międzyzakładowy Związek Zawodowy Pracowników Zmianowych w ENEA Wytwarzanie Sp. z o.o., – Organizacja Zakładowa NSZZ Solidarność w ENEA Wytwarzanie, – Międzyzakładowy Związek Zawodowy Energetyków w ENEA Wytwarzanie Sp. z o.o.
ENEA Centrum Sp. z o.o.	<ul style="list-style-type: none"> – Międzyzakładowy Związek Zawodowy Pracowników Grupy Kapitałowej ENEA, – Międzyzakładowa Organizacja Związkowa Związku Zawodowego Inżynierów i Techników przy ENEA S.A., – Organizacja Międzyzakładowa NSZZ „Solidarność” ENEA, – Międzyzakładowy Związek Zawodowy „Synergia” Pracowników Grupy Kapitałowej ENEA, – Międzyzakładowy Związek Zawodowy Pracowników Ruchu Ciągłego Grupy Energetycznej ENEA S.A, – Międzyzakładowy Związek Zawodowy Energetyków w ENEA Wytwarzanie Sp. z o.o., – Międzyzakładowy Związek Zawodowy przy Elektrowni Połaniec S.A. w Zawadzie, – Międzyzakładowy Związek Zawodowy Pracowników Dozoru przy Elektrowni w Połańcu, – Międzyzakładowa Organizacja Związkowa przy ENEA Ciepło Sp. z o. o. z siedzibą w Białymstoku Krajowego Związku Zawodowego Ciepłowników.
Lubelski Węgiel „Bogdanka” S.A.	<ul style="list-style-type: none"> – Związek Zawodowy Górników w Polsce, – NSZZ „Solidarność”, – Związek Zawodowy „Kadra”, – Związek Zawodowy Pracowników Zakładów Przeróbki Mechanicznej Węgla w Polsce “PRZERÓBKA” .

7. LABOUR ISSUES – DESCRIPTION OF DUE DILIGENCE POLICIES AND PROCEDURES AS WELL AS THEIR RESULTS

7.4. OCCUPATIONAL HEALTH AND SAFETY

As far as occupational health and safety is concerned, ENEA Group operates in accordance the applicable legal regulations. The priority of activities undertaken in this area is to create a workplace that is friendly and safe for Employees. The Group strives to eliminate accidents at work and to raise awareness, responsibility and involvement of Employees in improving safety at work. In addition, it focuses on activities to promote safe working principles and to build awareness of occupational risks among its Employees. At the Group level, solutions are implemented to monitor the status of health and safety at work through procedures, policies and instructions in place.

Policies, procedures, instructions and other documents related to employee health and safety at work in leading companies and companies of key importance for health and safety at work.	
COMPANY NAME	DOCUMENTS
ENEA S.A.	<ul style="list-style-type: none"> – Internal Collective Bargaining Agreement for the Employees of ENEA S.A. and its Subsidiaries – ENEA S.A.'s Work Rules and Regulations – OHS instructions (OHS instruction on working with a computer, OHS instruction on working with a photocopier, OHS instruction on working with a shredder), – Training programmes (initial training programme, general instruction programme), – Occupational risk assessment, – Other instructions (instruction on occupational risk assessment and documentation; first aid instruction; fire safety instruction).
ENEA Operator Sp. z o.o.	<ul style="list-style-type: none"> – Procedure of occupational risk assessment and documentation in ENEA Operator Sp. z o.o., – Fire safety procedure in ENEA Operator Sp. z o.o., – Procedure defining the principles of cooperation in terms of OHS between ENEA Operator Sp. z o.o. and the Contractor, – Periodic OHS training procedure in ENEA Operator Sp. z o.o., – Procedure of live working training in ENEA Operator Sp. z o.o., – Fall-arrest procedure for working at height in ENEA Operator Sp. z o.o., – Document circulation procedure for specialist instructions on the principles of fall-arrest and evacuation while working at height in ENEA Operator Sp. z o.o., – Rules of Apprenticeship for Newly Employed Employees of Energy Posts, – Instructions (instruction on organisation of safe work with power devices in ENEA Operator Sp. z o.o.; operating instruction on power facilities and devices in ENEA Operator Sp. z o.o.; job instruction), – Other instructions (Standard equipment for Energy Posts and vehicles of Energy Posts teams; Methods and rules of fall-arrest during works at height in ENEA Operator Sp. z o.o.; Notification to the National Labour Inspectorate / District Prosecutor's Office of a fatal, serious, collective accident; Notification of an accident; Standardisation - safety tables and signs and rules of their use in ENEA Operator Sp. z o.o.).
ENEA Elektrownia Połaniec S.A.	<ul style="list-style-type: none"> – Integrated Management System including the Occupational Health and Safety Management System, – Instruction on Safe Work Organisation in ENEA Elektrownia Połaniec S.A., – Instruction on how to proceed in case of accidents and sudden illnesses, as well as on the rules of the post-accident procedure, – Instruction on conducting and documenting OHS training sessions, – Instruction on the assignment of working clothes and footwear, personal protective equipment and cleaning products, – Fire safety instruction in ENEA Elektrownia Połaniec S.A., – Instruction on the tobacco smoking ban, including novel tobacco products and electronic cigarettes, – OHS monitoring procedure, – Hazard identification and occupational risk assessment procedure.

7. LABOUR ISSUES – DESCRIPTION OF DUE DILIGENCE POLICIES AND PROCEDURES AS WELL AS THEIR RESULTS

7.4. OCCUPATIONAL HEALTH AND SAFETY

Policies, procedures, instructions and other documents related to employee health and safety at work in leading companies and companies of key importance for health and safety at work.	
COMPANY NAME	DOCUMENTS
ENEA Wytwarzanie Sp. z o.o.	<ul style="list-style-type: none"> – Integrated System of Quality, Environment and OHS Management Policy, – Procedure “OHS monitoring” – Emergency preparedness and response procedure at Koronowo, – Procedure “Hazard identification and occupational risk assessment”, – Instructions: (Instruction on the assessment of occupational risk at workplace; Instruction on the investigation of accidents at work, occupational diseases and potential occurrences; Instruction on the Safe Work Organisation; job and OHS instructions, OHS instructions on the operation of devices), – Work Rules and Regulations for the Employees of ENEA Wytwarzanie Sp. z o.o., – Policy against mobbing and discrimination, as well as other unacceptable behaviours in ENEA Wytwarzanie Sp. z o.o., – Ordinance on the employer's responsibility for OHS, – Initial, job and periodical training sessions for Employees, – Organisational Rules.
Lubelski Węgiel "BOGDANKA" S.A.	<ul style="list-style-type: none"> – Work safety strategy, – Safety document of the Mining Plant, – Procedures, rules, guidelines and instructions on Integrated System of Quality, Environment and OHS Management, – Code of Conduct, – Work Rules and Regulations, – Internal Collective Bargaining Agreement, – Ordinance of the Management Board and the Mining Operations Manager.
ENEA Pomiary Sp. z o.o.	<ul style="list-style-type: none"> – Procedure for reporting accidents at work, – Warehouse OHS instructions, (Instruction on the use of a forklift truck; Instruction on the use of a mobile platform; Instruction on manual handling activities), – Instruction on the operation and maintenance of shelving racks, – Instruction on the use of a pneumatic table sealer, – Instruction on spraying electricity meters with a spray gun, – Fire emergency instruction, – Other instructions (Instruction on the use of a computer with a display screen and a printer; Instruction on the use of a shredder).
ENEA Serwis Sp. z o.o.	<ul style="list-style-type: none"> – Procedure for reporting accidents at work and accidents while travelling to or from work in ENEA Serwis Sp. z o.o., – Procedure for live working, – Instructions (Office/administrative job instruction; Wireman job instruction; Other job instructions).
ENEA Oświetlenie Sp. z o.o.	<ul style="list-style-type: none"> – Work Rules and Regulations in ENEA Oświetlenie Sp. z o.o., – Internal Collective Bargaining Agreement, – Procedure for live working with power devices in ENEA Operator Sp. z o.o., – Instructions related to health and safety at work, such as, among others, the following: (Instruction on the organisation of safe work with power devices in Eneos Sp. z o.o.; Wireman job instruction; Non-electrician job instruction; Instruction on the use of lines and road lighting devices in ENEA Oświetlenie Sp. z o.o.; Wireman job instruction on measurement of power devices of a portable measuring laboratory; Instruction on marking of road lane works by Eneos Sp. z o.o. z o.o.; OHS instruction on transport, unloading/loading, storage and assembly of lighting poles; OHS instruction on warehousing and storage of materials; OHS instruction on transport works; OHS instruction on the ladder use; OHS instruction on the use of a computer and a printer), – OHS instruction on the use of office equipment (e.g. binder machines, photocopiers, etc.) and OHS instruction on the use of other equipment (e.g. drills, circular saws for wood cutting, grinders), – Rules of operation of power devices in ENEA Operator Sp. z o.o.

7. LABOUR ISSUES – DESCRIPTION OF DUE DILIGENCE POLICIES AND PROCEDURES AS WELL AS THEIR RESULTS

7.4. OCCUPATIONAL HEALTH AND SAFETY

ENEA Group **monitors changes and technical solutions appearing on the market**, which affect the level of security. Every year, a designated OHS Employee participates in the Work Safety Expo, during which he reviews the newest technological solutions in the area of OHS. During the fair, the OHS service representative takes part in seminars and lectures organised by institutions working in the OHS and fire safety sector and updates the knowledge, on the basis of which he introduces improved solutions in companies.

The accident procedure in the Group companies is carried out according to a precisely defined mode of action. If an accident occurs, as soon as the information on the event is received, an accident investigation team is appointed in order to explain the circumstances and causes of the event. Following the investigation of the accident, the team prepares a report and determines corrective actions. Accident documentation is kept in an appropriate register in each company.

ENEA Group ensures ergonomic working conditions, introducing improvements in this regard (i.e. changes in the work stations by additionally equipping them with footrests, wrist rest pads and by replacing office chairs with chairs with adjustable armrests). The first aid training programme, carried out for the Employees of **ENEA Centrum Sp. z o.o.** and **ENEA S.A.**, continued in 2018. The programme also covered elements of first aid for infants and children. The programme on safe driving „Skoda Auto Lab” was also continued, especially for Employees working in the area of sales. At the same time, the Group companies enriched the introductory and general trainings with practical demonstrations with the use of dummies and training defibrillators.

In 2018, **ENEA Ciepło Sp. z o.o.** performed an analysis of the Employees’ health condition, as regards their exposure to harmful levels of noise, and - in the case of Employees performing welding works - also as regards their exposure to exceeded hygiene standards related to the concentration of manganese and/or optical radiation. Based on the results of these training sessions, a programme of optical actions and a programme of organisational and technical measures aimed at reducing exposure to noise, in the form of hearing protectors, were introduced.

At **ENEA Operator Sp. z o.o.** OHS issues play a key role, hence the “Our choice - Safe Work” OHS campaign is being carried out in order to eradicate potential hazards in this area. As part of the action, educational meetings on safe work take place, which last year covered the topic of chainsaw operation and the methods and rules of emergency evacuation from heights.

The main initiatives in the OHS area at **ENEA Oświeetlenie Sp. z o.o.** and **ENEA Serwis Sp. z o.o.** include regular inspections of OHS equipment and fall protection equipment for working at heights. Moreover, in 2018 ENEA Oświeetlenie Sp. z o.o. replaced the fall protection equipment for working at heights and the shock protection equipment.

The programme of work safety improvement, carried out at **Lubelski Węgiel „Bogdanka” S.A.** since 2017 is particularly noteworthy. since 2017. During the reporting year a test knowledge checking programme was introduced, in the framework of which a knowledge test was performed among 1300 Employees of the company. Moreover, screens localised in the spots where teams gather before descending into the mine show accident reconstruction videos and instructions on how to proceed properly. At the same time new solutions for protection against chemical substances, such as filters, overalls, gloves, were introduced.

Employees		Subcontractors	
Number of fatal accidents	Number of all reported accidents	Number of fatal accidents	Number of all reported accidents
0	198	2	110

8. SOCIAL ISSUES – DESCRIPTION OF DUE DILIGENCE POLICIES AND PROCEDURES AS WELL AS THEIR RESULTS

8.1. VOLUNTARY WORK AND SOCIAL ENGAGEMENT

ENEA Group, as an entity responsible for the environment which it originates from and in which it operates, carries out a series of actions in response to the needs and expectations of the local communities. Actions in the area of corporate social responsibility have a multidimensional nature and are addressed to a varied group of stakeholders.

Basic documents regulating ENEA Group’s participation in social actions:

- **Rules for the handling of applications for Support in the area of social engagement in ENEA Group,**
- **Rules for conducting Public Relations activities and social partnership activities in ENEA Group,**
- **Regulations on Employee Voluntary Work in ENEA Group.**

Moreover, the competence Centre for social engagement in the Group is the ENEA Foundation, whose objectives and rules on social actions are set out in the following documents:

- **The Charter of the ENEA Foundation,**
- **Organisation Regulations of the ENEA Foundation,**
- **Regulations on the award of support by the ENEA Foundation.**

Initiatives carried out by the ENEA Foundation, aimed at creating real value for the environment, focus on presenting a problem and proposing a solution. Well-thought-out and innovative social campaigns aimed at local communities cover topics such as environment protection, safety, sport, education of children and young adults, assistance to persons in need, as well as art and culture.

Other entities, which - apart from the ENEA Foundation - carry out active social engagement activities, include the **“Solidarni Górnicy” [Solidary Miners] Foundation**, established by Lubelski Węgiel „Bogdanka” S.A. It has been operating since 2014, and its objective is to support financially and assist Employees of the company and their families, victims of contingencies and illnesses or in financial difficulties. The Foundation is also responsible for supporting unique talents, as well as cultural, ecological and health-promotion initiatives of significant local and regional relevance.

ENEA Group is also involved in **nationwide events with special importance for the society.**

2018 was a special year due to **the commemoration of the 100th anniversary of Polish independence and the celebration of 100 years of the Greater Poland uprising.** ENEA Group participated in these celebrations very actively, by organising and co-organising over a hundred different social initiatives in the scope of broadly-understood history education. The objective of ENEA Group involvement in the celebrations of the 100th anniversary of Polish independence and the 100th anniversary of the outbreak of the Greater Poland Uprising was to build historical awareness and to responsibly promote modern patriotism. To this end, ENEA engaged in a large number of educational and cultural projects of relevance to local communities. The activities of the Group in the 2018 jubilee year were planned taking account of their varied nature and extent. The list of related initiatives contains, *inter alia*, cultural, sport and educational events, contests and multimedia shows. Nationwide, regional and local events were organised, the most important of which include:

- “Greater Poland Victory” mapping – a sound and light show in the Poznań urban space,
 - The “Kurjer Powstańczy” [*Uprising Courier*] occasional publication,
 - Radio programme about the Greater Poland Uprising broadcast by the Polish Radio (Poznań, Szczecin),
 - The concert “Greater Poland residents sing praise of their Independent State. Victory in times of trial”,
 - Murals commemorating the 100th anniversary of Polish independence and the Greater Poland Uprising, in several locations,
 - A contest for ENEA Group Employees “A 100 years of Greater POLAND!”.
 - An outdoor historical show “The Eagle and the Cross - the Independent State”,
 - Independence picnic organised by the Chancellery of the Prime Minister.
- ENEA Group Employees actively participated in all these projects.

Voluntary work and social engagement	2018
Total amount committed by ENEA Group to its community engagement activities	PLN 1,847,914.87
Number of beneficiaries of employee voluntary work (including participants of actions/trainings and other activities performed in the scope of employee voluntary work) ¹⁾	11,500 persons
Number of Employees who engaged in ENEA Group’s employee voluntary work at least once a year	173 persons
Total number of hours committed to voluntary work by Employees in 2018	603 hours

¹⁾ The index does not cover the beneficiaries of voluntary work carried out by Employees during mass events, i.e. first aid demonstrations performed by voluntary rescuers during festivals, picnics etc.

8. SOCIAL ISSUES – DESCRIPTION OF DUE DILIGENCE POLICIES AND PROCEDURES AS WELL AS THEIR RESULTS

8.1. VOLUNTARY WORK AND SOCIAL ENGAGEMENT

EXAMPLES OF INITIATIVES CARRIED OUT IN ENEA GROUP

- **ENEA Talent Academy** – initiative of ENEA S.A. and the ENEA Foundation, aimed at supporting young talents. The action is addressed to children and young people, as well as schools interested in developing their students' talents and passions,
- **ENEA Sport Academy** – programme which aims to promote health through sport activities organised in the form of extracurricular classes in partner sport clubs' facilities,
- **ENEA for Generations. Together about Safety** – project developed with a view to ensuring safety to multi-generational families and to the elderly through education, raising consumer awareness and supporting fire protection in households. As part of the action, ten workshops took place from April to December 2018, during which consumer safety problems, issues related to fire protection and the basics of first aid to adults and children were discussed.
- **Good Energy Across Borders** – The objective of the project is multi-generational integration of Poles and building bridges of friendship across borders. The programme builds and strengthens the national identity of young Poles who attend Polish schools in the Vilnius Region, and builds friendships among peers in the area.
- **We Run – We Raise – We Help** – an action as part of which ENEA Group Employees help persons in need by participating in sport competitions. The kilometres they run are converted into PLN, and then donated to pay for the organisation of sport activities for children and young people,
- **The Power of Help (Potęga pomocy)** – the programme's objective is to promote pro-social ideas and integration, as well as to support projects of local scope and relevance. As part of the action, ENEA Group Employees present projects which, in their view, should receive support in grant form and, following their approval, they get involved in their execution,
- **Energy is in our blood** – an activity encouraging all ENEA Group Employees to donate blood. In 2018, in the course of the action carried out in cooperation with Regional Centres for Blood Donation and Blood Treatment, 80 litres of blood were collected,

- **Competence voluntary work** – programme covering voluntary work in the form of educational activities entitled “**Electricity – nothing to be afraid of**” – classes on energy for children and classes on pre-medical aid, “**First aid**”.
- **Action voluntary work** – short special purpose or occasional actions, i.e. organising St. Nicholas' Day for children in the “Tulipanki” community centre in Poznań, renovating the garden in the Pallium Hospice in Poznań or participating in the “My own place” project run by the Centre for Citizen Education Development Association (CREO), whose aim was to improve living conditions of residents of social assistance homes in Poznań.

EXAMPLES OF SOCIAL INITIATIVES AND EMPLOYEE VOLUNTARY WORK CARRIED OUT IN THE GROUP COMPANIES

- **Safe Preschooler Academy** – the initiative aims to encourage children to stay safe on their way to the nursery, play safe in the nursery, in the yard and at home, as well as to familiarise preschoolers with basic road signs and make them aware of other threats they may come across – **ENEA Operator Sp. z o.o.**,
- **Women's Power Plant – Women's Forum** – a programme thanks to which women could learn how to take care of their health, beauty and safety. The project was created in order to strengthen women's self-esteem and self-awareness – **ENEA Elektrownia Połaniec S.A.**,
- The programme of work safety improvement, addressed to Employees and their families, covering a range of preventive and health-promotion actions, as well as those promoting the knowledge of and compliance with OHS rules and regulations – **Lubelski Węgiel „Bogdanka” S.A.**,
- **Easter parcel** – an event aimed to collect games, stationery, teddies and toys for children in the children's ward of the Specialist Hospital in Piła – **Miejska Energetyka Ciepła Piła Sp. z o.o.**,
- **ENEA for health** – free cytology for women from the Kozienice municipality (cervical cancer screening programme) – **ENEA Wytwarzanie Sp. z o.o.**,
- **What Goes Around Comes Around (Karma wraca)** – collecting food for animals. Employees collected a total of 800 kg of food for animals, which was then donated to selected animal shelters – **ENEA Operator Sp. z o.o.**

8. SOCIAL ISSUES – DESCRIPTION OF DUE DILIGENCE POLICIES AND PROCEDURES AS WELL AS THEIR RESULTS

8.2. ENERGY SECURITY

“**Development Strategy of ENEA Group until 2030**” is the Group’s basic strategic document. In the framework of its objectives, the Group focuses on initiatives contributing to ensure the country’s energy security. Therefore, in the social context it takes steps to ensure uninterrupted supplies of electricity and reliable operation of the distribution network and it carries out plans which contribute to minimise potential threats in this area.

During the reporting year, the Group performed investment tasks in order to improve distribution infrastructure quality, increase the quality standards of the energy supplied, reduce energy losses and automatise network operation. A good example of how the Group pays attention to these standards is the **Reliability Improvement Programme** at ENEA Operator Sp. z o.o., whose execution directly translates into improvements in energy supplies. The Group monitors the efficiency of conducted works using indices, such as SAIDI and SAIFI (defined on Page 135 of the Statement).

In 2018, the Reliability Improvement Programme carried out tasks such as:

- modernisation of MV lines in the scope of comprehensive modernisation of entire line sections, including installation of remote-controlled connectors,
- automation of the electricity distribution grid in the scope of installation of remote-controlled connectors in MV overhead lines and transformer stations, as well as in scope of modernisation of bay controllers and concentrators,
- elimination of short-circuit hazards in the MV grid in order to increase the cross-section of the MV line where it leaves the main transformer station, which will consequently increase Consumer supply reliability,
- replacement of non cross-linked MV cables with cables in cross-linked polyethylene insulation,
- implementation of the FDIR (Fault Detection, Isolation & Restoration) system in selected MV line sections,
- liquidation of the 6 kV network in RD Poznań.

The construction of the Ostrołęka C Power Plant is an important investment area affecting the country's energy security. A contract for the construction of the 1,000 MW_e power plant was signed in Ostrołęka on 12 July 2018. A modern, carbon efficient power unit will have a significant impact on Poland's energy security. The investment will encourage the development of Ostrołęka and north-eastern Poland. The new unit will follow a series of other stable, high efficient and low-emission energy sources with a capacity of about 1 GW, forming the strategic basis of the National Power System. The investment is expected to be based on the newest technologies and meet the highest environmental standards. It is estimated that the first synchronisation of the new unit will take place in 2023. The power plant was designed so as to guarantee maximum flexibility in operation, short start-up time, load increasing and decreasing speed and minimum load. For effective integration with the power system, in which the share of RES will increase, the new unit is to reach a maximum load capacity in less than 30 minutes and change load from 35% to 100%. Ostrołęka C Power Plant project is carried out jointly by the Groups: Energa and ENEA which strive to use the knowledge and experience gained by ENEA during the construction of the new unit at Koźienice Power Plant. The supercritical power unit with a gross capacity of 1,000 MW_e will be fired with hard coal, using the most modern technologies enabling the unit to operate with high availability and efficiency. The technologies used will also allow full management of combustion side products thanks to the construction of modern and efficient auxiliary installations for servicing all economies that will operate on the site of the power plant. This investment is key to Polish energy security.

9. HUMAN RIGHTS ISSUES – DESCRIPTION OF DUE DILIGENCE POLICIES AND PROCEDURES AS WELL AS THEIR RESULTS

ENEA Group, as a learning organisation, sets new directions for development and targets which affect the construction of a mature organisation. Thereby, in the area of human rights Group companies give priority to:

- introducing a consistent and uniform Anti-mobbing Policy in ENEA Group,
- ensuring resources and tools in order to support Employees who feel they suffer mobbing, in order to provide assistance with an objective examination and clarification of the case and applying corrective measures.
- conducting information and educational activities in order to promote proper attitudes in the organisation and in order to point out which behaviours are considered unacceptable, i.e. e-learning training or webinars.

Significant documents, which define ethical values in ENEA Group, include:

- **Policy against mobbing and discrimination, as well as other unacceptable behaviours**, implemented at Group level. The Policy characterises unacceptable behaviours, details reporting procedures and course of action to be taken in response to such reporting, as well as preventive measures in this area and the obligations of the employer and the Employees,
- **ENEA Group Code of Ethics** defining the ethical values which should be followed by all the Group Employees in the course of their daily work and in their business contacts; it presents the main rules of conduct based on equal treatment and respect for human dignity. The Code introduces standards of conduct toward Customers, business partners, shareholders, local communities and co-workers. The document sets the foundation for building a responsible organisational culture based on **four key values**, which include:
 - **integrity**: conduct in line with ethical rules, provisions of law and internal procedures, mutual respect and openness in expressing views and opinions,
 - **responsibility**: fulfilling declarations with respect to quality, timeliness and reliability of services, performing employee obligations and meeting the requirements which derive from social contracts,
 - **safety**: sharing knowledge and continuous upskilling, enabling Employees to gain new experience,

- **competence**: taking preventive and corrective actions in order to ensure a safe working environment, natural environment protection and the protection of sensitive data, personal data and protected information,
- **ENEA Group Compliance Policy**, which refers to the values of the whole organisation and points to the need to build a friendly working environment and pay attention to the protection of Employee health and safety.

Implementation and control of proper functioning of the above mentioned policies and compliance with the adopted standards at Group level comes under the responsibility of: **Human Resources Management Department**, with respect to mobbing prevention and the implementation of the ENEA Group Code of Ethics, and **Operational Management Department**, with respect to Compliance. All Employees take care to observe the adopted rules and are obliged to monitor their environment in the context of the performance of tasks in line with the applicable ethical rules.

Also, the **Ethics Commission** works in the Group, examining reports of events which run counter to the standards of conduct set out in the ENEA Group Code of Ethics. The Commission carries out activities in order to impartially settle the violations identified in connection with ethical doubts and identified cases of violation of the Code of Ethics, as reported by the Employees. It offers Employees assistance and allows them to dispel doubts related to unethical behaviour. The Ethics Commission works based on the Regulations, which specify its mode of operation, procedures for reporting doubts and violations, as well as how the reports are verified.

In light of the diversity of companies belonging to ENEA Group, documents or actions have been also implemented at each entity level, corresponding to the ethical rules generally adopted in the Group.

The most important regulations and initiatives in this area include:

- **Lubelski Węgiel „Bogdanka” S.A.** has an internal Code of Ethics in place for GK LW Bogdanka S.A. The entity in charge of monitoring the regulations it contains is the Ethics Officer and the CSR Inspector. In 2018, educational activities were carried out in the company in order to prevent the violation of human rights; also, a Diversity Policy has been developed in this respect.

9. HUMAN RIGHTS ISSUES – DESCRIPTION OF DUE DILIGENCE POLICIES AND PROCEDURES AS WELL AS THEIR RESULTS

- **ENEA S.A.** conducted information and educational activities, as well as online training for managers, on consciously building a friendly working environment, as well as on proper communication and interpretation of the regulations in place,
- **ENEA Serwis Sp. z o.o.** set up a **Team for the Prevention of Mobbing and Other Unacceptable Behaviours**. Additionally, the company carried out training on “Building a Friendly Working Environment and Mobbing Prevention”, addressed to the Management Board members and managers. Compliance workshops also took place, in order to strengthen the organisational culture.
- In the reporting year, **ENEA Oświecenie Sp. z o.o.** implemented “The rules for preventing mobbing, discrimination and other unacceptable behaviours at ENEA Oświecenie Sp. Z o.o.”. A Team has been set up in order to examine possible cases of violations at the workplace and an information campaign has been conducted on the implementation of new rules,
- In connection with regulatory changes at Group level, **ENEA Operator Sp. z o.o.** set up an Anti-mobbing Commission with a 4-year mandate. Its members are appropriately prepared for the role, thanks to legal consultations and training they received. Also, recurring education on preventing mobbing and other unacceptable behaviours has been ensured to the management,
- **ENEA Logistyka Sp. z o.o.** at company level has adopted the following documents: Anti-mobbing Policy and Compliance Policy. An Anti-mobbing Team has been set up and a special e-mail address is available for Employees to report behaviours which run counter to the adopted rules.

In 2018, there were no confirmed cases of discrimination at ENEA Group.



10. PREVENTION OF CORRUPTION AND BRIBERY ISSUES – DESCRIPTION OF DUE DILIGENCE POLICIES AND PROCEDURES AS WELL AS THEIR RESULTS

ENEA Group operates according to the applicable provisions of law in a way which is ethical and free of any indication of corruption or bribery. ENEA Group considers it as priority to prevent and eradicate corruption. Thus, creating an organisational culture based on Employee behaviour in line with the law and internal regulations is key for the Group. The Group seeks to prevent conflict of interest, introduces regulations ensuring transparency as regards the relations with contractors, contributing to minimize risks of financial losses and damage to reputation. The Group's structures include a Compliance entity which monitors compliance of the activities carried out with the provisions of law and regulations. Group companies are obliged to observe the rules contained in the below documents which govern particular areas:

- **Rules of Offering and Receiving Gifts in ENEA Group,**
- **ENEA Group Compliance Policy,**
- **ENEA Group Code of Ethics,**
- **ENEA Group Procurement Policy,**
- **Rules for conducting sponsorship activities in ENEA Group.**

The implementation of the policies have led to:

- no reported cases of corruption,
- a higher awareness of the Employees as regards the need to act ethically,
- no damage to reputation or financial losses related to corruption.

Regulations regarding anti-corruption issues have been implemented by particular organisational entities of the Group, whose extent of authority covers the matters subject to those regulations. Simultaneously, proper execution of the policies and monitoring of their results is ensured by the Compliance entity operating within the Operational Management Department of ENEA S.A. It is in charge of sharing materials on the prevention of corruption on the Intranet for ENEA Group companies.

Moreover, particular companies carry out their own initiatives which help create an organisational culture free of any signs of corruption. Knowledge on the prevention of corruption is regularly disseminated both during adaptation training courses for newly recruited Employees and during the training organised for all the Employees every three years. They are conducted, depending on the nature of each company and the specific tasks performed by its Employees, as part of direct training courses or through the e-learning platform, common for the Group companies. When a new document governing the anti-corruption matters is introduced or the old one is modified, training is conducted before the end of the three years period.

Employees with no computer access are obliged to autonomously familiarise themselves with the scope of regulations provided by their superiors. Employees of the Group companies with access to the e-learning platform are obliged to undergo a mandatory training course on the Compliance Policy and the Rules of Offering and Receiving Gifts within one month of the date of their employment.

Performance indicators of the policies implemented with respect to the prevention of corruption	
Number of confirmed cases of corruption in ENEA Group companies in 2018	0
% of Employees of the companies who underwent mandatory training on the prevention of corruption in 2018 ¹⁾	ENEA S.A. – 99% of the Employees ENEA Trading Sp. z o.o. – 95% of the Employees ENEA Pomiary Sp. z o.o. – 100% of the Employees ENEA Serwis Sp. z o.o. – 93% of the Employees ENEA Centrum Sp. z o.o. – 99% of the Employees ENEA Operator Sp. z o.o. – 94% of the Employees ENEA Oświetlenie Sp. z o.o. – 100% of the Employees ENEA Wytwarzanie Sp. z o.o. – 98% of the Employees ENEA Logistyka Sp. z o.o. – 100% of the Employees ENEA Bioenergia Sp. z o.o. – 100% of the Employees ENEA Elektrownia Połaniec S.A. – 97% of the Employees Lubelski Węgiel "Bogdanka" S.A. – 100% of the 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%

¹⁾ The data concern the Employees with access to the e-learning platform. Training for the Employees who have no computer access falls within the scope of their superiors' responsibility.

11. LIST OF INDICATORS AND KEY INFORMATION INCLUDED IN THE STATEMENT

Indicator code	Indicator description	Page
Accounting Act GRI 102-2	Description of business model	130-131
Accounting Act	Non-financial key performance indicators	135
own indicator	Electrical power installed	135
own indicator	Total (net) electricity generation	135
own indicator	Trading Segment: number of electricity consumers (Power Delivery Points)	135
own indicator	Trading Segment: sales of electricity and gaseous fuel to retailers	135
own indicator	Distribution Segment: number of Customers/energy consumers	135
own indicator	Distribution Segment: length of distribution lines together with connections	135
sector indicator EU 29	SAIDI - System Average Interruption Duration Index	135
sector indicator EU 28	SAIFI - System Average Interruption Frequency Index	135
Accounting Act	Non-financial risks relating to the business activity of ENEA Group	136-143
Accounting Act	Environmental issues — description of due diligence policies and procedures as well as their results	144-149
GRI 302-1	Organisation's energy consumption	148
GRI 303-2	Total water uptake by source	148
GRI 306-2	Total weight of waste by type of waste	148
GRI 305-1	Direct greenhouse gas emissions (Generation segment)	149
own indicator	Energy produced from RES in ENEA Group	149
Accounting Act	Labour issues – description of due diligence policies and procedures as well as their results	150-161
GRI 102-8	Data on Employees and other persons performing work for the organisation, including: – total number of Employees by gender and type of employment – total number of Employees by type of employment (full-time or part-time)	153-154
GRI 401-1	Total number and percentage of new Employees employed and a total number of Employees who left during the reporting period, including: – total number and percentage of newly employed Employees by gender and age – total number and percentage of Employees who left the organisation by gender and age	155
GRI 403-2	Accidents at work	161
Accounting Act	Social issues – description of due diligence policies and procedures as well as their results	162-164
own indicator	Total ENEA Group expenses for all its community investment activities	162
Accounting Act	Human rights issues – description of due diligence policies and procedures and their results	165-166
Accounting Act	Anti-corruption and anti-bribery measures – description of due diligence policies and procedures as well as their results	167
GRI 205-2	Communication and training on anti-corruption policies and procedures	167



Annexes

Annex No. 1 - Profit and loss account of ENEA Operator Sp. z o.o. – FY 2018

[PLN k]	FY 2017	FY 2018	Change	% change
Revenue from the sale of distribution services to end users	3,103,968	2,566,317	-537,651	-17.3%
Revenue from additional fees	5,733	5,604	-129	-2.3%
Revenues from the non-invoiced sale of distribution services	5,986	-1,776	-7,762	-129.7%
Clearing of the Balancing Market	13,485	11,153	-2,332	-17.3%
Fees for connection to the grid	64,258	54,659	-9,599	-14.9%
Revenue from illegal electricity consumption	6,265	6,520	255	4.1%
Revenue from services	28,080	28,610	530	1.9%
Sale of distribution services to other entities	15,923	18,308	2,385	15.0%
Sales of goods and materials and other revenues	2,980	2,483	-497	-16.7%
Sales revenue	3,246,678	2,691,878	-554,800	-17.1%
Depreciation of power, plant and equipment and intangible fixed assets	490,035	524,637	34,602	7.1%
Costs of employee benefits	415,930	445,829	29,899	7.2%
Consumption of materials and raw materials and the value of goods sold	29,209	32,031	2,822	9.7%
Purchase of energy for own needs and grid losses	228,790	235,731	6,941	3.0%
Costs of transmission services	1,022,283	408,374	-613,909	-60.1%
Other third party services	272,940	288,068	15,128	5.5%
Taxes and levies	189,147	202,596	13,449	7.1%
Tax deductible costs of sale	2,648,334	2,137,266	-511,068	-19.3%
Other operating revenues	38,605	76,333	37,728	97.7%
Other operating costs	56,331	39,765	-16,566	-29.4%
Profit/ (loss) on the sale and liquidation of property, plant and equipment	(12,830)	(14,817)	-1,987	15.5%
Operating profit / (loss)	567,788	576,363	8,575	1.5%
Financial revenues	1,995	3,019	1,024	51.3%
Financial costs	53,543	65,318	11,775	22.0%
Gross profit / (loss)	516,240	514,064	-2,176	-0.4%
Income tax	101,176	95,548	-5,628	-5.6%
Net profit / (loss)	415,064	418,516	3,452	0.8%
EBITDA	1,057,823	1,101,000	43,177	4.1%

FY 2018
ENEA Operator Sp. z o.o. – EBITDA change drivers (an increase of PLN 43 million):

- (-) lower revenues from sales of distribution services to end users by PLN 545 million result mainly from a change in presentation of revenues from sales of distribution services (from 1 January 2018, change of the IFRS 15 standard)
- (-) lower revenues from network connection fees by PLN 10 million result mainly from the settlement of quarterly IAS allowances in 2017 (from 1 January 2018, change of the IFRS 15 standard)
- (+) lower purchase cost balance of transmission and distribution services by PLN 616 million results mainly from a change in presentation of costs of purchase of transmission services (from 1 January 2018, change of the IFRS 15 standard)
- (-) higher costs of energy purchase to cover the balance-sheet difference by PLN 9 million result mainly from a higher average price of electricity
- (-) higher costs of employee benefits by PLN 30 million result mainly from change in the balance of actuarial provisions
- (-) higher costs of other third-party services by PLN 15 million, mainly in the area of grid assets exploitation
- (-) higher costs of taxes and levies by PLN 13 million result from the implemented investments in grid assets
- (+) higher result on other operating activities (balance) by PLN 52 million results mainly from lower revaluation write-offs on receivables, higher revenues from gratuitously received fixed assets and higher revenues from the insurer related to the removal of random losses incurred by the Company in 2017



Annex No. 2 - Profit and loss account of ENEA Operator Sp. z o.o. – Q4 2018

[PLN k]	Q4 2017	Q4 2018	Change	% change
Revenue from the sale of distribution services to end users	792,386	639,202	-153,184	-19.3%
Revenue from additional fees	1,647	1,445	-202	-12.3%
Revenues from the non-invoiced sale of distribution services	7,657	4,815	-2,842	-37.1%
Clearing of the Balancing Market	9,208	9,459	251	2.7%
Fees for connection to the grid	16,197	13,323	-2,874	-17.7%
Revenue from illegal electricity consumption	1,376	1,705	329	23.9%
Revenue from services	7,220	7,146	-74	-1.0%
Sale of distribution services to other entities	3,898	4,673	775	19.9%
Sales of goods and materials and other revenues	939	985	46	4.9%
Sales revenue	840,528	682,752	-157,776	-18.8%
Depreciation of power, plant and equipment and intangible fixed assets	123,820	137,943	14,123	11.4%
Costs of employee benefits	118,554	135,183	16,629	14.0%
Consumption of materials and raw materials and the value of goods sold	7,965	9,006	1,041	13.1%
Purchase of energy for own needs and grid losses	60,488	61,488	1,000	1.7%
Costs of transmission services	258,448	102,661	-155,787	-60.3%
Other third party services	82,098	86,831	4,733	5.8%
Taxes and levies	43,459	46,180	2,721	6.3%
Tax deductible costs of sale	694,832	579,292	-115,540	-16.6%
Other operating revenues	15,507	14,129	-1,378	-8.9%
Other operating costs	6,736	10,220	3,484	51.7%
Profit/ (loss) on the sale and liquidation of property, plant and equipment	(9,825)	(9,012)	813	-8.3%
Operating profit / (loss)	144,642	98,357	-46,285	-32.0%
Financial revenues	842	619	-223	-26.5%
Financial costs	14,556	15,632	1,076	7.4%
Gross profit / (loss)	130,928	83,344	-47,584	-36.3%
Income tax	24,289	16,637	-7,652	-31.5%
Net profit /(loss)	106,639	66,707	-39,932	-37.4%
EBITDA	268,462	236,300	-32,162	-12.0%

Q4 2018

ENEA Operator Sp. z o.o. – EBITDA change drivers (a decrease of 32 million):

- (-) lower revenues from sales of distribution services to end users by PLN 156 million result mainly from a change in presentation of revenues from sales of distribution services (from 1 January 2018, change of the IFRS 15 standard)
- (-) lower revenues from network connection fees by PLN 3 million result mainly from the settlement of quarterly IAS allowances in 2017 (from 1 January 2018, change of the IFRS 15 standard)
- (+) lower purchase cost balance of transmission and distribution services by PLN 157 million results mainly from a change in presentation of costs of purchase of transmission services (from 1 January 2018, change of the IFRS 15 standard)
- (-) higher costs of employee benefits by PLN 17 million result mainly from change in the balance of actuarial provisions
- (-) higher costs of other third-party services by PLN 5 million, mainly in the area of grid assets exploitation
- (-) higher costs of taxes and levies by PLN 3 million result from the implemented investments in grid assets
- (-) lower result on other operating activities (balance) by PLN 4 million results mainly from the change in stock related to grid assets and from lower revaluation write-offs on receivables



Annex No. 3 - Profit and loss account of ENEA Wytwarzanie Sp. z o.o. – FY 2018



[PLN k]	FY 2017	FY 2018	Change	% change
Revenue from the sale of electricity	2,545,822	4,179,697	1,633,875	64.2%
<i>generation licence</i>	2,371,161	3,519,350	1,148,189	48.4%
<i>trading licence</i>	174,661	660,347	485,686	278.1%
Revenue from certificates of origin	27,224	50,746	23,522	86.4%
Revenue from the sale of CO ₂ emission allowances	17,786	26,019	8,233	46.3%
Revenue from the sale of heat ¹⁾	160,082	136,185	-23,897	-14.9%
Revenue from services	12,731	12,007	-724	-5.7%
Sale of goods and materials and other revenue	12,257	12,115	-142	-1.2%
Excise tax	226	237	11	4.9%
Net sales revenue¹⁾	2,775,676	4,416,532	1,640,856	59.1%
Depreciation of power, plant and equipment and intangible fixed assets	234,430	454,841	220,411	94.0%
Costs of employee benefits	255,377	270,152	14,775	5.8%
Consumption of materials and raw materials and the value of goods sold	1,568,038	2,074,484	506,446	32.3%
Purchase of energy for sale purposes	246,145	1,284,642	1,038,497	421.9%
Transmission services	402	460	58	14.4%
Other third party services	143,749	165,877	22,128	15.4%
Taxes and levies	79,685	88,309	8,624	10.8%
Tax deductible costs of sale ¹⁾	2,527,826	4,338,765	1,810,939	71.6%
Other operating revenues	19,766	67,978	48,212	243.9%
Other operating costs	7,621	29,171	21,550	282.8%
Profit/ (loss) on the sale and liquidation of property, plant and equipment	545	(4,128)	-4,673	-857.4%
Reversal of the impairment loss on non-financial non-current assets	0	170,734	170,734	100.0%
Operating profit / (loss)	260,540	283,180	22,640	8.7%
Financial revenues	2,227	111,422	109,195	4,903.2%
Financial costs	33,739	149,174	115,435	342.1%
Dividend revenue	1,013	1,217	204	20.1%
Gross profit / (loss)	230,041	246,645	16,604	7.2%
Income tax	76,025	24,317	-51,708	-68.0%
Net profit / (loss)	154,016	222,328	68,312	44.4%
EBITDA	494,970	567,287	72,317	14.6%

FY 2018

ENEA Wytwarzanie Sp. z o.o. – EBITDA change drivers (an increase of PLN 72 million):

System Power Plants Segment – an EBITDA increase of PLN 62.9 million

- (+) higher generation margin by PLN 283.6 million
- (-) lower margin on trading by PLN 145.3 million
- (-) higher fixed costs by PLN 71.1 million
- (-) lower margin on Balancing Market by PLN 28.6 million
- (-) lower revenues from Regulatory System Services by PLN 11.0 million
- (+) increase in other factors by PLN 35.3 million: i.a., in 2017, inventory shortage of production fuel, result on other operating activity taking into account the effect of material inventory

Heat Segment – an EBITDA decrease of PLN 21.0 million

In 2018, an organised part of the enterprise – Białystok Heat and Power Plant was separated as of 30 November, therefore, the data concerning Białystok Heat and Power Plant cover the execution of 11 months in 2018, while the data for 2017 presents the whole year.

Deviations taking into account the fact of incomparability of periods are as follows:

- (-) higher costs of biomass consumption by PLN 32.6 million
- (-) higher costs of CO₂ emissions by PLN 5.1 million
- (-) lower revenues from heat sales by PLN 23.4 million
- (-) lower revenues from electricity sales by PLN 12.7 million
- (+) higher sales revenues from certificates of origin by PLN 10.7 million
- (+) lower costs of coal by PLN 23.7 million
- (+) lower fixed costs by PLN 15.0 million
- (+) higher result on other operating activity together with the result on sale and liquidation of fixed assets by PLN 2.1 million

RES Segment – an EBITDA increase of PLN 30.4 million

- (+) Wind Area (PLN +22.8 million): lower fixed costs by PLN 9.6 million; higher revenues from certificates of origin by PLN 9.1 million; PLN +6.6 million compensation for loss of profit (FW Bardy failure); lower variable costs by PLN 2.1 million; lower revenues from electricity sales by PLN 4.8 million
- (+) Water Area (PLN +11.2 million): lower revenues from electricity PLN 6.4 million; higher revenues from certificates of origin by PLN 5.6 million
- (-) Biogas Area (PLN -3.6 million): PLN -3.0 million lower release of the provision for claims (2017: PLN 3.5 million; 2018: PLN 0.5 million); lower revenues from certificates of origin by PLN 1.5 million; lower revenues from sales of electricity by PLN 0.5 million; lower costs of consumption and transport of substrates by PLN 1.3 million; lower fixed costs by PLN 0.2 million

¹⁾ In accordance with IFRS, in 2018 there was a change in the presentation to Białystok Heat and Power Plant, i.e. the costs of transmission services decrease heat revenues. For the sake of comparability, the comparative period, i.e. 2017, was adjusted.

[PLN k]	Q4 2017	Q4 2018	Change	% change
Revenue from the sale of electricity	587,153	1,062,696	475,543	81.0%
<i>generation licence</i>	534,879	865,635	330,756	61.8%
<i>trading licence</i>	52,274	197,061	144,787	277.0%
Revenue from certificates of origin	8,974	19,141	10,167	113.3%
Revenue from the sale of CO ₂ emission allowances	3,551	0	-3,551	-100.0%
Revenue from the sale of heat ¹⁾	46,671	28,955	-17,716	-38.0%
Revenue from services	3,166	2,907	-259	-8.2%
Sale of goods and materials and other revenue	2,971	2,660	-311	-10.5%
Excise tax	61	39	-22	-36.1%
Net sales revenue ¹⁾	652,425	1,116,320	463,895	71.1%
Depreciation of power, plant and equipment and intangible fixed assets	59,134	108,918	49,784	84.2%
Costs of employee benefits	77,506	69,153	-8,353	-10.8%
Consumption of materials and raw materials and the value of goods sold	392,840	500,431	107,591	27.4%
Purchase of energy for sale purposes	62,573	380,460	317,887	508.0%
Transmission services	107	62	-45	-42.1%
Other third party services	43,314	51,371	8,057	18.6%
Taxes and levies	16,619	25,024	8,405	50.6%
Tax deductible costs of sale ¹⁾	652,093	1,135,419	483,326	74.1%
Other operating revenues	9,996	46,004	36,008	360.2%
Other operating costs	4,124	14,077	9,953	241.3%
Profit/ (loss) on the sale and liquidation of property, plant and equipment	(210)	(2,009)	-1,799	856.7%
Reversal of the impairment loss on non-financial non-current assets	0	119,369	119,369	100.0%
Operating profit / (loss)	5,994	130,188	124,194	2,072.0%
Financial revenues	2,007	106,988	104,981	5,230.7%
Financial costs	21,490	36,169	14,679	68.3%
Gross profit / (loss)	-13,489	201,007	214,496	-1,590.2%
Income tax	25,898	-15,468	-41,366	-159.7%
Net profit / (loss)	-39,387	216,475	255,862	-649.6%
EBITDA	65,128	119,737	54,609	83.8%

Q4 2018

ENEA Wytwarzanie Sp. z o.o. – EBITDA change drivers (an increase of PLN 55 million):

System Power Plants Segment – an EBITDA increase of 41.0 million

- (+) higher generation margin by PLN 119.1 million
- (+) a higher result on other operating activities by PLN 21.5 million
- (+) in 2017, inventory shortage of production fuel PLN 20.5 million
- (-) lower margin on trading by PLN 73.3 million
- (-) higher fixed costs by PLN 24.2 million
- (-) lower margin on Balancing Market by PLN 16.0 million
- (-) lower revenues from Regulatory System Services by PLN 7.1 million

Heat Segment – an EBITDA increase of PLN 2.6 million

In 2018, an organised part of the enterprise – Białystok Heat and Power Plant was separated as of 30 November, therefore, the data concerning Białystok Heat and Power Plant cover the execution of 11 months in 2018, while the data for 2017 presents the whole year.

Deviations taking into account the fact of incomparability of periods are as follows:

- (-) lower revenues from heat sales by PLN 17.5 million
- (-) lower revenues from electricity sales by PLN 5.7 million
- (-) higher costs of biomass consumption by PLN 4.0 million
- (+) lower costs of CO₂ emissions by PLN 0.8 million
- (+) higher result on other operating activity together with the result on sale and liquidation of fixed assets by PLN 1.1 million
- (+) higher sales revenues from certificates of origin by PLN 4.4 million
- (+) lower costs of coal by PLN 8.1 million
- (+) lower fixed costs by PLN 15.5 million

RES Segment – an EBITDA increase of PLN 11.0 million

(+) Wind Area (PLN +15.2 million): +PLN 6.6 million compensation for loss of profit (FW Bardy failure); higher revenues from certificates of origin by PLN 5.2 million; lower fixed costs by PLN 1.5 million; lower variable costs by PLN 0.7 million; higher revenues from electricity sales by PLN 0.6 million

(-) Water Area (PLN -0.4 million): lower revenues from electricity sales by PLN 1.5 million; lower result on other operating activities together with result on sale and liquidation of fixed assets by PLN 0.2 million; higher revenues from certificates of origin by PLN 1.4 million

(-) Biogas Area (PLN -3.8 million):

- PLN -3.5 million in 2017, release of the provision for claims;
- PLN -0.3 million lower revenues from certificates of origin

¹⁾ In accordance with IFRS, in 2018 there was a change in the presentation to Białystok Heat and Power Plant, i.e. the costs of transmission services decrease heat revenues. For the sake of comparability, the comparative period, i.e. 2017, was adjusted.

Annex No. 5 - Profit and loss account of ENEA Elektrownia Połaniec – FY 2018

[PLN k]	14 Mar – 31 Dec 2017 ¹⁾	FY 2018	Change	% change
Sales revenue	1,644,008	2,555,853	911,845	55.5%
Excise tax	46	218	172	373.9%
Net sales revenue	1,643,962	2,555,635	911,673	55.5%
Depreciation of power, plant and equipment and intangible fixed assets	47,333	57,068	9,735	20.6%
Costs of employee benefits	65,241	61,096	-4,145	-6.4%
Consumption of materials and raw materials and the value of goods sold	1,017,884	1,542,235	524,351	51.5%
Purchase of energy for sale purposes	206,039	490,995	284,956	138.3%
Transmission services	2,709	0	-2,709	-100.0%
Other third part services	164,831	206,038	41,207	25.0%
Taxes and levies	30,222	39,167	8,945	29.6%
Tax deductible costs of sale	1,534,259	2,396,599	862,340	56.2%
Other operating revenues	18,780	25,595	6,815	36.3%
Profit / (Loss) on the sale and liquidation of property, plant and equipment	(23)	(609)	-586	2,547.8%
Other operating costs	1,254	1,573	319	25.4%
Operating profit / (loss)	127,206	182,449	55,243	43.4%
Financial revenues	82,830	2,499	-80,331	-97.0%
Financial costs	535	22,171	21,636	4,044.1%
Dividend revenue	0	215	215	100.0%
Gross profit / (loss)	209,501	162,992	-46,509	-22.2%
Income tax	18,774	16,936	-1,838	-9.8%
Net profit / (loss)	190,727	146,056	-44,671	-23.4%
EBITDA	174,539	239,517	64,978	37.2%

FY 2018

EBITDA of ENEA Elektrownia Połaniec:

- revenues from sales of electricity (together with Regulatory System Services) in the amount of PLN 2,316 million (sales of 12,774 GWh of electricity), revenues from sales of CO₂ of PLN 1.6 million
- revenues from sales of heat in the amount of PLN 56 million, at the sales volume of 2,369 TJ
- revenues from certificates of origin in the amount of PLN 175 million – sales adjusted by revenue from recognition, own cost of sales, and revaluation of the green certificate stock as at the balance-sheet date
- other revenues in the amount of PLN 8 million – revenues from rental and management of combustion by-products
- consumption of materials and raw materials and the value of goods sold in the amount of PLN 1,542 million, including: fuel consumption – PLN 1,279 million, a provision for CO₂ consumption costs – PLN 212 million, consumption of overhaul materials – PLN 24 million, other – PLN 25 million (consumption of other materials and Energy, chemicals and additives)
- purchase of energy for sale purposes PLN 491 million – the purchase volume of 2,680 GWh
- other third party services in the amount of PLN 206 million – including: overhaul services – PLN 76 million, transport services – PLN 9 million, waste management – PLN 20 million, biomass pre-treatment services – PLN 23 million, insurance of assets – PLN 8 million, ENEA Centrum services – PLN 5 million, SLA ENEA Trading – PLN 10 million, use of the ENEA trademark – PLN 5 million, other services – PLN 50 million (including: operational and legal services, audits, rental and lease, property protection, other third-party services)
- taxes in the amount of PLN 39 million – including: property tax – PLN 23 million, environment protection fee – PLN 13 million, license fee – PLN 1 million



¹⁾ Data for the period 14 March - 31 December 2017 concerned ENEA Elektrownia Połaniec Group, while items presented from 1 January 2018 concern individual data of ENEA Elektrownia Połaniec (without ENEA Bioenergia Sp. z o.o.)

Annex No. 6 - Profit and loss account of ENEA Elektrownia Połaniec – Q4 2018

[PLN k]	Q4 2017 ¹⁾	Q4 2018	Change	% change
Sales revenue	496,745	665,948	169,203	34.1%
Excise tax	-4	61	65	-1,625.0%
Net sales revenue	496,749	665,887	169,138	34.0%
Depreciation of power, plant and equipment and intangible fixed assets	23,877	15,150	-8,727	-36.5%
Costs of employee benefits	23,082	16,501	-6,581	-28.5%
Consumption of materials and raw materials and the value of goods sold	312,636	421,020	108,384	34.7%
Purchase of energy for sale purposes	69,783	129,234	59,451	85.2%
Transmission services	1,771	0	-1,771	-100.0%
Other third part services	55,990	53,612	-2,378	-4.2%
Taxes and levies	11,270	9,138	-2,132	-18.9%
Tax deductible costs of sale	498,409	644,655	146,246	29.3%
Other operating revenues	15,805	24,263	8,458	53.5%
Profit / (Loss) on the sale and liquidation of property, plant and equipment	0	(609)	-609	-100.0%
Other operating costs	724	971	247	34.1%
Operating profit / (loss)	13,421	43,915	30,494	227.2%
Financial revenues	79,773	523	-79,250	-99.3%
Financial costs	-93	-14,378	-14,285	15,360.2%
Gross profit / (loss)	93,287	58,816	-34,471	-37.0%
Income tax	3,961	-3,176	-7,137	-180.2%
Net profit / (loss)	89,326	61,992	-27,334	-30.6%
EBITDA	37,298	59,065	21,767	58.4%

Q4 2018

EBITDA of ENEA Elektrownia Połaniec (an increase of PLN 22 million):

- (+) higher sales revenues by PLN 169 million result from higher energy sales by PLN 112 million on the back of a higher energy sales volume by 402 GWh and a higher sales price by PLN 14.36/MWh. Higher revenues from green certificates by PLN 53 million resulting from a higher price of green certificates by PLN 102.92/MWh. Higher revenues from sales of system services by PLN 0.6 million.
- (+) lower costs of employee benefits by PLN 6.5 million resulting mainly from the lack of consolidation of Bioenergia in 2018 and the ENEA Centrum Integration project
- (-) higher consumption of materials and raw materials by PLN 108 million mainly due to a higher production by 320 GWh, which resulted in a higher consumption of materials and raw materials used directly in production with a concurrent growth of coal costs by PLN 13.86/MWh and biomass costs by PLN 68.79/MWh
- (-) higher energy purchase costs by PLN 59 million result from a higher energy purchase price by PLN 77.51/MWh (down by PLN 48.9 million), with a concurrent growth in volume of purchased energy by 82 GWh (down by PLN 10.1 million)
- (+) lower costs of third party services by PLN 2.3 million result mainly from: lower costs of overhauls by PLN 6 million due to the change in the scope of overhauls, higher costs of ENEA Centrum Integration by PLN 1 million, higher costs of ENEA trademark use by PLN 2 million, higher costs of biomass installation operation by PLN 4.5 million (lack of Bioenergia consolidation – change in the presentation of costs, transfer of remuneration cost to costs of services), lower costs of other services by PLN 3.8 million
- (+) lower taxes and levies by PLN 2 million result from a release of the provision for Tax Inspection Authority claims in respect of VAT at the value of PLN 2,202 thousand in Bioenergia in 2017



¹⁾ Data for Q4 2017 concerned ENEA Elektrownia Połaniec Group, while items presented for Q4 2018 concerned ENEA Elektrownia Połaniec non-consolidated data (excluding ENEA Bioenergia Sp. z o.o.).

[PLN k]	FY 2017	FY 2018	Change	% change
Net sales revenue	1,780,320	1,756,673	-23,647	-1.3%
Depreciation of power, plant and equipment and intangible fixed assets	357,015	364,272	7,257	2.0%
Costs of employee benefits	416,172	577,003	160,831	38.6%
Consumption of materials and raw materials and the value of goods sold	304,056	342,201	38,145	12.5%
Other third party services	292,966	331,150	38,184	13.0%
Taxes and levies	47,337	43,474	-3,863	-8.2%
Tax deductible costs of sale	1,417,546	1,658,100	240,554	17.0%
Other operating revenues	5,174	38,675	33,501	647.5%
Other operating costs	4,998	5,920	922	18.4%
Profit/ (loss) on the sale and liquidation of property, plant and equipment	(10,982)	(25,880)	-14,898	135.7%
Impairment losses on non-financial fixed assets	1,284	0	-1,284	-100.0%
Operating profit / (loss)	350,684	105,448	-245,236	-69.9%
Financial revenues	8,361	15,554	7,193	86.0%
Financial costs	26,862	12,661	-14,201	-52.9%
Gross profit / (loss)	332,183	108,341	-223,842	-67.4%
Income tax	66,487	19,374	-47,113	-70.9%
Net profit / (loss)	265,696	88,967	-176,729	-66.5%
EBITDA	708,983	469,720	-239,263	-33.7%

FY 2018

LW Bogdanka Group's EBITDA change drivers (a decrease of PLN 239 million):

- (-) lower revenues from sales of coal: lower sales volume (-208,000 tonnes, -2.3%), at a higher price and a higher adjustment for coal from preparatory work
- (-) higher costs of employee benefits – a pay rise paid together with an extra bonus (settled over time) as well as higher average employment by 157 employees
- (-) higher costs of materials and energy resulting from higher gross extraction (+6.5%) and a larger scope of excavation works (+20.4%)
- (-) higher costs of third-party services – a larger scope of works commissioned to third-parties (drilling and mining services, stone transportation and loading services, weekend and holiday services) and higher rates for the services
- (+) lower costs of taxes and levies (lower mining fee due to the lower output realised)

Significant one-off events:

- recognition in the result for 2017 (in costs of employee benefits) of changes in provisions related to the purchase of coal allowances from current employees (positive impact on the results of PLN 114.9 million gross)
- higher other operating revenues in 2018 – settlement of the arrangement entered into between the Company and the consortium of Mostostal Warszawa S.A. and Acciona Infraestructuras; a positive impact on EBITDA of PLN 28.7 million
- higher value of liquidated tangible fixed assets – mainly, the net value of decommissioned excavations (last metres)
- higher financial revenues – release of the provision for Corporate Income Tax interest (approx. PLN 3.6 million)
- lower financial costs – lower debt y/y (down by PLN 305 million); settlement of the arrangement entered into between the Company and the consortium of Mostostal Warszawa S.A. and Acciona Infraestructuras; a positive impact on financial costs of PLN 2.7 million



[PLN k]	Q4 2017	Q4 2018	Change	% change
Net sales revenue	473,190	421,033	-52,157	-11.0%
Depreciation of power, plant and equipment and intangible fixed assets	97,383	89,425	-7,958	-8.2%
Costs of employee benefits	25,040	151,811	126,771	506.3%
Consumption of materials and raw materials and the value of goods sold	88,851	88,674	-177	-0.2%
Other third party services	86,736	92,719	5,983	6.9%
Taxes and levies	11,242	8,223	-3,019	-26.9%
Tax deductible costs of sale	309,252	430,852	121,600	39.3%
Other operating revenues	2,201	5,021	2,820	128.1%
Other operating costs	3,391	3,351	-40	-1.2%
Profit/ (loss) on the sale and liquidation of property, plant and equipment	(2,216)	(11,405)	-9,189	-414.7%
Impairment losses on non-financial fixed assets	1,284	0	-1,284	-100.0%
Operating profit / (loss)	159,248	-19,554	-178,802	-112.3%
Financial revenues	1,957	2,941	984	50.3%
Financial costs	8,389	302	-8,087	-96.4%
Gross profit / (loss)	152,816	-16,915	-169,731	-111.1%
Income tax	30,411	-3,634	-34,045	-111.9%
Net profit / (loss)	122,405	-13,281	-135,686	-110.9%
EBITDA	257,915	69,871	-188,044	-72.9%

Q4 2018

LW Bogdanka Group's EBITDA change drivers (a decrease of PLN 188 million):

- (-) lower revenues from coal sales: lower sales volume (-298,000 tonnes, -12.1%), at a higher price and a higher adjustment for coal from preparatory work
- (+) higher revenues from sales of materials and raw materials – higher sales of scrap
- (-) higher costs of employee benefits – higher average employment (by approx. 250 employees in LWB S.A. alone), a pay rise paid and an extra bonus (settled over time)
- (-) higher costs of third-party services, mainly costs of Saturday and Sunday work and of tunnelling works
- (+) lower costs of taxes and levies (lower mining fee due to the lower output realised)

Significant one-off events:

- recognition in the result for 2017 (in costs of employee benefits) of changes in provisions related to the purchase of coal allowances from current employees (positive impact on the results of PLN 114.9 million gross)
- higher value of liquidated tangible fixed assets – mainly, the net value of decommissioned excavations (last metres)
- lower financial costs – lower debt y/y (down by PLN 305 million)





Glossary of terms and abbreviations

GLOSSARY OF TERMS AND ABBREVIATIONS

Financial ratios

The following is a glossary of terms and a list of abbreviations used in this Report.

Ratio	Formula
EBITDA	= Operating profit/ (loss) + depreciation + impairment losses on non-financial fixed assets
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 non-current assets with equity	= $\frac{\text{Equity}}{\text{Non-current assets}}$
Total debt ratio	= $\frac{\text{Total liabilities}}{\text{Total assets}}$
Net debt / EBITDA	= $\frac{\text{Interest-bearing liabilities – cash and cash equivalents}}{\text{LTM EBITDA}}$
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

Abbreviation/term	Full name/definition
ACER	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
AMI	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
Backloading	Suspension of some auctions of CO ₂ emission allowances by EU to increase the price of allowances
Balancing market	Technical market operated by TSOs. Its objective is to balance in real time the demand for electricity with its production in the National Power System (NPS)
BAT	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
CAPEX	Capital expenditures
Carbon leakage	Leakage of CO ₂ from one country to another
CER	Certified Emission Reduction – the unit of certified emission reduction
CO₂	Carbon dioxide
Cogeneration	A technological process of simultaneous generation of electricity and usable thermal energy in a CHP plant
DAP	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
DSO	Distribution System Operator
EFX	Index for session transactions, the subject of which are contracts for property rights resulting from Energy Efficiency Certificates, the so called “white” certificates
Energy Law	Act of 10 April 1997 - Energy Law (Journal of Laws of 1997 No. 54, item 348, as amended)
EUA	EU Emission Allowance - emission allowances under the European Emissions Trading System
European Emission Trading System EU ETS	A European scheme to promote the reduction of greenhouse gas emissions
FGD installation	Flue gas desulphurisation installation
Forward market	Electricity market where forward products are listed
GPZ	(Polish) Transformer/Switching Point – a transformer station, responsible for converting high or medium voltage into low voltage for end users in a specified area
“Green” Property Rights	Same as PMOZE
ICE	Intercontinental Exchange – a trading platform for trading EU CO ₂ Emission Allowances (EUA) and units of Certified Emission Reduction (CERs) in the futures market
IGCC	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
KECX	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
KGMX	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.
KMETX	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
“Light blue” Property Rights	Property rights to certificates of origin confirming the production of electricity from agricultural biogas
MW_e	Megawatthour (1 GWh = 1.000 MWh)
MWh	Megawatthour (1 GWh = 1.000 MWh)
MW_t	Megawatt of heating power
NFOŚiGW	(Polish) National Fund for Environmental Protection and Water Management

Abbreviation/term	Full name/definition
NO_x	Nitrogen oxides
OPR	Operational Power Reserve
OZEX_A	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)
PMOZE	Property rights to certificates of origin for energy from renewable energy sources
PPE	Polish Power Exchange
Price of baseload ("BASE")	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)
Price of euro-peak ("PEAK")	The contract price for delivery of the same volume of electricity in each hour of the day
"Purple" Property Rights	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
"Red" Property Rights	Property rights to certificates of origin confirming the generation of electricity in other cogeneration sources
REMIT Regulation	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.
RES	Renewable Energy Sources
SAIDI	System Average Interruption Duration Index - indicator of the average system duration of a long and very long break (expressed in minutes per Customer)
SAIFI	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)
SCR installation	Installation of catalytic flue gas denitrification
SO₂	Sulphur dioxide
SPOT market	Cash market (spot)
Tariff group A	Energy sold and supplied to customers connected to the high voltage grid
Tariff group B	Energy sold and supplied to customers connected to the medium voltage grid
Tariff group C	Energy sold and supplied to customers connected to the low voltage grid, excluding customers using electricity for household purposes
Tariff group G	Energy sold and supplied to household customers connected to the grid irrespective of the voltage level
TFS	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 ₂ emission allowances
TPA	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
TSO	Transmission System Operator
WACC	Weighted average cost of capital
WFOŚiGW	(Polish) Provincial Environment Protection and Water Management Fund
"White" Property Rights	Property rights to certificates of origin resulting from energy efficiency certificates, the so called "white" certificates
WIBOR	Warsaw Interbank Offered Rate - interest rate on loans on the Polish interbank market
WRA	Regulatory Value of Assets
"Yellow" PM	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

TABLE OF CONTENTS

1. Operating summary	5-16
2. Organisation and operations of ENEA Group	17-65
3. Financial standing	66-87
4. Shares and shareholding	88-90
5. Governing bodies	91-96
6. Other information	97-114
7. Corporate governance	115-125
8. Non-Financial Statement	126-168
9. Annexes	169-177
10. Glossary	178-181

SIGNATURES OF THE MANAGEMENT BOARD MEMBERS



Date of preparation and approval for publication of the Report of the Management Board on the operations of ENEA S.A. and ENEA Group in 2018: **20 March 2019**

Date of publication of the Report of the Management Board on the operations of ENEA S.A. and ENEA Group in 2018: **21 March 2019**

Signatures:

President of the Management Board and CEO

Mirosław Kowalik

Vice-President of the Management Board for Commercial Affairs

Piotr Adamczak

Vice-President of the Management Board for Financial Affairs

Piotr Olejniczak

Vice-President of the Management Board for Corporate Affairs

Zbigniew Piętka



ENEA S.A.
ul. Górecka 1
60-201 Poznan
gielda@enea.pl