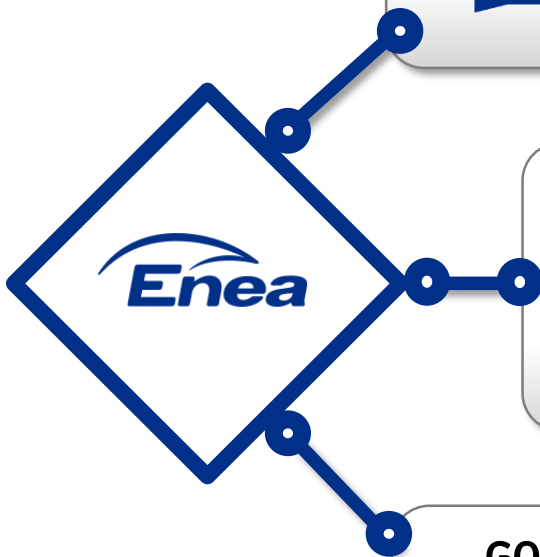




Report of the Management Board on the operations of Enea SA and Enea Capital Group in 2016

Poznań, date of approval: 29 March 2017

Date of publication: 30 March 2017



RESOURCES



5.2 GW
installed
electric power ¹⁾

3
mining
fields

121.3 thou. km
of distribution lines
including connections

15.7 thou.
Employees ¹⁾

2.5 mln
Customers

FINANCE

2016



PLN 11,256 mln
net sales revenue

PLN 2,328 mln
EBITDA

PLN 849 mln
net profit

1.9
net debt/EBITDA

**GOALS
UNTIL 2025**



10.9 mln tonnes
of own demand
for bituminous
coal

5.8 GW
installed
conventional
electric power

20.1 GWh
electricity sales

144 min/1.69
SAIDI/SAIFI

PLN 26.4 bln
basic
investment
budget

1) Data after Potaniec Power Plant acquisition

WE ARE INCREASING THE ENERGY SECURITY IN POLAND AND RELIABILITY OF ENERGY SUPPLIES TO OUR CUSTOMERS



Dear Sirs and Madams,
 the Polish energy industry is subject to transformations and energy companies need to adjust its business models to the volatile reality. To secure Enea Group's further development and prepare it to new market challenges, a corporate development strategy until 2030 was adopted in September 2016. New Enea is a flexibly operating process-based organisation which takes an active part in positive changes occurring in the Polish economy. It is not only a reliable electricity supplier, but also a leading supplier of integrated commodity and energy related products and other

innovative services for a wide range of Customers, recognised for the quality, comprehensiveness and reliability.

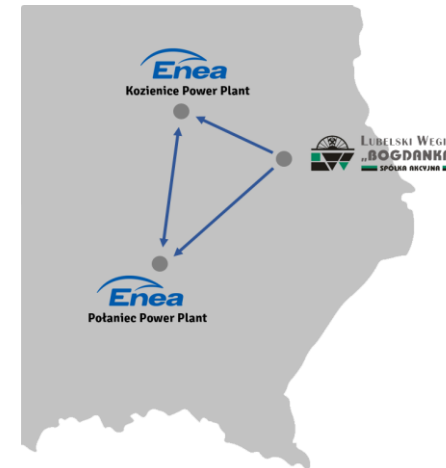
We invest in modern sources of generation and modernise the existing ones

Commissioning of a modern supercritical 1,075 MW_e unit in Koźienice Power Plant is our priority. The whole investment, comprising ca. 30 thou. detailed tasks, is already over 94% advanced. What is of a high importance for the implementation of the objectives foreseen in Enea Group's strategy, is investments which we commenced at the end of 2016, i.e. closing, in March 2017, the acquisition of Połaniec Power Plant and announcement of a tender for the construction project, jointly with Energa, of Ostrołęka C Power Plant. The new unit of ca. 1,000 MW_e capacity and efficiency of at least 45% in Ostrołęka Power Plant will be another, stable, high-performance and low-emission source of energy based on its own raw material in the Public Power System. On the other hand, the new technologies applied in it will allow to fulfil the current Community requirements related to the environmental protection. Realising Ostrołęka C Power Plant project we will use our knowledge and experience gained on the construction of the new unit in Koźienice Power Plant. Concurrently, we are implementing the modernisation programme for the existing generation assets in Koźienice Power Plant and Białystok Heat and Power Plant, increasing their operating efficiency and considerably limiting their impact on the environment.



We develop and strengthen our market position in the mining and generation area

In mid-March 2017 Połaniec Power Plant as one of the youngest and most modern system power plants in Poland with one of the biggest and most modern biomass-fired units in the world joined Enea Group. During the recent years it has been thoroughly and consistently modernised. It implemented a ca. PLN 1.5 bln worth of an intensive modernisation programme, extending its operation by 20 years, increasing the efficiency of energy generation and adjusting generating equipment to the environmental standards in force, including to the requirements of IED directive. Therefore, it constitutes valuable assets for Enea obtained at an optimum price. Połaniec Power Plant is a very efficient unit, generating good financial results.



It has much in common with Koźienice Power Plant owned by Enea. Both power plants are very important to the Polish power system security and generate energy using 200 MW units. With an almost 24 TWh potential we will become the second electricity producer in Poland.

We are building optimum synergies and increasing the Group's effectiveness

An efficient model of integrating the mining and generation areas is one of the key tasks of a vertically integrated commodity and energy groups which include Enea. The added value of Połaniec Power Plant acquisition is cost and operating synergies which we will be able to effect thanks to the cooperation between the area of generation, i.e. Koźienice and Połaniec power plants, and the area of mining, i.e. LW Bogdanka. Due to the finalisation of the acquisition two major customers of the Lublin mine are now included in Enea Group's structures, which is an extremely important element for the realisation of the development strategy presented in February 2017 by Bogdanka relating to Enea Group's Area of Mining until 2025 (with the perspective until 2030). LW Bogdanka's strategy will be implemented in a flexible development scenario. It assumes an annual average volume of production in 2017-2025 on the level of ca. 9.2 mln tonnes. Koźienice-Bogdanka-Połaniec mining and generation area located in south-east Poland will also guarantee a further improvement in the energy generation efficiency in Enea Group and will strengthen the position on the market.

WE ARE INCREASING THE ENERGY SECURITY IN POLAND AND RELIABILITY OF ENERGY SUPPLIES TO OUR CUSTOMERS

We are enhancing the potential and reliability of electricity supply

Enea Group's development strategy foresees increasing electricity sales to end Customers to the level of 20.1 TWh in 2025 (growth by 24.4% in relation to 2015). Building appropriate synergies of mining and generation assets based on LW Bogdanka and modern generation capacity of Enea Group, will enable us to appropriately balance and secure energy supplies to our Customers and develop further. In 2016 we also carried out the intensive programme of modernisation and development of the distribution network. We allocated over PLN 900 mln for that objective. These activities substantially contributed to the improvement of the energy security in the whole region serviced by Enea Group. We improved the indices which qualitatively define the duration and number of interruptions in energy supply: SAIDI - by 44% yoy and SAIFI - by 30% yoy. It is also worth underlining that last year we realised as much as 15% more contracts relating to connecting new customers to the grid than in 2015. Enea Operator applies for support in the implementation of its investments from the Community funds. Last year, the subsidy granted to the Company amounted to over PLN 250 mln.

Multi-service Enea of the future – Customer in the centre of attention

The importance of the civil power engineering and the Customer's position is growing, thus, apart from a competitive price of energy and constant improvement of the quality of provided services, we are extending our portfolio with additional packages. Already now, we offer many additional services, such as electrician assistance or medical care which are being sold together with electricity. In November 2016, we launched a new offer - Energy+ Photovoltaics. It includes a comprehensive Customer service with audit and selection of an optimum photovoltaic installation. We intend to develop in this direction. We want Enea to become a multi-service company with a diversified portfolio of services adjusted to the needs of its Customers. We intend to actively participate in the development and operation of energy clusters, firstly in the area of Enea Operator's operations. Clusters constitute a chance for the development of new services provided by Enea Group and a possibility of preparing it for future market needs.

Human potential and innovation are our priorities and we are building a flexible process-based organisation

We are increasing our activity in the field of innovation, and see the power and future in further development of the human potential. The Generation Change Programme was launched with the objective to build a systemic process securing the appropriate level of inflow and maintenance of the competence during the next years. Through functional changes we are pursuing the development of an organisational culture which will not only support the corporate development but will also meet Employees' expectations as regards raising the competence and satisfaction of work in Enea Group.

We want to develop stable and attractive work places for the existing and prospective Employees within the consolidated Group. We are creating an innovative ecosystem being part of the national economy development programme. Over 50% of 60 initiatives defined in the strategy focus on innovations. It demonstrates how Enea is particular about the development of innovative approach in all the aspects of its operations. The Group wants to be the co-author of the innovation ecosystem in Poland. An example of such an approach may be a potential investment in a modern unit in the technology of clean coal, the so-called IGCC (Integrated Gasification Combined Cycle) with the capacity of 300 - 500 MW, which could be located near Bogdanka. Poland holds rich resources of bituminous coal, its gasification is one of the most far-reaching energy technologies based on this fuel. The Company takes also an active part in the works for the development and building of the e-mobility infrastructure in Poland. Electromobility is one of the areas which will have impact on the future shape of the electricity market, thus the decision on the establishment, jointly with PGE, Energa and Tauron, a dedicated company - ElectroMobility Poland. We also join the works related to the pursuit of increasing the number of electric buses in Polish cities and communes within the existing systems of mass communication.

The Group's financial security - key task

The optimisation of all the business processes occurring in the organisation, so that to take benefit of its potential, is a priority for us. The implementation of the scheduled investments on the other hand guarantees its continuous growth. Each project is analysed and individually assessed. It must have an economic justification and enhance the Group's value for its stakeholders. Consistently, we take care for the level of costs, carrying out saving programmes. The Group's financial security is the most important for us. Due to the stable financial situation and generated solid results, the financing of our further development is guaranteed under favourable conditions.

We take care for a balanced development and dialogue with the Society

We foresee a strong support of the local growth and building lasting local social relations, which are an important element of the responsible business policy for us. We will take care for the development of individual regions in Poland, acting as an attractive employer, but also as an entity strengthening the social development, supporting local vocational education. One of our priorities is also continuation of the open and constructive dialogue with the Society which enables building a wide social consensus around values and issues fundamental for our Group's development.

Yours faithfully,

Mirosław Kowalik
President of the Management Board of Enea SA



1. Operating Summary


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In 2016 Enea Capital Group generated:

- **PLN 11,256 mln** net sales revenue - growth by 14.3% yoy (growth by 17.8% excluding LTPPA)
- **PLN 2,328 mln** EBITDA - growth by 9.3% yoy (growth by 33.8% excluding the provision related to the estimation of the value of shares in Eco-Power sp. z o.o. and LTPPA)
- **PLN 849 mln** net profit

In the reporting period, the highest EBITDA, PLN 1,111 mln (drop by 2.4% yoy), was realised in the area of Distribution. In relation to the acquisition of LW Bogdanka, Enea CG's operations in Q4 2015 were extended with the area of Mining (November-December), which in 2016 generated PLN 612 mln EBITDA. The yoy comparability of the results of the area of Generation was affected by one-offs being accounting in Q3 2015 for revenue from LTPPA totalling to PLN 293 mln and establishment in Q4 2016 of a provision related to the estimation of the value of shares in Eco-Power sp. z o.o. amounting to PLN 129 mln. After exclusion of these events the said area reported a growth in EBITDA totalling to PLN 44 mln (growth by 7.3%). The segment of Trade's EBITDA, after a growth by 22.1% yoy, amounted to PLN 154 mln.

Additionally, Enea CG's EBIT was affected by the establishment of provisions for the Programme of Voluntary Redundancy amounting to PLN 54 mln and write-down of the book value of assets in the area of Wind amounting to PLN 49 mln.

 <ul style="list-style-type: none"> • Higher volumes of sold electricity • Dynamic growth in gas sales • Higher sales of distribution services • Higher sales of heat energy • Stable and profitable sales of coal (LW Bogdanka's full year of operation in Enea CG) • Implementation of the Fixed Costs Optimisation Programme 	<ul style="list-style-type: none"> • Lower average selling price of electricity • Lower average price of green proprietary interests • Lower average selling price of natural gas • Establishment of provisions for Programme of Voluntary Redundancy • Establishment of the provision related to the estimation of the value of shares in Eco-Power sp. z o.o.
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In Q4 2016 alone the Group generated:

- **PLN 2,952 mln** net sales revenue - growth by 9.4% yoy
- **PLN 499 mln** EBITDA - drop by 4.8% yoy (growth by 19.8% excluding the provision related to the estimation of the value of shares in Eco-Power sp. z o.o.)
- **PLN 128 mln** net profit

Last year, Enea CG spent PLN 2,742 mln on investments, which is by 10.1% less than in the same period of the previous year.

Net debt/EBITDA as at the end of 2016 was on a safe level of 1.9.

In January-December 2016 the Group generated 13.6 TWh (growth by 3.2% yoy) of electricity, of which 13.0 TWh (growth by 6.0% yoy) derived from conventional sources.

Sales of distribution services to end users amounted to 18.7 TWh i.e. increased by 4.5% in relation to the same period of the previous year.

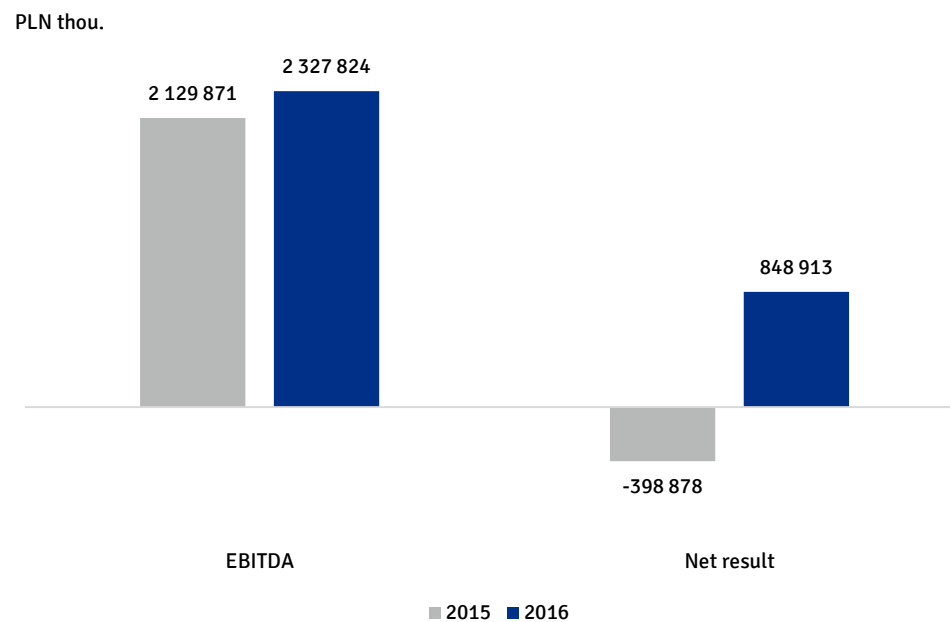
In 2016 Enea SA increased the sales volumes of electricity and gas to retail consumers by 951 GWh, which is 5.6% yoy. The sale of gas to business customers increased significantly - a growth by 465 GWh (55.0% yoy) from 846 GWh in 2015.

A detailed index of issues included in this Report is to be found on page 122

[PLN '000]	2015	2016	Change	Change %
Net sales revenue	9 848 392	11 255 678	1 407 286	14.3%
Operating profit / (loss)	-162 125	1 119 314	1 281 439	-
Profit / (loss) before tax	-408 978	1 068 802	1 477 780	-
Net profit / (loss) for the reporting period	-398 878	848 913	1 247 791	-
EBITDA	2 129 871	2 327 824	197 953	9.3%
Net cash flows from:				
operating activities	2 206 416	2 424 445	218 029	9.9%
investing activities	-3 724 664	-2 490 580	1 234 084	33.1%
financing activities	2 653 026	584 258	-2 068 768	-78.0%
Balance of cash	1 822 094	2 340 217	518 123	28.4%
Weighted average number of shares [pcs.]	441 442 578	441 442 578	-	-
Net profit / (loss) per share [PLN]	-0.99	1.78	2.77	-
Diluted profit / (loss) per share [PLN]	-0.99	1.78	2.77	-

[PLN '000]	Q4 2015	Q4 2016	Change	Change %
Net sales revenue	2 698 079	2 951 734	253 655	9.4%
Operating profit / (loss)	-1 209 096	170 172	1 379 268	-
Profit / (loss) before tax	-1 455 209	171 217	1 626 426	-
Net profit / (loss) for the reporting period	-1 236 716	128 258	1 364 974	-
EBITDA	524 629	499 245	-25 384	-4.8%
Weighted average number of shares [pcs.]	441 442 578	441 442 578	-	-
Net profit / (loss) per share [PLN]	-2,88	0.25	3.13	-
Diluted profit / (loss) per share [PLN]	-2.88	0.25	3.13	-

[PLN '000]	31 December 2015	31 December 2016	Change	Change %
Total assets	22 988 996	24 536 519	1 547 523	6.7%
Total liabilities	10 866 393	11 524 790	658 397	6.1%
Non-current liabilities	8 457 838	8 606 757	148 919	1.8%
Current liabilities	2 408 555	2 918 033	509 478	21.2%
Equity	12 122 603	13 011 729	889 126	7.3%
Share capital	588 018	588 018	-	-
Book value per share [PLN]	27.46	29.48	2.02	7.4%
Diluted book value per share [PLN]	27.46	29.48	2.02	7.4%

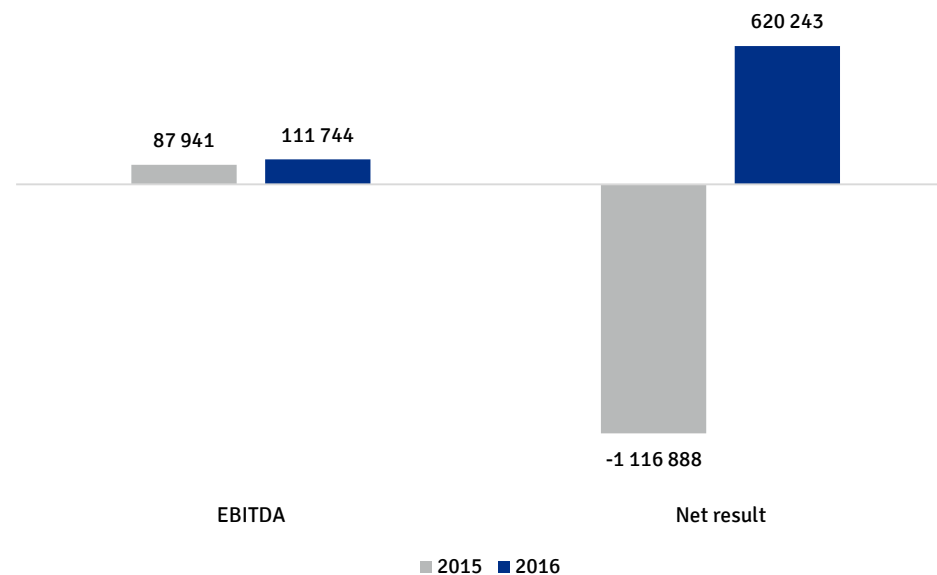


[PLN '000]	2015	2016	Change	Change %
Net sales revenue	5 430 224	5 421 352	-8 872	-0.2%
Operating profit / (loss)	82 284	108 285	26 001	31.6%
Profit / (loss) before tax	-1 085 905	647 087	1 732 992	159.6%
Net profit / (loss) for the reporting period	-1 116 888	620 243	1 737 131	155.5%
EBITDA	87 941	111 744	23 803	27.1%
Net cash flows from:				
operating activities	175 874	83 403	-92 471	-52.6%
investing activities	-1 977 197	-561 847	1 415 350	71.6%
financing activities	2 758 140	695 634	-2 062 506	-74.8%
Balance of cash	1 397 632	1 614 822	217 190	15.5%
Weighted average number of shares [pcs.]	441 442 578	441 442 578	-	-
Net profit per share [PLN]	-2.53	1.41	3.94	-
Diluted profit per share [PLN]	-2.53	1.41	3.94	-

[PLN '000]	Q4 2015	Q4 2016	Change	Change %
Net sales revenue	1 422 157	1 396 023	-26 134	-1.8%
Operating profit / (loss)	27 779	35 315	7 536	19.9%
Profit / (loss) before tax	-2 047 829	41 088	2 088 916	-
Net profit / (loss) for the reporting period	-2 054 846	34 708	2 089 554	-
EBITDA	29 038	34 114	5 076	17.5%
Weighted average number of shares [pcs.]	441 442 578	441 442 578	-	-
Net profit per share [PLN]	-4.65	0.08	4.73	-
Diluted profit per share [PLN]	-4.65	0.08	4.73	-

[PLN '000]	31 December 2015	31 December 2016	Change	Change %
Total assets	16 847 310	18 217 925	1 370 615	8.1%
Total liabilities	6 559 305	7 277 446	718 141	10.9%
Non-current liabilities	5 253 551	5 972 038	718 487	13.7%
Current liabilities	1 305 754	1 305 408	-346	0.0%
Equity	10 288 005	10 940 479	652 474	6.3%
Share capital	588 018	588 018	-	-
Book value per share [PLN]	23.31	24.78	1.47	6.4%
Diluted book value per share [PLN]	23.31	24.78	1.47	6.4%

PLN thou.



	unit	2015	2016	Change	Change %	Q4 2015	Q4 2016	Change	Change %
Net sales revenue	PLN thou.	9 848 392	11 255 678	1 407 286	14.3%	2 698 079	2 951 734	253 655	9.4%
EBITDA	PLN thou.	2 129 871	2 327 824	197 953	9.3%	524 629	499 245	-25 384	-4.8%
EBIT	PLN thou.	-162 125	1 119 314	1 281 439	-	-1 209 096	170 172	1 379 268	-
Net profit / (loss)	PLN thou.	-398 878	848 913	1 247 791	-	-1 236 716	128 258	1 364 974	-
Net cash flows from operating activities	PLN thou.	2 206 416	2 424 445	218 029	9.9%	860 817	602 050	-258 767	-30.1%
CAPEX	PLN thou.	3 051 456	2 742 013	-309 443	-10.1%	1 097 754	887 934	-209 820	-19.1%
Net debt / EBITDA ¹⁾	-	1.8	1.9	0.1	5.6%	1.8	1.9	0.1	5.6%
Return on assets (ROA) ¹⁾	%	-1.7%	3.5%	5.2 p.p.	-	-21.5%	2.1%	23.6 p.p.	-
Return on equity (ROE) ¹⁾	%	-3.3%	6.5%	9.8 p.p.	-	-40.8%	3.9%	44.7 p.p.	-
Trade									
Sales of electricity and gas to retail customers	GWh	17 038	17 989	951	5.6%	4 542	4 693	151	3.3%
Number of consumers (Power Delivery Points)	thou.	2 382	2 405	23	1.0%	2 382	2 405	23	1.0%
Distribution									
Sales of distribution services to end users	GWh	17 936	18 741	806	4.5%	4 545	4 817	272	6.0%
Number of customers (closing balance)	thou.	2 487	2 520	33	1.3%	2 487	2 520	33	1.3%
Generation									
Total generation of electricity, including:	GWh	13 142	13 567	425	3.2%	3 444	3 401	-43	-1.2%
<i>from conventional sources</i>	GWh	12 293	13 028	735	6.0%	3 228	3 255	27	0.8%
<i>from renewable sources of energy</i>	GWh	849	539	-310	-36.5%	216	146	-70	-32.4%
Gross generation of heat	TJ	5 217	5 299	82	1.6%	1 616	1 804	188	11.6%
Sale of electricity, including:	GWh	16 359	16 802	443	2.7%	4 331	4 207	-124	-2.9%
<i>from conventional sources</i>	GWh	15 510	16 263	753	4.9%	4 115	4 061	-54	-1.3%
<i>from renewable sources of energy</i>	GWh	849	539	-310	-36.5%	216	146	-70	-32.4%
Sales of heat	TJ	4 237	4 527	290	6.8%	1 436	1 614	178	12.4%
Mining ²⁾									
Gross output	thou. of tonnes	2 641	14 389	11 748	444.8%	2 641	3 638	997	37.8%
Net production	thou. of tonnes	1 701	9 038	7 337	431.3%	1 701	2 356	655	38.5%
Roadway works	m	3 164	25 535	22 371	707.0%	3 164	7 145	3 981	125.8%

2016 / 2015

**Growth in EBITDA
by PLN 198 mln**

**Greater volumes of
generated electricity
by 425 GWh**

**Greater number of new
electricity consumers by
23 thou.**

Q4 2016 / Q4 2015:

**Gross heat
generation higher
by 188 TJ**

2016:

- Consistent development of Enea CG: CAPEX totalling to PLN 2,742 mln with a safe level of net debt/EBITDA ratio
- Greater volumes of generated electricity by 425 GWh
- Greater volumes of generated heat energy by 82 TJ
- Greater number of electricity consumers by 23 thou.
- Greater sales volume of heat by 290 TJ

Q4 2016:

- Consistent development of Enea CG: CAPEX totalling to PLN 888 mln with a safe level of net debt/EBITDA ratio
- Growth in sales of energy and gas to retail consumers by 151 GWh

¹⁾ Ratio definitions are to be found on page 119

²⁾ Data presented within the area of Mining for November-December 2015

I quarter

Changes in Enea's authorities

On 7 January Wiesław Kowalik became the President of the Management Board of Enea, and Wiesław Piosik the Vice-President of the Management Board for Corporate Affairs, who in relation to the nomination into the Management Board resigned from the membership in the Supervisory Board. On the same day, the following people ceased to hold their functions: Dalida Gepfert, Vice-President of the Management Board for Financial Affairs and Grzegorz Kinelski, Vice-President of the Management Board for Commercial Affairs. The duties of the Vice-President for Commercial Affairs were temporarily taken by the Member of the Supervisory Board, Sławomir Brzeziński. On 15 January the following people were recalled from the composition of the Supervisory Board: Sandra Malinowska, Tomasz Gołębiowski and Radosław Winiarski, and the following people were nominated into it: Piotr Kossak, Rafał Bargiel, Roman Stryjski and Piotr Mirkowski. On 21 January the Supervisory Board nominated, as of 15 February, Mikołaj Franzkowiak to the position of the Vice-President of the Management Board for Financial Affairs and Piotr Adamczak to the position of the Vice-President of the Management Board for Commercial Affairs. On the same day Sławomir Brzeziński ceased to perform the duties of the Vice-President of the Management Board for Commercial Affairs.

Enea Wytwarzanie invests in new technologies

In Q1 2016 one of the most important stages of the new 1,075 MW_e power unit construction was successfully completed. A water test of the boiler was successfully performed. In April, on the other hand, the boiler underwent a positive pressure test. Enea Wytwarzanie's unit No. 11 will be the most modern generating unit based on bituminous coal in Poland and Europe.

A modern control station of Traffic Engineers on Duty was launched in Kozienice Power Plant. The facility is "the heart of the power plant", from which the electricity production may be managed. New posts are equipped with the most modern appliances, which enhances the safety and facilitates the work.

In care for the natural environment chemical laboratories belonging to Enea Wytwarzanie were equipped with the most modern control and metering devices of renowned companies. STARLIMS system which serves for the safe collection, archiving and browsing of data will be implemented there as well. It will be the first implementation of this type in the Polish power sector.

eCSC available for all Enea's Customers

In Q1 2016, the process of implementing a modern electronic system of the Customer Service Centre was completed. The solution is both for households and companies as well. Due to eCSC Enea's Customers may e.g. check the status of invoices, pay the bills and contact the company on any matter.

II quarter

Enea Wytwarzanie strengthens its capacity from renewable sources

In April a new Baczyna wind farm with the capacity of 14.1 MW was commissioned. The project is located in Lubno, Lubiszyn municipality in Lubuskie province. Enea Serwis was engaged in the construction, and electricity generated by the farm goes to the distribution network of Enea Operator. The anticipated annual electricity production will amount to over 30 thou. MWh.

Enea Operator with a prolonged licence

On 31 May the President of ERO prolonged Enea Operator's licence for electricity distribution. The existing one is in force until 1 July 2017. The works over the preparation of the motion with all the required documents were conducted from March 2015. The new licence is valid until 1 July 2030.

Investments in innovative projects

On 7 June the National Centre for Nuclear Research, Warsaw University of Technology, Enea, Energa, PGE and Tauron Polska Energia signed a letter of intent relating to the joint actions towards the development, promotion and dissemination of electromobility in Poland and development of the industry connected with this area. Joining the powers of the power sector and scientific community is a chance for new, innovative services and products satisfying customers' growing expectations, assuming building a durable energy security.

Enea Operator implements new solutions

Enea Operator is consistently strengthening the security of electricity supplies in north-western Poland.

In Q2 2016, an innovative technology was introduced allowing for an automatic detection of damages (short circuits) and limitation of their coverage to the place of their occurrence. The application of an innovative solution was possible due to launching by the company of another function of SCADA dispatcher system, and more accurately the so-called FDIR model (Eng. Fault Detection, Isolation and Restoration), which is able to "omit" the damaged section of the grid.

Enea Operator launched the Connection Portal also for its Customers. The new platform is an electronic connection Customer service centre.

Additionally, the distribution company from Enea Group granted access on its website to new functionalities enabling Customers to obtain information on failures in the area of their interest or on cancellation of planned power switch-offs.

III quarter

LW Bogdanka further integrates with Enea Group

Enea continues the process of integration of LW Bogdanka with the Group which commenced last year. The course of the integration process is evolutionary from the moment Enea became a strategic investor in the mine from Lublin. In mid-April the first stage of this process was completed a part of which was amendment to the Statute of LW Bogdanka as regards the duty of acting in the interest of Enea Group by this Company. The second stage, finalised during the Extraordinary General Meeting of Shareholders of LW Bogdanka on 17 August, consisted in the maximum possible adaptation of LW Bogdanka's Statute to Enea Group's standard, adoption of Enea Group's Code and joining Enea Group by LW Bogdanka. Due to the integration the whole value chain will be utilised optimally, and it will be possible to mutually exchange experiences and competences and develop the whole Group.

Enea joined TUV PZUW

On 7 September Enea joined the Mutual Insurance Company PZUW (TUV PZUW). Enea's membership in TUV PZUW is part of the cooperation between strategic State-owned enterprises. A cooperative insurance association dedicated to Enea was created as part of TUV PZU. The company will use the possibility of concluding an agreement with the mutual insurance company of which it became a member, which will allow for achieving not only favourable terms but also shorten the process of concluding insurances. TUV PZUW insures only its members based on the mutuality principle. TUV members are its owners at the same time. The insurance company is supervised by KNF (Polish Financial Supervision Authority) and PZU SA is the capital guarantor.

Enea CG with the new development strategy until 2030

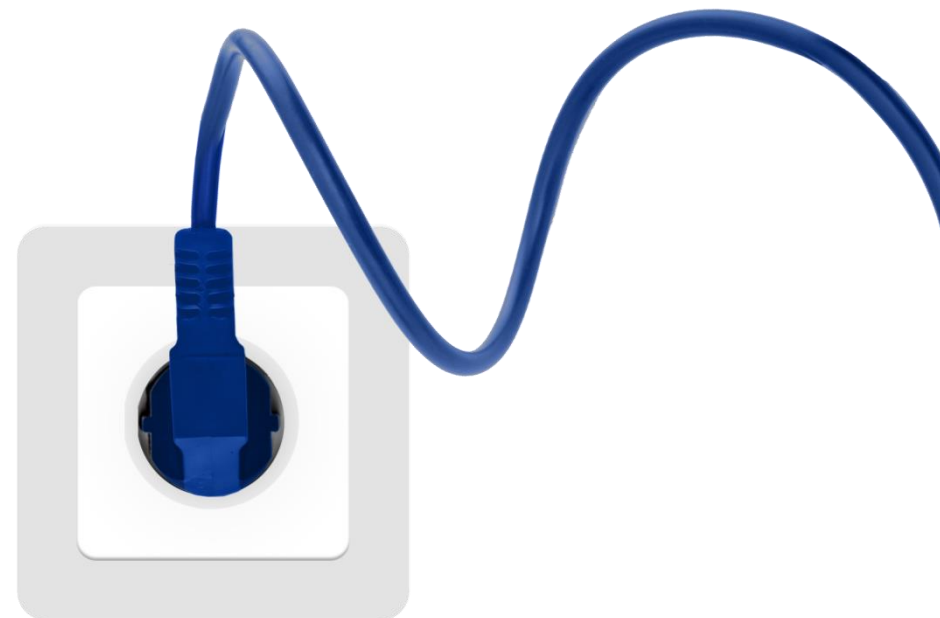
On 29 September the Company adopted Enea Capital Group's Development Strategy until 2030 for implementation. The main goal of the strategy is increasing Enea CG's value for Shareholders. Enea optimises and adjusts the commodity and energy corporation's functioning model to the market environment. The Group will be an active participant of positive changes in the Polish economy and will strengthen the Polish energy security, becoming a part of the Responsible Development Plan for Poland and of the national energy policy. Enea will significantly increase its shares in particular market segments and focus on the development of new, innovative business lines and technologies.

The Company estimates that the basic capital expenditures on maintaining the continuity of the Group's operation in 2016-2030 will total to ca. PLN 26.4 bln. Enea plans to implement the capital expenditures efficiency growth programme as well. As a result of conducted analyses, the Group optimised the capital expenditures within RES, cogeneration sources and heating networks planned in the previous strategy until 2020. CAPEX potential generated this way and the Group's financial situation will enable Enea to designate additional PLN 6.2 bln until 2025 and PLN 5.3 bln in 2026-2030 on development investments. The expenditures constitute the maximum investment budget the Group may allocate to economically attractive investments, including acquisitions.

The Company will implement the efficiency improvement programme which foresees operating efficiency management within which it estimates the fixed cost optimisation by PLN 700 mln until 2025 in relation to 2016 base year.

Contract for flue gases denitrification installation in Kozenice Power Plant signed

On 30 September Enea Wytwarzanie and RAFAKO signed a contract for the construction of a modern flue gases denitrification installation together with the modernisation of electrostatic precipitators in Kozenice Power Plant. The value of the contract is PLN 289.2 mln net. The completion of the investment is planned for the end of 2018. The subject of the contract is delivery and assembly of a modern installation of the catalytic denitrogenation of flue gases (SCR) together with replacement of flue gas ventilators for AP-1650 boilers on 9 and 10 power units, 500 MW each. RAFAKO will also execute the project and replacement of the electrostatic precipitator with ash removal system and corresponding flue gas channels, and will also modernise the flue gas desulphurisation plant (IOS) for unit No. 9. The goal of the investment is guaranteeing an over five-fold reduction in the emission of nitric oxides from the current level of 500 - 550 mg/Nm³ to the level of below 100 mg/Nm³ NO_x.



III-IV quarter

The Group wishes to increase its generating and mining capacities in a balanced way - engagement in projects crucial for energy security in Poland in the period of Q3-Q4 2016

• Initial offer submitted with partners for the acquisition of EDF assets in Poland

On 16 September, Enea and PGE, Energa and PGNiG Termika, made a joint initial, non-binding offer for the purchase of shares in companies belonging to EDF in Poland. These are conventional generation assets conducting business activities, including in particular: Rybnik Power Plant, Combined heat and power plant in Cracow, Combined heat and power plant in Gdańsk, Combined heat and power plant in Gdynia, Combined heat and power plant and heating network in Toruń, Combined heat and power plant and heating network in Wrocław agglomeration, Combined heat and power plant and heating network in Zielona Góra and a gas unit in Toruń.

In relation to the expiring date of the offer made on 16 September the business partners submitted a new offer on 30 November. On 27 January 2017 a Memorandum of Understanding was signed with EDF relating to the conduct of negotiations on the acquisition of EDF assets in Poland and due diligence analysis within this scope. On 15 March 2017 the business partners made amendments to the transaction structure, relating to:

- withdrawal of PGNiG Termika from the transaction
- takeover of the so far declared share of PGNiG Termika in the transaction by PGE, which results in the growth in PGE's share in the transaction to 60%
- maintaining the shares of Enea and Energa in the transaction on the same level of 20% for each company

Pursuant to the arrangements the aforementioned amendments confirm filing no objections by EDF.

• Letter of Intent relating to the preliminary interest in the financial participation in Katowicki Holding Węglowy

In relation to the process of obtaining capital investors by Katowicki Holding Węglowy, in July the Company commenced talks with potential investors relating to a possibility of implementing a potential investment and its potential parameters. On 28 October Enea, Węglokoks and Towarzystwo Finansowe Silesia signed a letter of intent expressing a preliminary interest in the financial engagement in Katowicki Holding Węglowy or KHW's assets. The Investors' final decisions as regards the participation in KHW will be made e.g. after the analysis of the due diligence performed and after the determination of the final shape of all the other arrangements.

• A joint investment with Energa by the realisation of a power unit in Ostrołęka Power Plant

On 19 September Enea and Energa signed a letter of intent relating to undertaking the cooperation on the preparation, implementation and operation of a modern 1,000 MW unit in Ostrołęka Power Plant (Ostrołęka C). On 8 December Energa SA, Enea SA and Elektrownia Ostrołęka SA, i.e. the special purpose vehicle established by Energa for the implementation of the project, signed an investment agreement. The companies split the planned cooperation into three stages. They will include, respectively: Development Stage, which will last until the instruction is given to commence works for the general contractor; Construction Stage, which will cover the period until the commissioning of Ostrołęka C Power Plant for commercial operation and Exploitation stage during which Ostrołęka C Power Plant will be used for commercial purposes. On 19 December Enea and Energa announced the tender procedure for the selection of the general contractor of Ostrołęka C - the deadline for submitting applications expired on 10 March 2017. The companies estimate that the preliminary term of their consideration will be 3 months.

Energa and Enea agree that the implementation of Ostrołęka C project will positively affect the Polish energy security, will satisfy the highest environmental standards and will guarantee a next highly-efficient and low-emission source of energy in the Polish Power System. The Companies foresee that the construction of the new unit will be completed in H2 2023, and the expenditures on the implementation of the investment will total to ca. 5.5-6 mln PLN/MW.

• Acquisition of Połaniec Power Plant from ENGIE

On 30 September Enea submitted an offer for the purchase of 100% of shares in ENGIE Energia Polska SA (EEP), the owner of Połaniec Power Plant. On 2 December it was granted the right of exclusivity for conducting negotiations. On 23 December Enea and ENGIE International Holdings B.V. signed a conditional agreement on the acquisition of 100% of shares in EEP. On 28 February 2017 Enea received the information on the satisfaction of the last of four conditions precedent of the conditional purchase agreement. On 2 March 2017 the Company received the calculation of the initial selling price of 100% of shares in EEP from ENGIE International Holdings B.V. on the level of PLN 1,264 mln. It was stipulated in accordance with the contractual terms, however it will be subject to verification by the Company and potential adjustments in the period occurring directly after taking the control over EEP, under the terms specified in the agreement, compliant with the market standards applying to such transactions. On 14 March 2017 Enea acquired 100% shares in EEP for the initial price of PLN 1,264 mln.

The investment is in line with Enea Capital Group's new Development Strategy. The acquisition of Połaniec Power Plant will strengthen Enea's positions as one of the leading electricity generators in Poland and will strengthen the Group's position on the market. EEP is currently the fifth energy producer in Poland. The power plant in Połaniec, with ca. 1.9 GW capacity, accounts for around 6% of energy generation in Poland.

IV quarter

Electromobility a chance for a growth in the innovativeness of the energy industry

On 19 October PGE Polska Grupa Energetyczna, Energa, Enea and Tauron Polska Energia incorporated ElectroMobility Poland. The new company's share capital is PLN 10 mln. Each of the companies incorporating ElectroMobility Poland holds 25% in the share capital with 25% of votes at a general meeting. The operations of the new company are to contribute to the creation of the electromobility system in Poland.

The Memorandum and Articles of Association of the Polish National Foundation are executed

On 17 November Enea, as one of 17 key Polish enterprises, executed a notarial deed on the incorporation of the Polish National Foundation and its articles of association. The organisation's duty is promoting the Polish economy and shaping the image of State-owned enterprises and their investments carried out in Poland and abroad.

Fitch Ratings agency affirmed Enea's credit rating

On 30 November Fitch Ratings agency upheld long-term ratings for our Company in national and foreign currency on the level of "BBB" and a long-term national rating on the level of "A+(pol)". The outlook of the ratings is stable. The Agency affirmed the rating for the Company on the same level since 2011.

Enea, Energa, PGE and PGNiG subscribed for shares in Polimex-Mostostal

On 6 December targeted talks commenced between Enea and companies: Energa, PGE Polska Grupa Energetyczna, PGNiG SA and Polimex Mostostal, with the aim of elaborating the structure of a potential equity involvement of investors in Polimex and developing a potential cooperation model among investors by the involvement implementation. On 27 December a letter of intent was signed, and on 18 January 2017 an investment agreement and other transaction-related agreements were concluded. On 20 January 2017, after satisfaction of conditions precedent, foreseen in the investment agreement of 18 January 2017, Enea, Energa, PGE and PGNiG Technologie took up shares in Polimex-Mostostal. The investors took up cumulatively 150 mln, i.e. 37.5 mln shares in Polimex-Mostostal each, as part of the planned capital raising. The issue price per share was set at PLN 2. As a consequence of recapitalisation and redemption of the shareholding in SPV Operator the investors subscribed for a total of 65.93% of shares (complaint with the new shareholding structure). On 21 March 2017 the Investors published a tender offer for shares in Polimex in relation to exceeding (as the parties to the memorandum of understanding) of the 33% threshold of the general number of votes at a general meeting of Polimex. The tender offer is consequent and as the result of it the Investors intend to acquire the shares guaranteeing holding not more than 66% of the total number of votes at a general meeting of Polimex.

Polimex-Mostostal holds the largest, over 23% share in the implementation of core projects in the conventional energy sector. Due to this fact, the company is present in contractor consortia of the largest energy related investments in Poland, whose cumulative budget is ca. PLN 30 bln.

New tariffs for individual customers

On 15 December the President of the Energy Regulatory Office approved the tariff of Enea Operator for 2017. The distribution tariff grew by 5.2% yoy. The rates of fees for the distribution services approved for 2017 resulted in the following changes in the average payments for customers in particular tariff groups as regards 2016 (including the shifted and additional fees): A tariff group - growth by 0.96%, B tariff group - growth by 5.73%, C tariff group - growth by 4.91%, G tariff group - growth by 5.61%. It is translated into the average growth for all the group sets amounting to 5.2%. The rise in rates of distribution fees in 2017 in relation to 2016 stems mainly from the significant increase in the rate of shifted charges: transitory charge and RES fee.

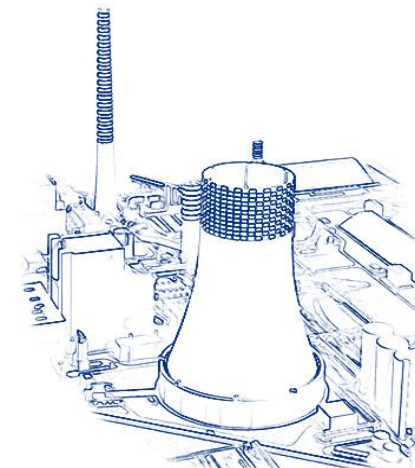
At the same time, the President of ERO approved Enea's tariff as of the so-called nominated vendor, for customers in G groups, which dropped in relation to 2016 by 4.8% yoy. 2017 tariff takes into account the reduction in energy selling prices for households stemming mainly from lower costs of purchasing energy and lower costs of the so-called green certificates.

The amendment concerning deadlines of the agreement on the construction of a power unit in Kozienice Power Plant

On 23 December Enea Wytwarzanie and the Consortium of Mitsubishi Hitachi Power Systems Europe and Polimex-Mostostal signed an annex amending the deadlines foreseen in the agreement on the construction of a power unit in Kozienice Power Plant. The Annex extends the deadline for the investment completion until 19 December 2017.

Extension of the investment completion date by around five months stems from objective reasons beyond the control of the contractual parties. The annex execution does not affect the value of the agreement signed with Mitsubishi Hitachi Power Systems Europe and Polimex-Mostostal Consortium relating to the construction of the power unit.

The whole investment, comprising 30 thou. detailed tasks, is already very advanced.



IV quarter

Over PLN 250 mln funding for investments within the Infrastructure and Environment Operational Programme until 2020 for Enea Operator

On 28 December Enea Operator and the Ministry of Energy signed the first three agreements for financing the investments out of the Community funds. The value of the projects is over PLN 67 mln. The obtained funds totalling to almost PLN 37 mln will be allocated to the development of the distribution network, increasing the available connection capacity, among other things for RES generators and prosumers and also a growth in the energy security. Until the end of December Enea Operator signed other 3 agreements on funding within the following measure: Development of electricity and gas smart storing, transmission and distribution systems. The value of the projects reported within this area is almost PLN 50 mln, of which over PLN 33 mln will be the Community funds.

In H1 2017 it is planned to sign next 18 agreements for funding the investment out of the Infrastructure and Environment Operational Programme. The obtained funds will be allocated to the construction and reconstruction of the grid enabling connecting RES generators and also the development and implementation of the distribution network automation on medium and low voltage. The total value of 18 projects is almost PLN 300 mln. The funding will oscillate around 60%.

Notwithstanding the participation in support programmes realised on the national level, Enea Operator applies also for co-funding its projects as part of Regional Operational Programmes in the provinces on their respective areas of operations.

Modernisation of generation assets in Kozienice Power Plant

On 7 December Enea Wytwarzanie and GE Power signed a contract for the modernisation of 560 MW turbine sets No. 9 and 10 in Kozienice Power Plant. The value of the contract is PLN 65.5 mln net. The investment is planned to be completed in May 2018.

The purpose of the investment is extending the service-life of turbine sets and enhancing the efficiency via modernisation of the medium- and low-pressure parts and performing a comprehensive repair of the other elements. As a result of works performed the efficiency of turbine sets will increase and the unit consumption of heat will decrease. The electric power of each unit will increase by at least 4 MW. The dynamic state of turbine sets will be also improved.

Programme of Voluntary Redundancy

The Programme of Voluntary Redundancy, being a part of the Generation Change Programme, is being carried out in Enea SA. It has been in force since 28 December 2016 and will last until 30 September 2017. Its major objective is spreading the risk of uncontrolled outflow of competence over time, in particular in relation to the acquisition by Employees of pension rights. In Q4 2016 a provision was established for that purpose in the amount of PLN 54 mln, of which Enea SA informed in the current report No. 9/2017.

Changes in the authorities of Enea's core subsidiaries in whole 2016

• LW Bogdanka

Krzysztof Szlaga became a new President of LW Bogdanka. The other newly appointed Members of the Management Board are: Stanisław Misterek – Vice-President of the Management Board for Economic and Commercial Affairs and Adam Partyka – Vice-President of the Management Board for HR and Social Affairs. The new Management Board commenced their operation on 1 April. At the same time, as of 31 March, the so far Members of the Management Board were recalled: Zbigniew Stopa, Waldemar Bernaciak, Piotr Janicki and Jakub Stęchły. On 13 May the Company's Supervisory Board adopted resolutions in the area of nomination as of 23 May of Sławomir Karlikowski to the position of the Vice-President of the Management Board for Production - Head of Traffic in Zakład Górniczy and Marcin Kapkowski to the position of the Vice-President of the Management Board for purchases and investment.

• Enea Operator

Two new Members were nominated into the Management Board of Enea Operator as of 1 April. Wojciech Drożdż became the Vice-President for Economic and Financial Affairs, and Dariusz Szymczak the Vice-President for Distribution Service. Marek Lelątko retired from the Management Board. The President of Enea Operator is still Michał Jarczyński, and the Vice-President: Marek Szymankiewicz. Jakub Kamyk was nominated to the position of a Vice-President on behalf of the Employees, and was re-elected to this position. In July, Enea Operator's Meeting of Shareholders appointed the Management Board for a new term. Since 11 July Andrzej Kojro has presided it. The following people remain in the composition of the Management Board: Marek Szymankiewicz, Wojciech Drożdż and Jakub Kamyk. The existing president, Michał Jarczyński, and vice-president, Dariusz Szymczak, left the company. On 30 September Wojciech Drożdż was nominated to the position of the Vice-President for Innovation and Logistics of Enea Operator who previously was the Vice-President of this Company for Economic and Financial Affairs.

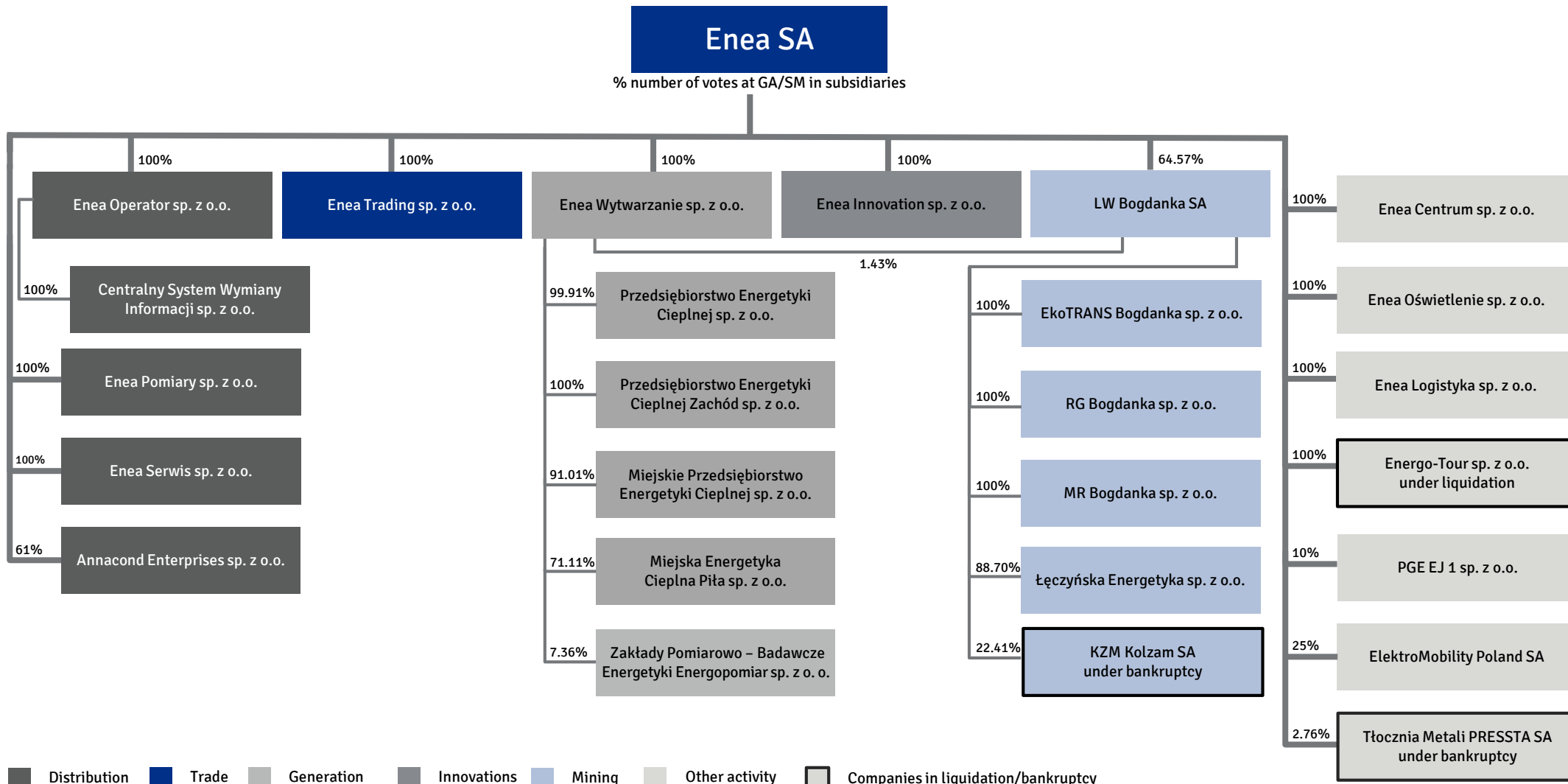
Next, the Extraordinary General Meeting of Shareholders nominated Sławomir Mirkowski to the position of the Vice-President of Enea Operator for Economic and Financial Affairs. The changes entered into force on 10 October. On 2 November the Extraordinary General Meeting of Shareholders recalled Jakub Kamyk - Vice-President for HR. On 25 January 2017 Tadeusz Dachowski was nominated to the position of the Vice-President for OSH.

• Enea Wytwarzanie

Wacław Bilnicki became a new President of the Company which is responsible for the generation of energy and heat in Enea Group. The other new Members of Enea Wytwarzanie's Management Board are: Grzegorz Kotte - Vice-President for Technical Affairs, Elżbieta Piwoński - Vice-President for Corporate Affairs, Stefan Pacyński - Vice-President for Development Strategy and Dariusz Skiba - Vice-President for Economic and Financial Affairs. The sixth Member of the Board remains, selected by the team, the Vice-President for HR, Grzegorz Mierzejewski. The new Management Board commenced their operation on 14 March. As of 13 March, the so far Members of the Board of Enea Wytwarzanie were recalled: Krzysztof Sadowski, Piotr Andrusiewicz, Grzegorz Staniewski and Michał Prażyński. On 29 September Elżbieta Piwoński resigned from the position. On 30 September the Extraordinary General Meeting of Shareholders of Enea Wytwarzanie recalled Wacław Bilnicki from the position of the President of the Board and nominated Krzysztof Figat to the position of the President of the Company. Jan Mazurkiewicz was also appointed to the Management Board on the position of the Vice-President for Corporate Affairs. Krzysztof Figat and Jan Mazurkiewicz held their positions on 17 October.



2. Enea Group's organisation and operations



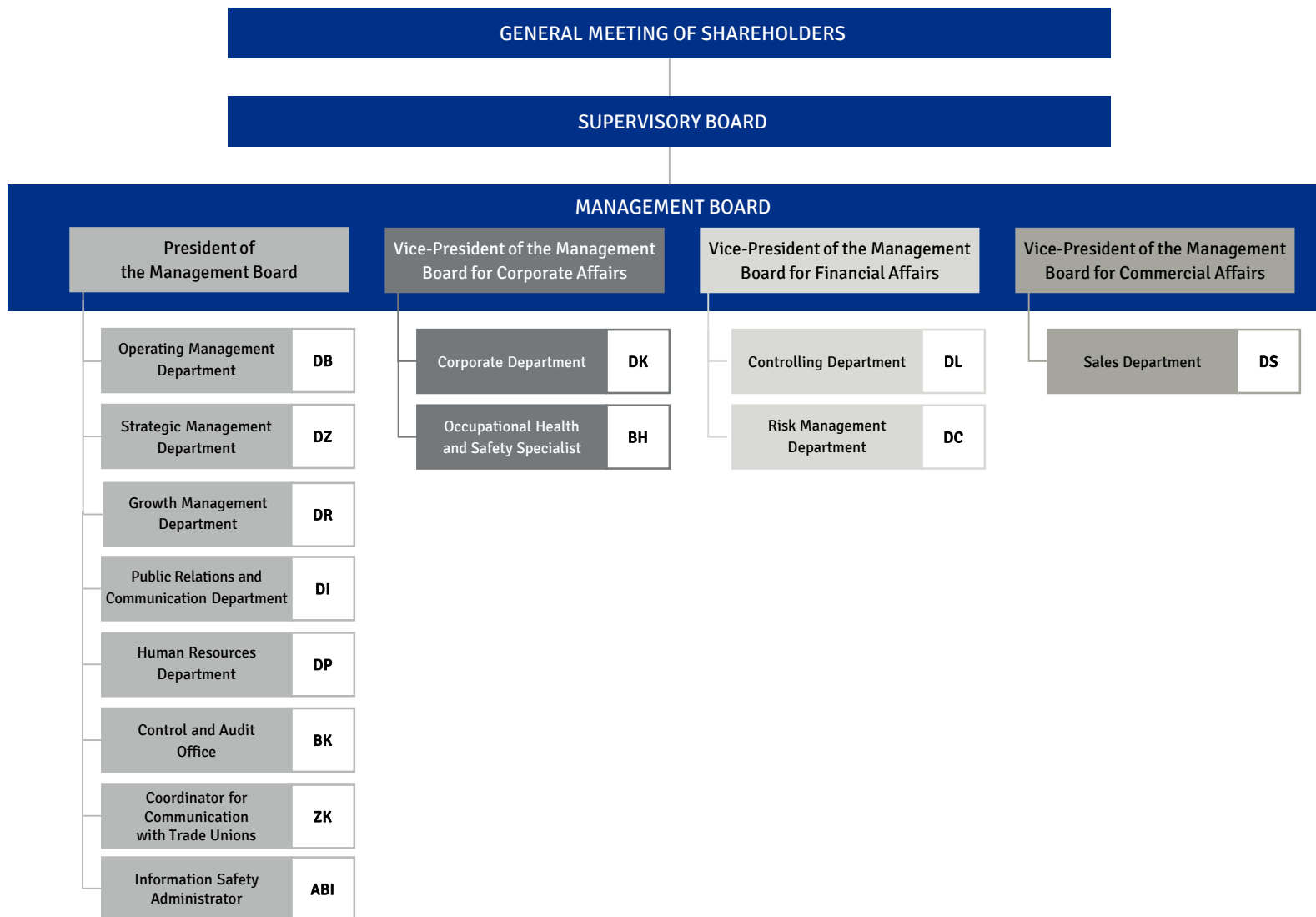
As at 31 December 2016 the Capital Group comprised the parent company, Enea SA, and 12 direct subsidiaries. All the direct subsidiaries are subject to consolidation.

5 leading entities operate within Enea Capital Group, i.e. Enea SA (trade in electricity and gas), Enea Operator sp. z o.o. (distribution of electricity), Enea Wytwarzanie sp. z o.o. (generation and sales of electrical and heat energy), Enea Trading sp. z o.o. (wholesale trade in electricity) and LW Bogdanka SA (coal mining). The other entities render supplementary services in relation to the aforementioned companies. Branches do not operate within Enea Group. The Group's structure includes also minority interests in entities held by Enea SA's subsidiaries, i.e. in particular Enea Wytwarzanie sp. z o.o. and LW Bogdanka SA.

In 2016 works were continued which related to the adjustment of the organisational structure to the directions set in "Enea Capital Group's Development Strategy until 2030". The organisational structure of the Company's Enterprise was updated, tasks, competences and entitlements of individual divisions / organisational units of the Enterprise were also subject to updating. Additionally, the duties of particular organisational units were made more detailed - so that to correlate them with the currently binding by-laws (e.g. policies, procedures, rules) regulating given areas of the Company's operations. In 2016, there were no significant changes in the Issuer's or Enea Capital Group's management principles.

The interdependencies established within the Company (including a diagram of its organisational structure) and the division of tasks, responsibilities and authorisations, are formally reflected in the organisational rules: Organisational Rules for the Business of the Company and Rules for Organisational Units of Enea SA.

The Company's organisational structure is presented below as at the publication date of the report:



Asset restructuring

After performing, in previous years, key organisational changes, in 2016 Enea Capital Group, apart from the operations related to the planned changes, did not conduct any significant activities within assets restructuring.

Changes in the Group's organisation

In 2016, Enea Group continued the activities directed at the implementation of Enea Capital Group's Corporate Strategy and then the implementation of the updated Enea Capital Group's Development Strategy until 2030. The following actions were in particular undertaken:

- On 19 October 2016 ElectroMobility Poland SA was incorporated, in which Enea has a 25% shareholding. On 7 December 2016 the Company was registered with the National Court Register.
- In 2016 LW Bogdanka was covered with the new corporate governance regulations, homogeneous for all Enea Group Companies, as regards the selected Committees of Enea Group.

Equity investments

Area	Date	Company	Event
Other activity	11 March 2016	Enea Centrum	Raising the share capital by PLN 502,500 and subscription for all new shares in the amount of 5,025 by Enea SA which paid for them in whole with a contribution in kind being SAP Business Objects Planning and Consolidation (SAP BPC) constituting an element of fixed assets of Enea SA. On 11 March 2016, the National Court Register entered the raised share capital into the register.
Generation	13 July 2016	Przedsiębiorstwo Energetyki Ciepłej Zachód	Enea Wytwarzanie in order to arrange the capital structure purchased 1 share from Enea Logistyka in PEC Zachód and thus became the sole shareholder of this Company.
Generation	16 December 2016	Miejskie Przedsiębiorstwo Energetyki Ciepłej	Enea Wytwarzanie, in order to arrange the capital structure based on the concluded agreements on sale of shares in MPEC sp. z o.o. (with employees) increased its share in the Company's share capital by 97,024 shares, i.e. from 83.363% to 91.019%.
Generation	21 December 2016	Przedsiębiorstwo Energetyki Ciepłej	Raising of the share capital by PLN 1,400,000. Currently, the Company's share capital amounts to PLN 6,582,500. Enea Wytwarzanie was obliged to perform the above mentioned raising due to the provisions of the Sales Agreement of Shares in PEC sp. z o.o. of 11 December 2008.
Other activity	21 December 2016	PGE EJ 1	The Extraordinary General Meeting of Shareholders of PGE EJ1 sp. z o.o. adopted a resolution relating to the raising of the Company's share capital by PLN 34,999,020. On 23 December 2016 Enea SA made a statement on the subscription for 24,822 shares of the total nominal value of PLN 3,499,902 and paying for them in cash. On 27 December 2016 the cash contribution was made to the company's account. On 15 February 2017 the National Court Register entered the raised share capital to the register.
Generation	23 December 2016	Enea SA	Conclusion with ENGIE International Holdings BV of a conditional agreement for the acquisition of 100% shares in ENGIE Energia Polska SA (the owner of Połaniec Power Plant), according to which Enea SA will acquire 100% of shares in the share capital of ENGIE Energia Polska SA, and indirectly also 100% of shares in ENGIE Bioenergia sp. z o.o.

Equity holdings after the end of the reporting period

Generation	18 January 2017	Enea SA	Enea SA concluded an investment agreement with Energa SA, PGE Polska Grupa Energetyczna SA, PGNiG Technologie SA (Investors) and Polimex-Mostostal SA as a result of which the Investors subscribed for the total of 150 mln, i.e. 37.5 mln each, shares in Polimex-Mostostal SA as part of raising the share capital, which constitutes the total of 65.9% shares (according to the shareholding structure).
Generation	20 January 2017	Polimex-Mostostal	As a result of satisfaction of the conditions precedent reserved in the investment agreement, Enea SA repurchased 15 mln shares totalling to PLN 5,640,000 from SPV Operator in the company Polimex-Mostostal SA, becoming its shareholder holding a 1.73% share in the share capital.
Generation	1 February 2017	Elektrownia Ostrołęka	Enea SA and Energa SA concluded an agreement on the acquisition of 24,980,926 shares in Elektrownia Ostrołęka SA, holding thus 11.89% of shares in the company's share capital.
Generation	21 February 2017	Polimex-Mostostal	The National Court Register registered the raised share capital of the Company, as a result of which Enea SA, following the satisfaction of conditions precedent reserved in the investment agreement, subscribed for 37.5 mln shares in Polimex-Mostostal SA and holds a total of 16.47% shares in the Company's share capital.

The description of methods of equity holding financing is to be found in the point titled Sources of investment programme financing on pages 40-41.

Divestments

In 2016, one equity disinvestment was made.

Area	Date	Company	Event
Other activity	2 December 2016	Szpital Uzdrawiskowy ENERGETYK	Sales

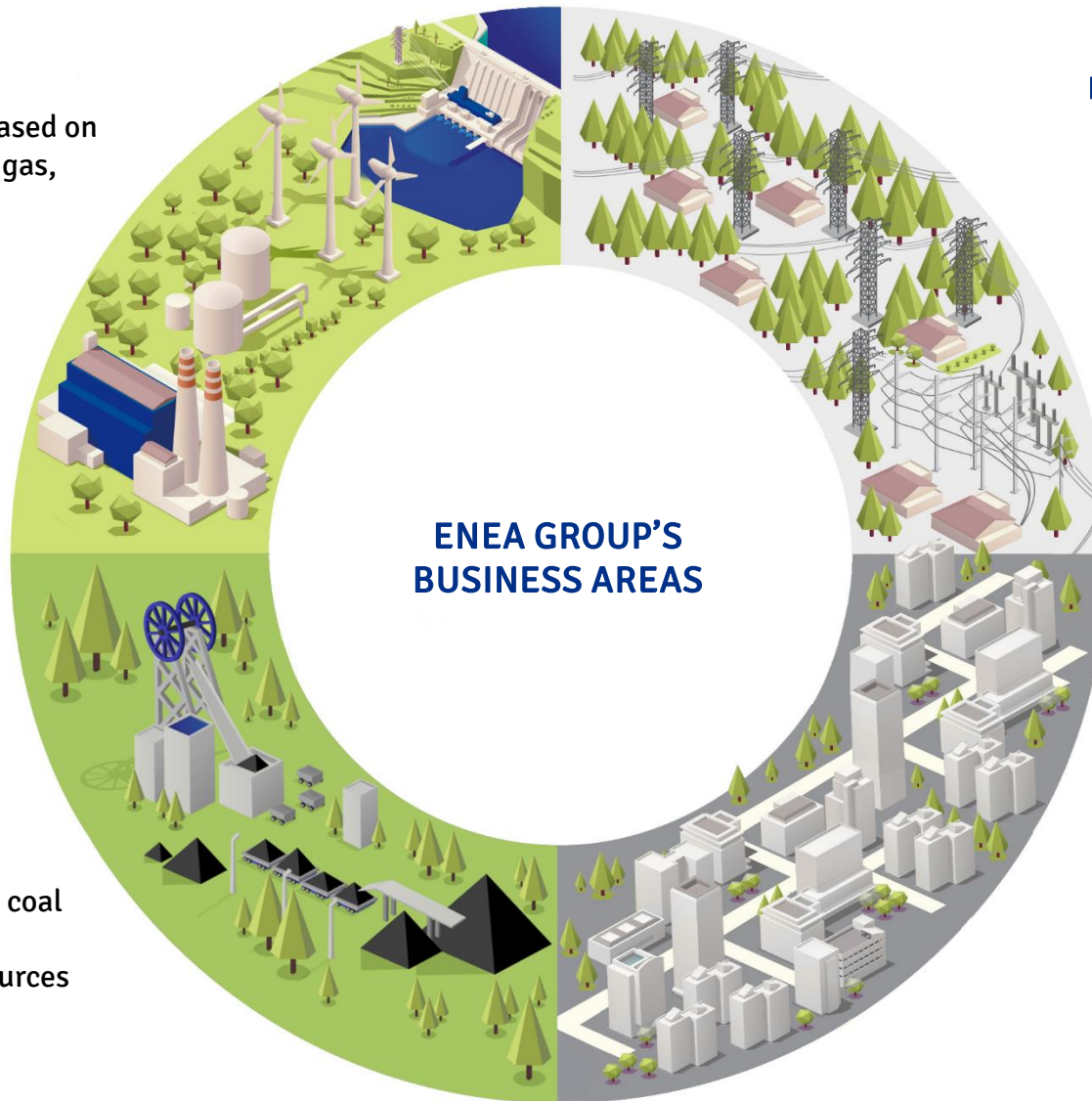


GENERATION

- Generation of electricity based on bituminous coal, biomass, gas, wind, water and biogas
- Heat generation
- Heat transmission and distribution
- Trade in electricity

MINING

- Production of bituminous coal
- Sale of bituminous coal
- Securing the base of resources for the Group



DISTRIBUTION

- Electricity supply
- Planning and guaranteeing the extension of the distribution network
- Exploitation, maintenance and renovations of the distribution network
- Metering data management

TRADE

Retail sales:

- Trade in electricity and gas on the retail market
- Range of products and services adjusted to Customer needs
- Comprehensive Customer Service

Wholesale trading:

- Electricity and gas wholesale contract portfolio optimisation
- Operations on product markets
- Guaranteeing access to wholesale markets

Mining



- Area of occurrence of carbon deposits without perspective resources of bituminous coal
- Unverified deposits (forecast cat. D2)
- Unverified deposits (forecast cat. D1)
- Deposit cat. C2
- Perspective deposits for LW Bogdanka (deposit cat. C1)
- Deposits being currently used by LW Bogdanka

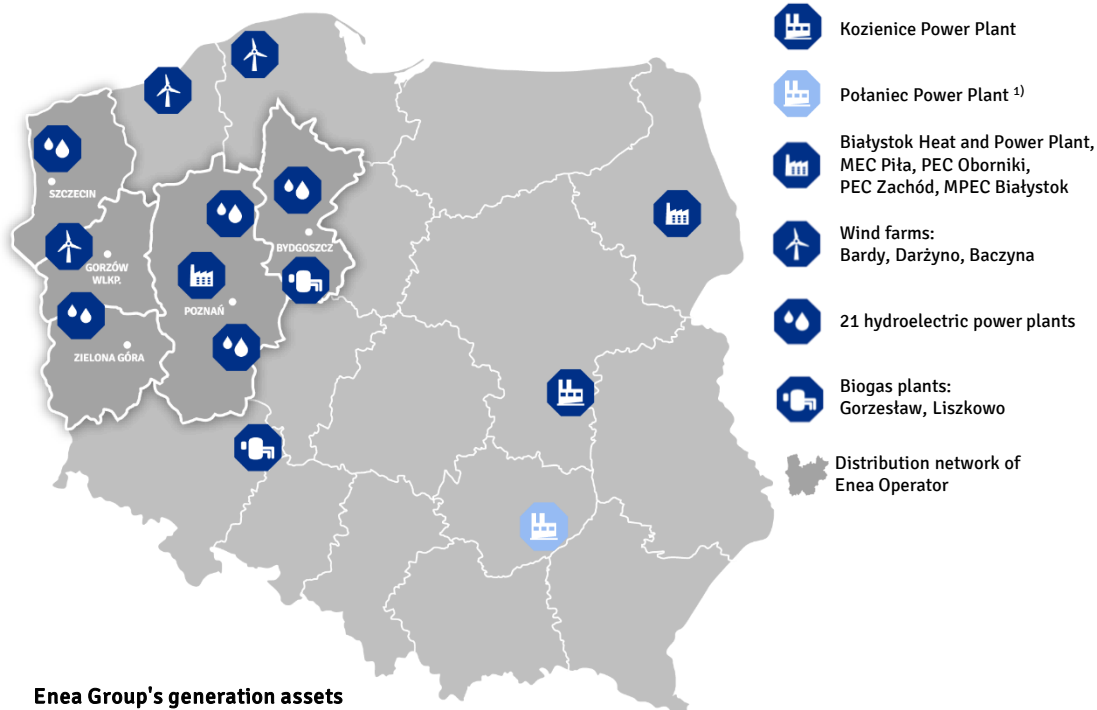
- Distribution network of Enea Operator
- Lublin Coal Basin

LW Bogdanka is one of the leaders on the market of bituminous coal producers in Poland, outstanding in the sector as regards the financial results generated, efficiency of bituminous coal mining and investment plans providing for the availability of new resources. The bituminous power coal sold by the Company is used mainly for the generation of electricity, heat energy and cement production. The Company's customers in the majority include industrial companies, mainly entities conducting business activity in the power sector located in the eastern and north-eastern Poland.

Enea took over LW Bogdanka in Q4 2015 and has consolidated its results since 1 November 2015. The table below is only informative and presents the key data of the segment of Mining on a year-to-year basis and in Q4 2015 and 2016.

Description	2015	2016	Change	Q4 2015	Q4 2016	Change
Gross output ['000 tonnes]	12 940	14 389	11.2%	3 994	3 638	-8.9%
Net production ['000 tonnes]	8 457	9 038	6.9%	2 527	2 356	-6.8%
Sale of coal ['000 tonnes]	8 562	9 141	6.8%	2 554	2 402	-6.0%
Stock (closing balance) ['000 tonnes]	228	125	-45.2%	228	125	-45.2%
Length of performed excavations [km]	20.0	23.8	19.0%	4.4	6.6	50.0%
Yield [%]	65.4%	62.8%	-2.6 p.p.	63.3%	64.8%	1.5 p.p.

Generation



Enea Group's generation assets

Description	Installed electrical capacity [MW _e]	Attainable electrical capacity [MW _e]	Installed heating capacity [MW _e]
Kozienice Power Plant	2 960.0	2 925.0	105.0
Połaniec Power Plant ¹⁾	1 837.0	1 882.0	130.0
Białystok Heat and Power Plant	203.5	156.6	383.7
Wind Farms: Bardy, Darżyno and Baczyna	70.1	70.1	-
Liszkowo and Gorzestaw Biogas Plants	3.8	3.8	3.1
Hydroelectric power plants	60.4	57.6	-
MEC Piła	10.0	10.0	151.3
PEC Oborniki ²⁾	-	-	30.4
MPEC Białystok	-	-	185.0

Allowances for emissions of CO₂ in generating units [tonnes of CO₂]

Description	As at 31 December 2015 ³⁾	As at 31 December 2016 ⁴⁾
Volume of free allowances for emissions of CO ₂ (KPRU - National Allocation Plan)	3 446	3 236
Volume of allowances for emissions of CO ₂ purchased on the secondary market	8 273	9 137
Total allowances for emissions of CO₂	11 720	12 373
Emission coverage with free allowances	29.40%	26.15%

CO₂ emission cost ['000 PLN]

Description	2015 ³⁾	2016 ⁴⁾
Area of Generation, including:	192 782	283 721
Enea Wytwarzanie sp. z o.o. Segment of System Power Plants (Kozienice Power Plant)	190 407	279 861
Enea Wytwarzanie sp. z o.o. Segment of Heat (Białystok Heat and Power Plant)	268	2 311
MEC Piła	1 457	1 443
PEC Oborniki ⁵⁾	-	-
MPEC Białystok	650	106

1) Połaniec Power Plant was taken over in March 2017

2) Sale of generating sources

3) It constitutes the actual redemption of 2015 in April 2016

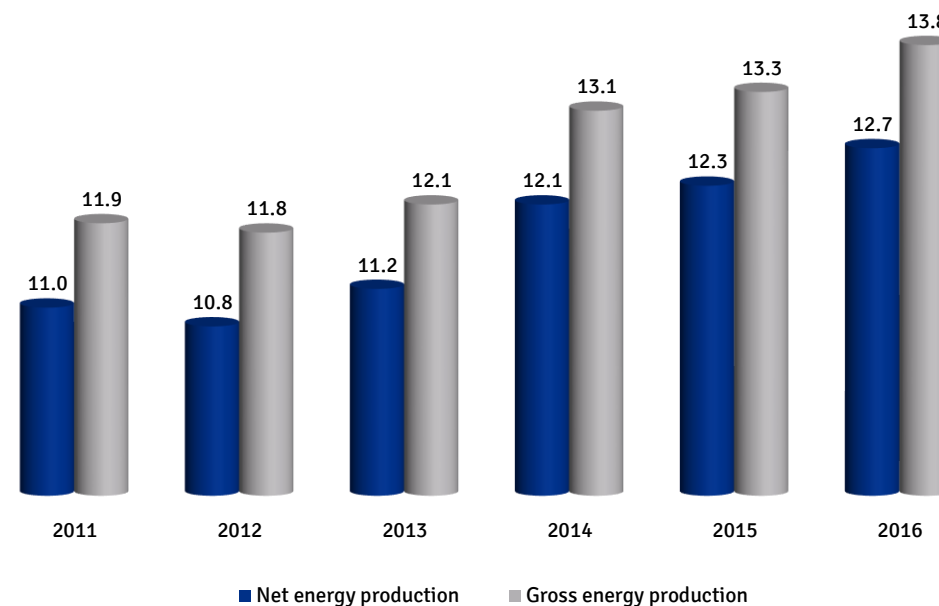
4) Book recognition was presented

5) PEC Oborniki is not subject to the provisions of the act on trading in emission allowances due to the fact that it holds no sources generating heat energy with the capacity installed in one source exceeding 20 MW, in relation to which it does not hold any allocated limits and does not balance CO₂ emission allowances

Generation

Description	2015	2016	Change	Q4 2015	Q4 2016	Change
Total generation of electricity (net) [GWh], including:	13 142	13 567	3.2%	3 444	3 401	-1.2%
Net production from conventional sources [GWh], including:	12 293	13 028	6.0%	3 228	3 255	0.8%
Enea Wytwarzanie – segment of System Power Plants (excluding biomass co-combustion)	12 032	12 727	5.8%	3 127	3 149	0.7%
Enea Wytwarzanie - segment of Heat (Białystok Heat and Power Plant - excluding biomass co-combustion)	211	238	12.8%	86	88	2.3%
MEC Piła	50	63	26.0%	15	18	20.0%
Production from renewable energy sources [GWh], including:	849	539	-36.5%	216	146	-32.4%
Co-combustion of biomass	255	-	-100.0%	57	-	-100.0%
Combustion of biomass	309	256	-17.2%	78	55	-29.5%
Enea Wytwarzanie - segment of RES (hydroelectric plants)	109	113	3.7%	26	34	30.8%
Enea Wytwarzanie - segment of RES (wind farms)	162	160	-1.2%	52	53	1.9%
Enea Wytwarzanie - segment of RES (biogas plants)	14	10	-28.6%	3	4	33.3%
Heat production [TJ]	5 217	5 299	1.6%	1 616	1 804	11.6%

Kozienice Power Plant [TWh]



Purchase of electricity by Enea Wytwarzanie on the wholesale market

In 2016 the volume-related electricity purchases in the segment of System Power Plants amounted to 2,087 GWh. The purchases were made for the needs of energy trading operations. Additionally, 1,124 GWh of energy was purchased within the Balancing Market.

In the segment of Heat the purchase volume in 2016 amounted to 13.2 GWh - acquisition on the Balancing Market is 11.1 GWh, purchase in the trade of 2.1 GWh.

Energy trading (sales=purchases) is performed within market possibilities guaranteeing achievement of the anticipated financial result and in order to limit the failure consequences.

Purchase of electricity in 2016 trade related mainly to the segment of System Power Plants and constituted 65% of the whole energy purchases. Purchase of electricity within the Balancing Market accounted for 35%. Purchases within the trade in the segment of Heat stemmed from activities reducing the costs of generating units' failures and lack of available power vs. concluded contracts.

Generation

Sales of electricity by Enea Wytwarzanie

Sales volumes of electricity in Enea Wytwarzanie in 2016 amounted to 15,988 GWh. Sales were performed by particular segments depending on the statutory obligations and concluded agreements.

Sales of electricity as a part of the segment of System Power Plants

Sales of electricity within the segment of System Power Plants in 2016 amounted to 13,838 GWh. In that period, Enea Wytwarzanie sold 17% of generated electricity on the commodity exchange. In the reporting period, Enea Wytwarzanie had a statutory duty to sell 15% of generated electricity on the commodity exchange. The other sales includes sales within Enea CG 81% and to the balancing market (PSE SA) 2%.

Sales of electricity as part of the segment of Heat

In the segment of Heat sales of electricity in 2016 amounted to 495 GWh - sales within Enea CG accounted for 93%, sales within the balancing market (PSE SA) 5% and sales to end users totalled to 2%.

Sales of electricity as part of the segment of RES

In the segment of RES sales of electricity in 2016 amounted to 283 GWh (beyond Enea CG - 47%, and within Enea CG - 53%).

Sales of electricity within Subsidiaries

Sales of electricity within the Subsidiaries in 2016 amounted to 63 GWh.

Sales of electricity as part of the segment of RES - area of wind

Description [PLN '000]	2015	2016	Change	Q4 2015	Q4 2016	Change
Steady price	27 045	26 881	-0.6%	8 484	9 224	8.7%
Average weighted price	166.53	167.86	0.8%	162.35	171.21	5.5%



Coal supply

Fuel type	2015		2016		Change	
	Volume ['000 tonnes]	Costs ¹⁾ [PLN mln]	Volume ['000 tonnes]	Costs ¹⁾ [PLN mln]	Volume	Costs ¹⁾
Bituminous coal	5 870	1 321	5 426	1 137	-7.6%	-13.9%
Biomass	634	172	427	79	-32.6%	-54.1%
Fuel oil (heavy) ²⁾	8	9	8	7	-	-22.2%
Gas ['000 m ³] ³⁾	13 845	20	16 198	23	17.0%	15.0%
TOTAL		1 522		1 246		

1) Including transport

2) Light-up fuel in Kozienice Power Plant

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

Enea Wytwarzanie – segment of System Power Plants:

The basic fuel used to produce electricity is bituminous coal. In 2016, the main supplier of coal to Enea Wytwarzanie was LW Bogdanka (around 74%). Additionally, coal supplies were performed by Polska Grupa Górnicza (formerly: Kompania Węglowa SA; ca. 7%), Katowicki Holding Węglowy SA (ca. 12%), Jastrzębska Spółka Węglowa SA (ca. 7%).

In 2016 Enea Wytwarzanie - segment of System Power Plants did not use biomass in any form.

Enea Wytwarzanie - segment of Heat:

The basic fuel used in Enea Wytwarzanie - segment of Heat (Białystok Heat and Power Plant) is biomass, mainly as wood chips, energetic willow chips and sunflower husk pellets. In 2016, the volume of supplied biomass amounted to 427,845.34 tonnes, and the deliveries were performed by 13 entities. Around 33% of biomass was delivered to the area of Enea Wytwarzanie - segment of Heat, using a rail transport.

Bituminous coal supplies to Enea Wytwarzanie - segment of Heat in 2016 came from: Katowicki Holding Węglowy SA (ca. 71%), Jastrzębska Spółka Węglowa SA (ca. 25%) and Polska Grupa Górnicza (formerly Kompania Węglowa SA ca. 4%).

Coal Transport

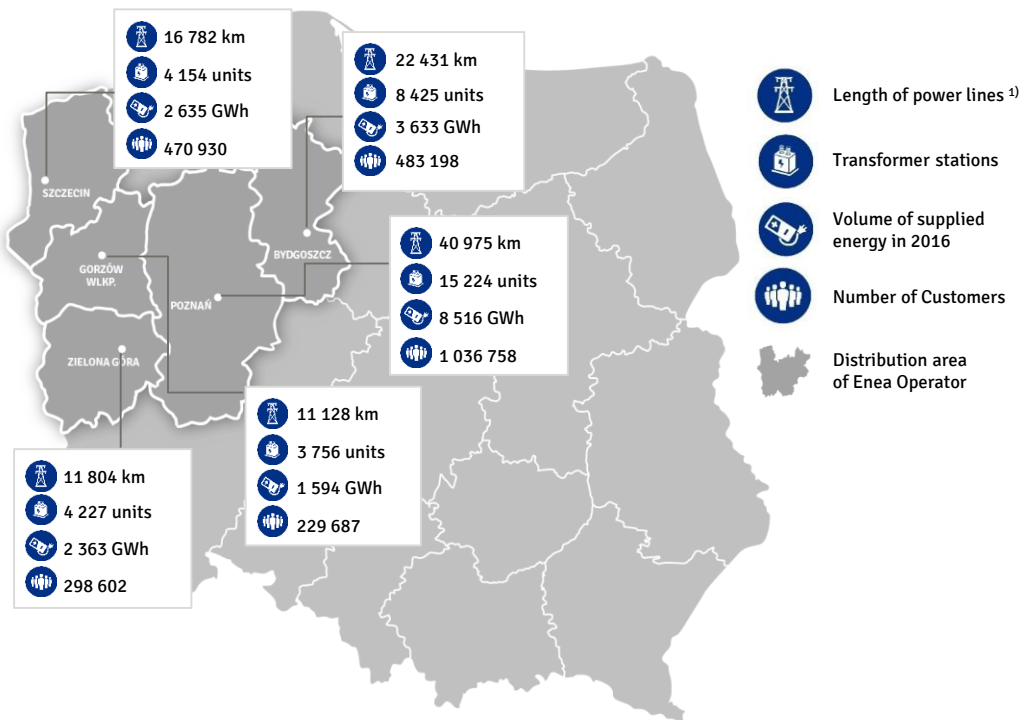
Enea Wytwarzanie – segment of System Power Plants:

The only means of transport used to deliver bituminous coal to the segment of System Power Plants in 2016 was a rail transport. PKP Cargo forwarder realised 100% of supplies.

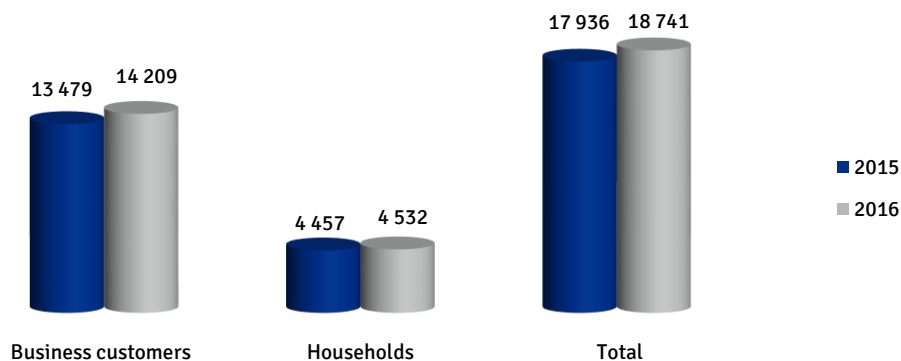
Enea Wytwarzanie - segment of Heat:

Coal supplies to Enea Wytwarzanie - segment of Heat in 2016 were realised by rail transport by PKP Cargo SA (ca. 85%) and Freightliner PL sp. z o.o. (ca. 15%).

Distribution



Sales of distribution services [GWh]



Technical indicators

Description:	2015	2016	Change	Q4 2015	Q4 2016	Change
SAIDI unplanned interruptions including catastrophic ones (HV, MV) [minutes]	434.07	244.44	-43.69%	72.73	46.53	-36.02%
SAIDI unplanned interruptions including catastrophic ones (HV, MV) [pcs]	5.50	3.85	-30.00%	1.09	0.86	-21.10%
% of contract performance in the reference term 18 months (group IV) [%]	82.40%	88.90%	6.50 p.p.	77.78%	94.67%	16.89 p.p.
% of contract performance in the reference term 18 months (group V) [%]	89.71%	95.98%	6.27 p.p.	90.44%	97.20%	6.76 p.p.

Other technical indicators

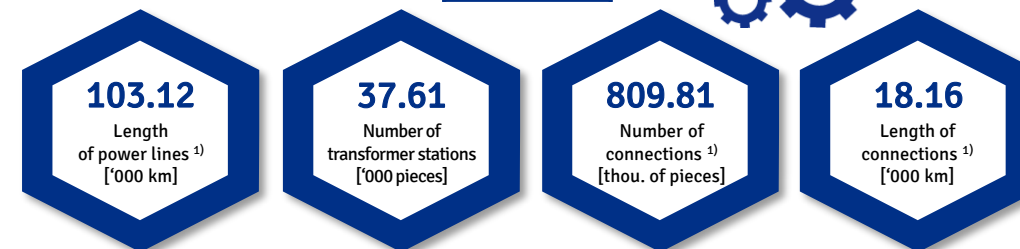
Description:	2015	2016	Change	Q4 2015	Q4 2016	Change
Grid losses index [%]	6.86	6.28	-0.58 p.p.	9.73	8.81	-0.92 p.p.

Sales of distribution services

Description:	2015	2016	Change	Q4 2015	Q4 2016	Change
Sales of distribution services [GWh]	17 936	18 741	4.49%	4 545	4 817	5.98%

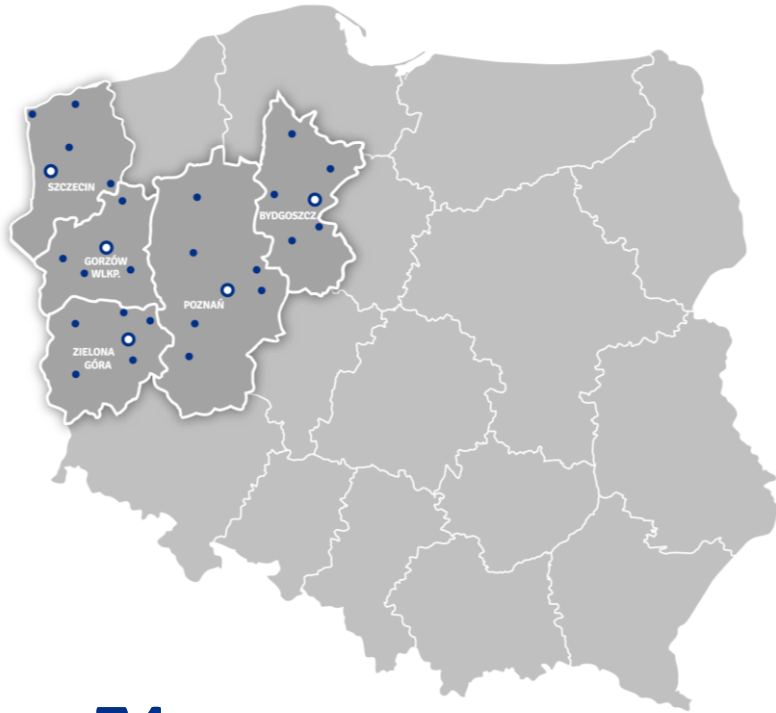
RAB, number of customers

Description:	2015	2016
RAB [PLN '000]	6 910 924	7 252 486
Number of customers [pcs]	2 487 023	2 520 175



¹⁾ The discrepancies between the figures presented in 2015 and 2016 stem from the fact that the said data for 2016 was collected from GIS, containing the information on the size of Enea Operator's grid after the passporting completed in 2016. A drop in the number of connections stems from the fact that, as a result of conducted passporting some connections were classified as a low-voltage grid. On the other hand, reducing the length of connections stems from the fact that these figures are currently presented based on their graphical lengths included in the system.

Trade

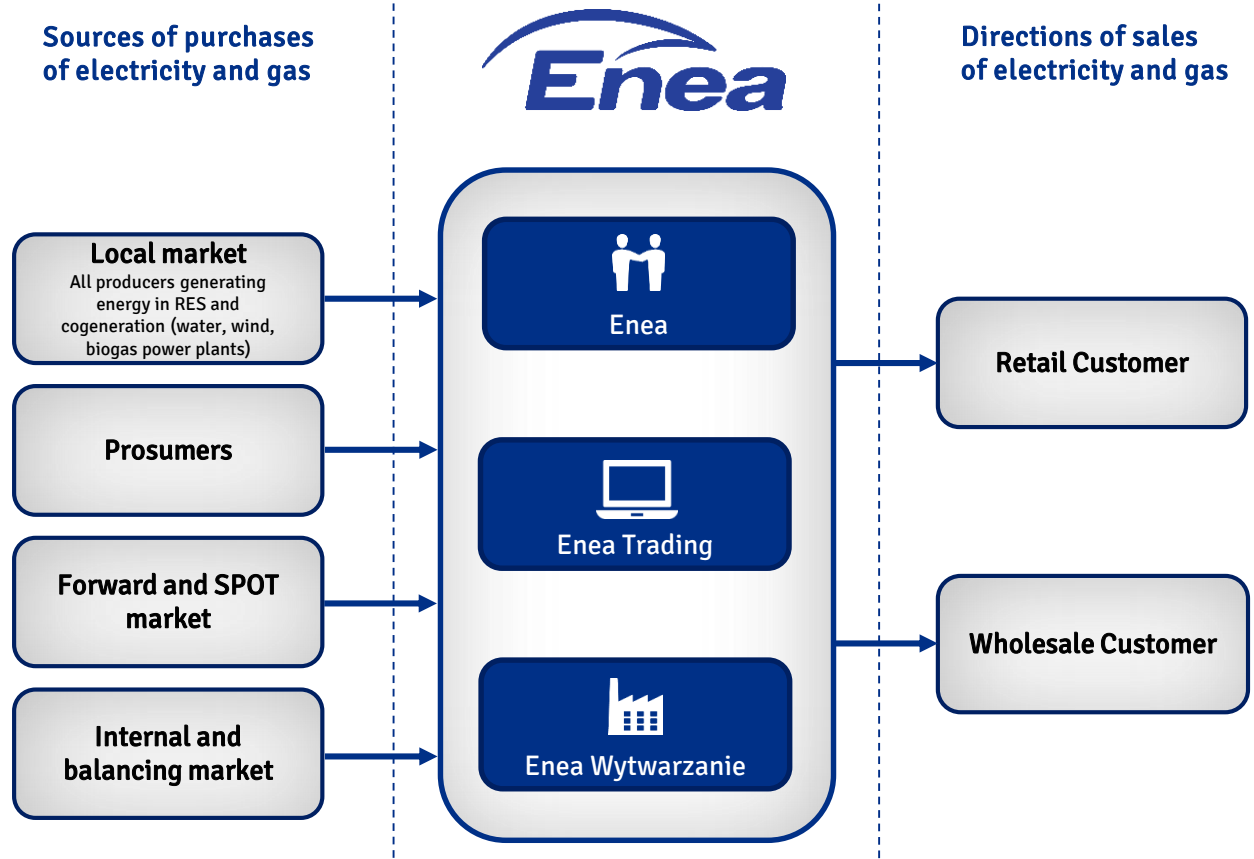


31 modern Customer Service Centres

● Customer Service Centre

Distribution network of Enea Operator

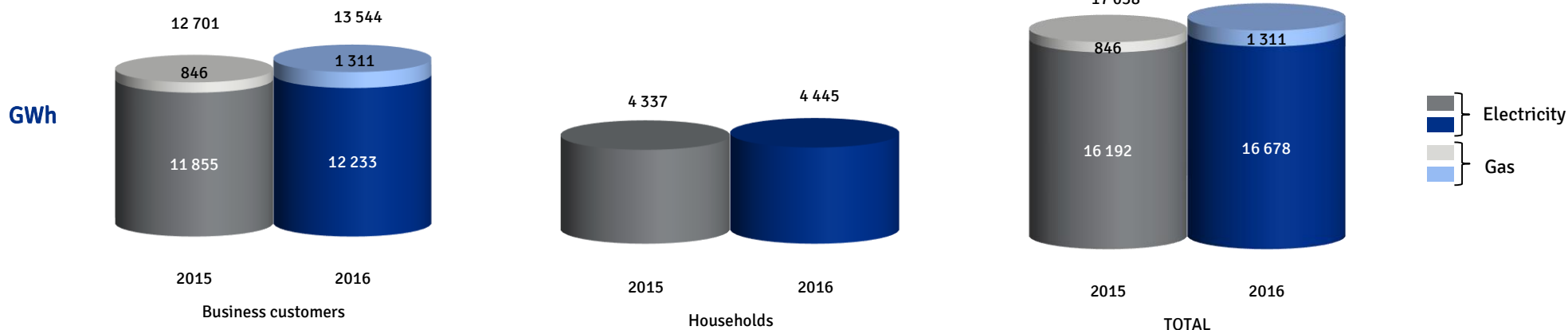
The diagram below presents the operating dependencies between Enea Group companies and business partners and Customers in the area of Trade:



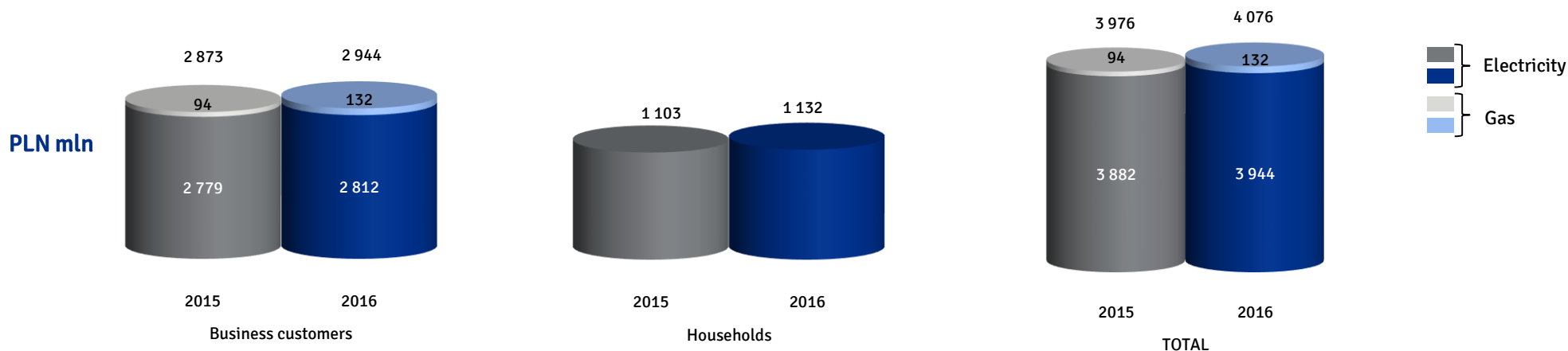
Trade

Sales of electricity and gas to retail consumers are performed mainly by Enea SA. In 2016, as compared to 2015, there was a growth in the total volume of electricity and gas sold to retail consumers by 951 GWh, i.e. by 6%. The growth occurred both in the segment of business customers (by 843 GWh, i.e. by 7%) and in the segment of households (108 GWh, i.e. by 2%). The growth in sale volumes in the segment of business customers resulted from a growth in sale volumes of electricity (by 378 GWh, i.e. by 3%) and from the dynamic growth in sales of gas (by 465 GWh, i.e. by 55%). The total volume growth in sales of electricity and gas translated into a growth in total sales revenue by PLN 100 mln, i.e. by 3%, in relation to 2015.

Sales of electricity and gas to retail customers of Enea SA



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



Enea Capital Group's Development Strategy until 2030

Mission
 Enea delivers constantly improved products and services, anticipating 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.

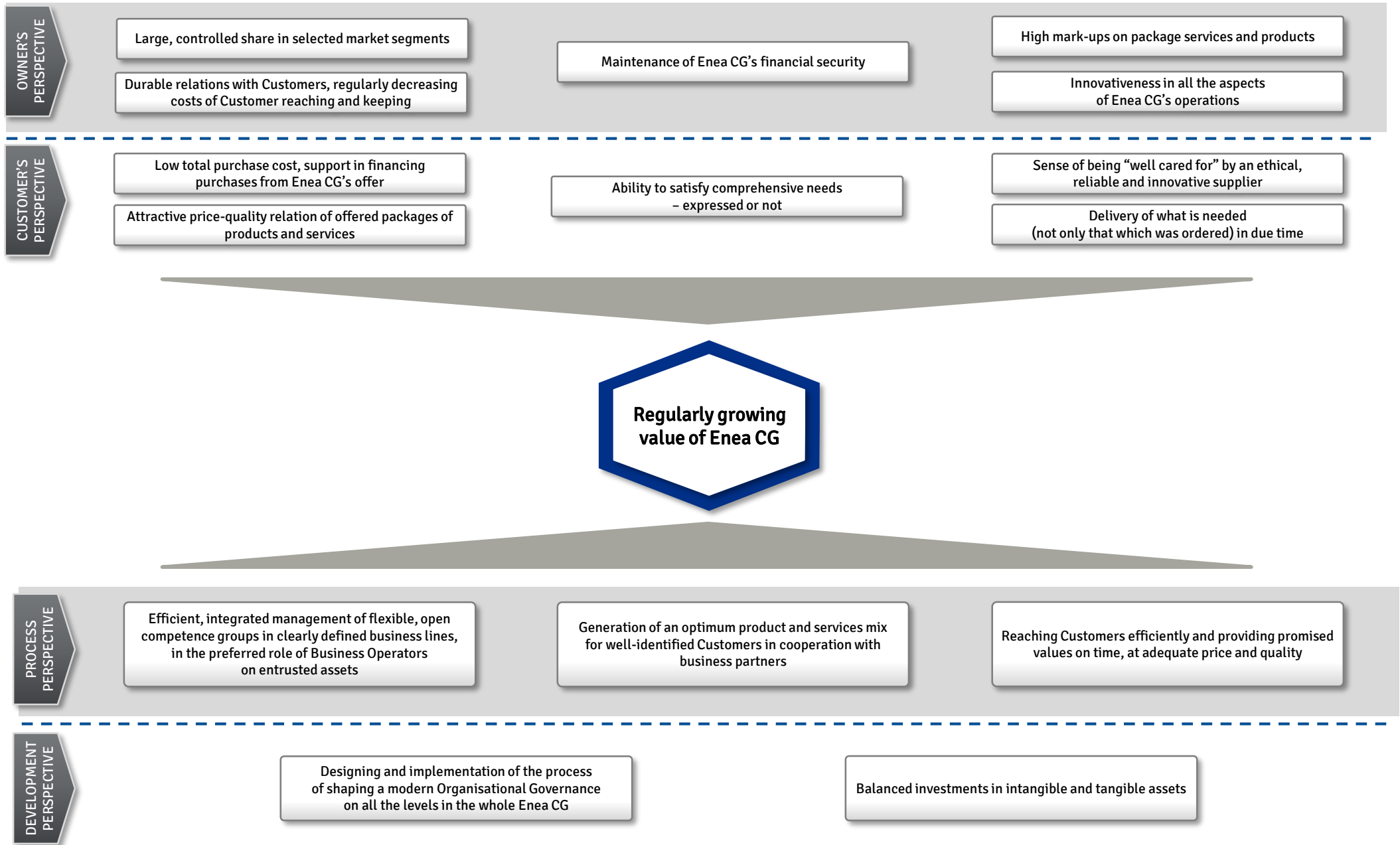


On 29 September 2016 the Supervisory Board of Enea approved the document titled: "Enea Capital Group's Development Strategy until 2030". The new development directions defined in the Strategy anticipate that Enea CG will be:

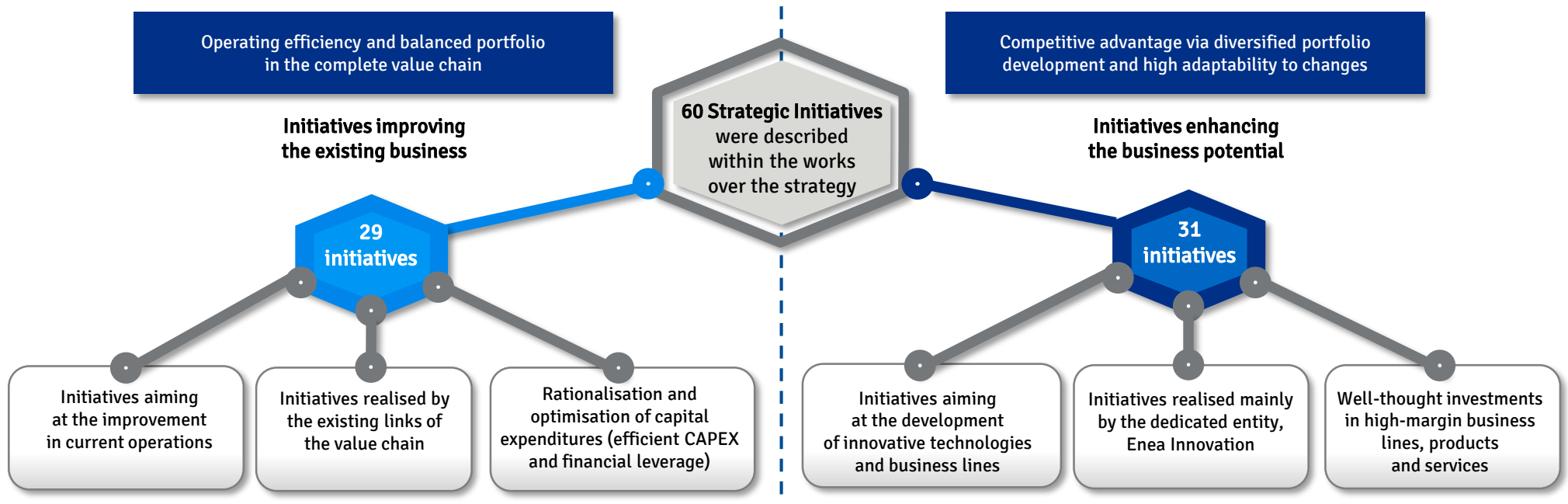


1. **INNOVATIVE:** a leader in identification, assessment of the potential and implementation of innovative undertakings on a large scale
2. **MULTISERVICE:** diversified portfolio of provided services, stable income sources
3. **HIGHLY-SPECIALIST:** specialist knowledge, competences and maturity in operations in the sector of raw materials and energy
4. **AFFECTING THE ENVIRONMENT:** a leader in positive changes in the power sector in Poland.
5. **EFFICIENTLY UTILISING MARKET OPPORTUNITIES:** external environment analysis, flexible response to occurring opportunities, creator of demand for new goods
6. **RELIABLE:** considerable contribution in the Polish energy security

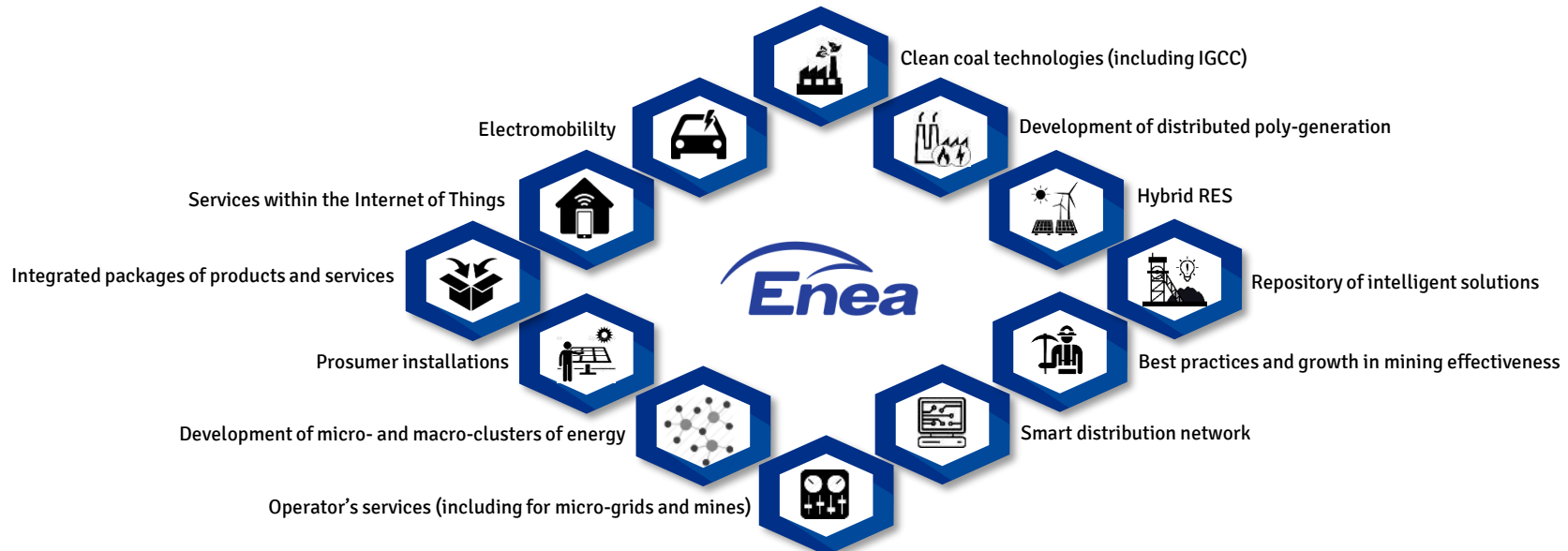
The primary objective specified in the strategy is growth in the value of Enea CG for shareholders. In order to build a lasting competitive advantage Enea defined 15 strategic goals within four perspectives:



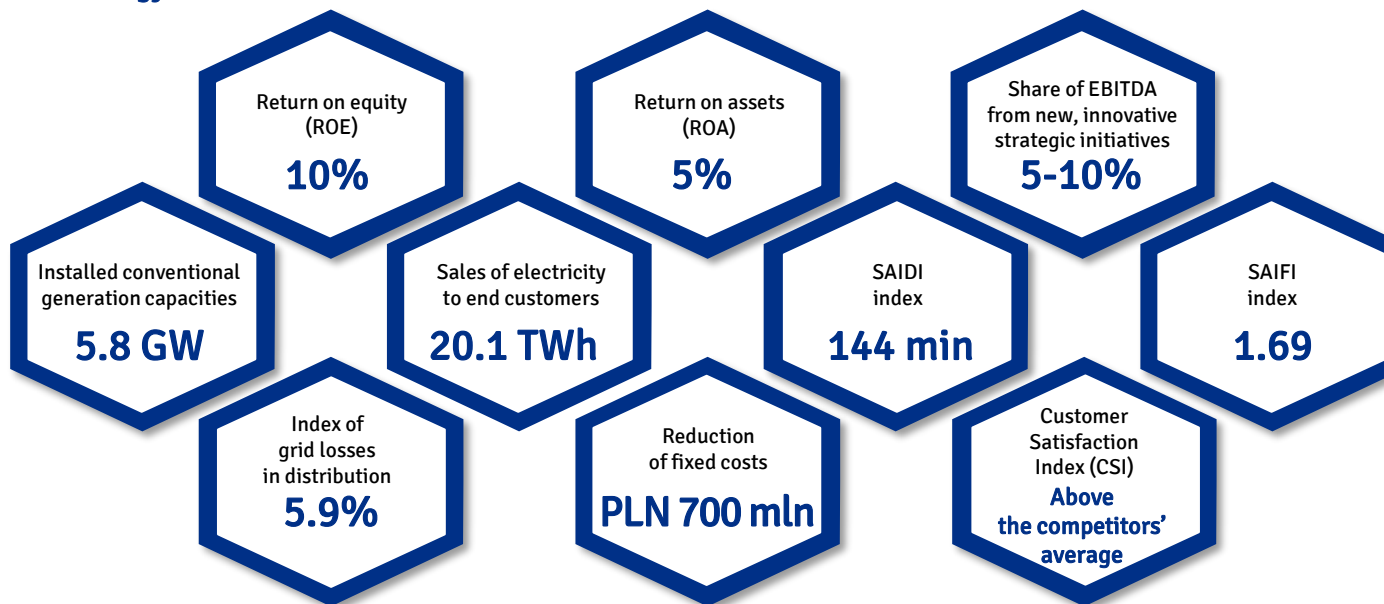
Enea defined over 50% of innovative initiatives increasing the business potential



... the implementation of which will support e.g. the development of innovative products, services and business lines of Enea CG



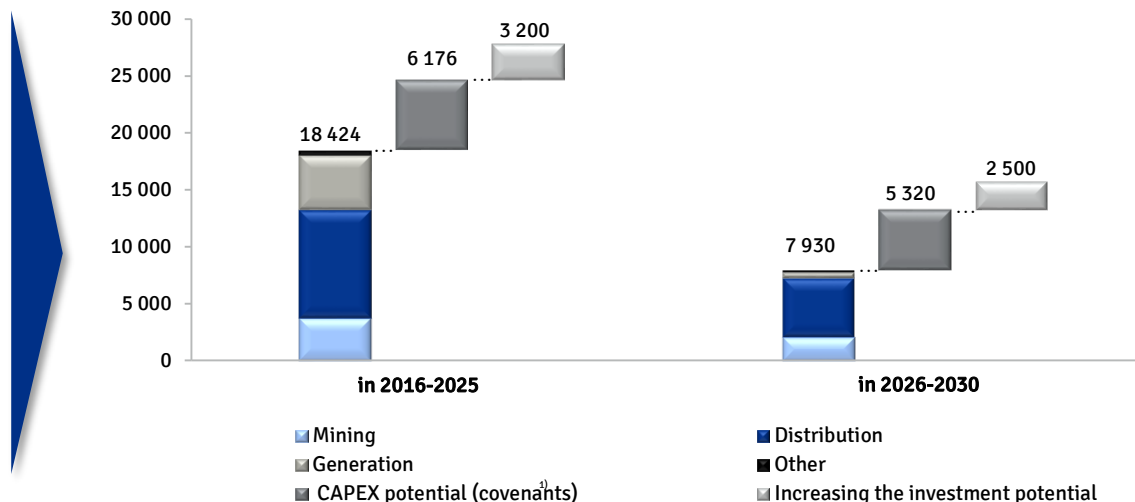
Enea CG's ratios as a result of the Strategy implementation



Basic investment fund in the amount of PLN 26.4 bln

Estimated capital expenditures of Enea CG during 2016-2030 [PLN mln, current prices]

Area	2016-2025	2026-2030
Mining	3 712	2 080
Distribution	9 501	5 193
Generation	4 808	504
Other	403	153
CAPEX potential ¹⁾	6 176	5 320
Increasing the investment potential ²⁾	3 200	2 500
ENEACG TOTAL	27 800	15 750



1) CAPEX potential maintaining the net/EBITDA ratio on a safe level
 2) Increasing the investment potential by PLN 5.7 bln as a result of the implementation of innovative strategic initiatives (growth in EBITDA)

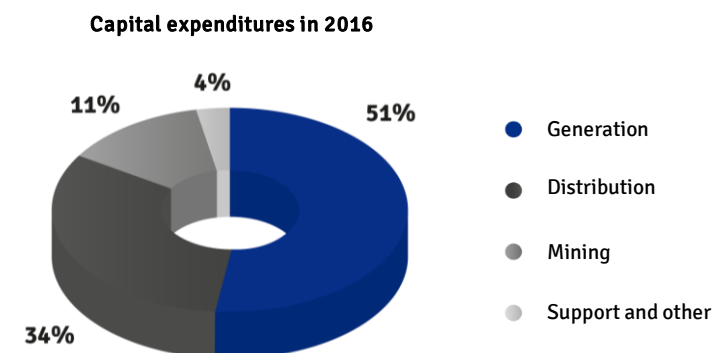
Growth perspectives in 2017

Area	2016 vs. 2017 perspective	Key drivers
Mining	Neutral	(+/-) Coal price stabilisation (+) Construction of new roadways (+) Assets modernisation (+) Constant enhancement of efficiency
Conventional power engineering	Drop	(-) Lower price of energy (-) Lower limit of free CO ₂ (-) Higher price of coal (-) Lower generation of electricity (+) Internal processes optimization
Renewable energy sources	Drop	(-) Durable low level of "green" Proprietary Interests (+) Growth in price and volume of "blue" RES Proprietary Interests (+) Greater generation of electricity (+) Cost optimisation of the RES area
Distribution	Drop	(-) Drop of WACC by 0.042 p.p. to 5.633% (-) Model operating expenses compliant with "Operating expenses for Operators of Distribution Systems for 2016-2020" published by ERO (+) Asset management optimisation and outsourced services rationalisation (+) Works over the improvement of service quality (SAIDI and SAIFI indices reduction)
Trade	Neutral	(-) Greater competition in the area of trade (+) Development of sale channels and product range (-) Growing erosion of margin on the segment of trade

Capital expenditures

Capital expenditures [PLN mln]	2015	2016	Change %	2017 Plan
Generation	1 954.9	1 390.2	-28.9%	1 168.9
Distribution	925.1	920.4	-0.5%	970.5
Mining	51.1 ¹⁾	307.7	502.2%	385.6
Support and other	120.4	123.7	2.7%	172.6
TOTAL	3 051.5	2 742.0	-10.1%	2 697.6

1) Expenditures incurred in November-December 2015 after incorporation of LW Bogdanka under Enea CG as part of the area of Mining



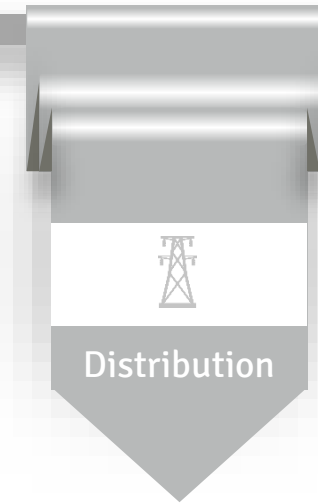
Investments implemented in 2016



- Obtaining new licences:
- acquisition of the right to use the geological information of "Ostrów" deposit
- completion of drilling works by research holes of "Ostrów" area
- Maintaining the machinery and equipment - acquisition and assembly of machinery and equipment, e.g. modernisation of container weighs, roadheading machines, Bevex suspended machines and periodic repairs of cars, purchase of ventilation dams and conveyor belt sets
- Other development and replacement investments:
 - execution of 23.8 km of new excavations
 - central air conditioning of Bogdanka field - completion of the construction of the installation and all the objects of the central air conditioning of Bogdanka field
 - Extension of the mining waste neutralisation facility in Bogdanka - obtaining the permit and plot purchase
 - Completion of the power grids extension and modernisation of objects of the switching station and 110/6 kV power station - 110/6 kV transformer/switching station in Bogdanka, Stefanów and Nadrybie



- Successive stages of the construction of a supercritical bituminous coal fired 1,075 MW_e power unit
- 14.1 MW Baczyna wind farm commissioning
- Unit No. 1 - obtaining the operating permit and commissioning of the installation of the catalytic denitrogenation of flue gases (SCR)
- Continuation of the SCR installation for units No. 4-8
- Commencement of the modernisation of cooling water intake - temporary stabilising checkdam on the Vistula River
- Commencement of the SCR installation and modernisation of electrostatic precipitators for units No. 9 and 10 as part of the 2 x 500 MW units modernisation programme
- Construction of industrial waste and rainwater treatment
- Continuation of the construction of flue gas desulphurisation plant on K7 and K8 boilers



- Completion of the realisation of a range of investments on medium and high voltage related to the extension, automation and modernisation of the unit and power grids
 - construction of: GPZ Śmitowo (switching station) with HV feeding lines
 - reconstruction of: GPZ Załom, GPZ Tanowska, GPZ Niemierzyn, GPZ Pniewy, GPZ Stargard Wschód and GPZ Chojnice Kościerska,
 - Construction of Łobez – Resko HV overhead line, construction of Świnoujście – Warszów HV cable line and construction of Bema – Nadolnik HV cable line
 - reconstruction of HV overhead lines: Miłostaw – Środa, Szamotuły – Wronki, Żnin – Pakość, Stęszew – Kościan, Pniewy – Sieraków, Budziechów – Zakładowa Żary, Kluczewo – Pyrzyce - Barlinek – Mostkowo, Skwierzyna – Międzyrzecz, Jasiniec – Bydgoszcz Wschód
- Improvement of the connection processes and reduction of the negative impact on the environment of the used power equipment
- Development of information tools supporting the grid management

Investments planned in 2017 within the currently held assets

Mining

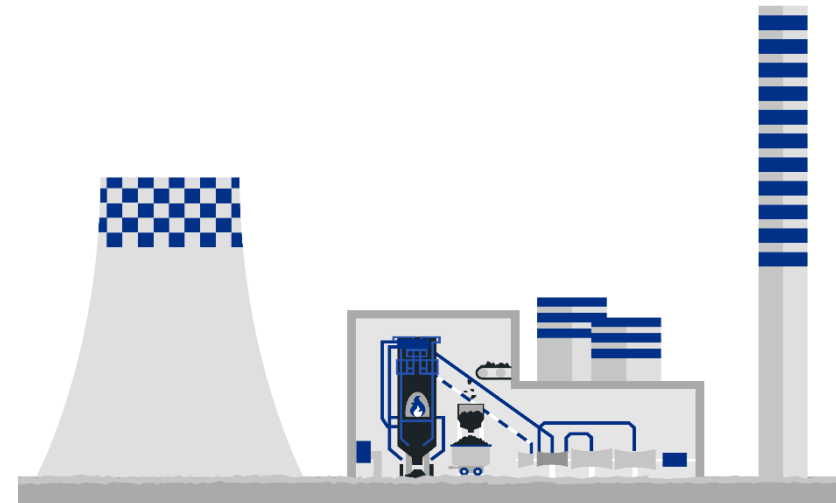
Development investments	<p>Obtaining new licences:</p> <ul style="list-style-type: none"> obtaining the mining license for Ostrów deposit <p>Maintaining the machine park:</p> <ul style="list-style-type: none"> purchase and assembly of new machines and equipment modernisation and renovations of machinery and equipment
Operating investments	<p>New excavations and modernisation of the existing ones:</p> <ul style="list-style-type: none"> performance of excavations, mainly wall roadways, face lines and other technological and access excavations, enabling exploitation of walls in 385/2, 389 and 391 deposits reconstruction of mining excavations
Other investments	<p>Other development and replacement investments:</p> <ul style="list-style-type: none"> extension of the plant for mining waste neutralisation in Bogdanka modernisation of Zakład Przeróbki Mechanicznej Węgla (Coal Mechanical Processing Plant) objects continuation of works related to the "Production management integrated system" and "Smart solutions mine" project continuation of the power grids expansion modernisation of office facilities, acquisition of means of transport

Distribution

New	<ul style="list-style-type: none"> Construction of GPZ Choszczno II and GPZ Recz Construction of GPZ Garbary and construction of 110 kV Garbary-Cytadela, Garbary-EC Karolin lines Construction of Garaszewo grid switching station and construction of 110 kV Kromolice - Nagradowice, Kromolice - Gądki, Kromolice - Swarzędz lines Construction of 110 kV Piła Krzewina - Miasteczko Krajeńskie line and reconstruction of GPZ Miasteczko Krajeńskie Reconstruction of GPZ Wronki Reconstruction of GPZ Piła Południe Reconstruction of GPZ Żary
Continued	<ul style="list-style-type: none"> Implementation of smart grid solution development programme (AMI) Implementation of a programme enhancing network reliability Implementation of the Network Information System project Realisation of the project of implementation of the system of digital operator communications in TETRA standard Reconstruction of GPZ Kostrzyn Reconstruction of GPZ Jachcice Reconstruction of GPZ Pakość Reconstruction of 110 kV Morzyczyn - Drawski Młyn line Reconstruction of 110 kV Gryfino - Żydowce line Reconstruction of 110 kV Dąbie - Morzyczyn line Reconstruction of 110 kV Glinki - Żelechowo line

Generation

Segment of System Power Plants	New	<ul style="list-style-type: none"> Modernisation of units No. 3 and 8 and 10
	Continued	<ul style="list-style-type: none"> Construction of power unit No. 11 (completion in 2017) Installation of flue gases denitrification - SCR for units No. 4-8 (completion in 2017) Installation of flue gases denitrification - SCR for units No. 9-10 (completion in 2018) Modernisation of cooling water intake - temporary stabilising checkdam on the Vistula River
Segment of Heat		<ul style="list-style-type: none"> Construction of flue gas desulphurisation plant on K7 and K8 boilers (completion in 2017)
Segment of RES		<ul style="list-style-type: none"> Searching for bargain investment and acquisition projects



Status of works on the key investment projects

Investment	Project status	CAPEX 2016 [PLN mln]	Total CAPEX [PLN mln]	Work progress [%]	Anticipated date of completion
Construction of a 1,075 MW power unit No. 11	<p>In Q4 2016 the following works were completed on the construction site:</p> <ul style="list-style-type: none"> • Completion of the assembly of the site conveyor as regards coal distribution to the storage site • Completion of stacker-reclaimer assembly • Completion of dust ducts • Completion of Eurosilo mechanical equipment assembly 	1 093	5 744.6	94%	2017
IOS IV flue gas desulphurisation plant	Main unit of IOS IV, flue gas channels, auxiliary ventilators, chimney No. 3, IOS IV power supply were commissioned. All the devices and installations operate according to the technical parameters included in the agreements. What is still to be executed is the scope relating to the COD (chemical oxygen demand) in treated waste-water from IOS IV installation.	9.1	288.3	99%	2017
Modernisation of unit No. 4	On 22 December 2016 unit No. 4 was commissioned. Project under the closing stage.	30.6	31.8	98%	2017
Modernisation of unit No. 5	On 7 June 2016 unit No. 5 was commissioned. Project completed.	74.8	87.9	100%	2016
Construction of industrial waste and rainwater treatment	On 18 July 2014 an Agreement was signed for the project implementation. On 9 May 2016 Annex No. 3 was signed in which works related to the laying of the power feeding cable were prolonged until 31 July 2016, some scope of works related to the disassembly and construction of the internal road was however cancelled (the Agreement value was reduced). On 15 September 2016 a new Integrated Permit decision was obtained. On 18 October 2016 an Agreement was signed with the Contractor for the modernisation of waste water treatment plant - with Inżynieria Rzeszów SA - on completion of the scope of works, which was primarily cancelled in the original Agreement. On 15 December 2016 the works of the Contractor were accepted.	7.3	29.4	99%	2016
Installation of flue gases denitrification - SCR for units No. 1 and 2	SCR installation on unit No. 2 was commissioned. A successful completion of the adjustment operation and test run of SCR installation on unit No. 1. A decision on operating permit was obtained for SCR installation on unit No. 1 and the installation was commissioned. On 21 December 2016 the final acceptance was performed of SCR installation on units no. 1 and 2.	12.5	97.9	99%	2016
Modernisation of unit No. 9 as a part of 2 x 500 MW units modernisation programme	In 2018 the modernisation of unit No. 9 is planned. Currently, the material scopes and tender documents are being prepared relating to the works connected with the modernisation. An agreement for the turbine part was concluded.	0	90.0	1%	2018
Modernisation of cooling water intake - stabilising checkdam on the Vistula River	The project is at the stage of preparation for realisation. The environmental decision is pending.	0.6	33.0	2%	2019
Installation of the catalytic denitrogenation of flue gases and modernisation of electrostatic precipitators for AP - 1650 boilers of units No. 9 and 10 as a part of the 2 x 500 MW units modernisation programme.	On 30 September 2016 an agreement was signed with Rafako for the performance of the installation of the catalytic denitrogenation of flue gases with modernisation of electrostatic precipitators for AP - 1650 of units No. 9 and 10. Offers in the tender procedure for the selection of the Contract Engineer are being assessed.	6.1	314.2	1%	2019
Installation of flue gases denitrification - SCR for units No. 4-8	Completion of the SCR installation on units No. 6 and 7 and the common part for SCR installation for units No. 4 - 8. SCR installation for unit No. 5 was commissioned on 25 July 2016. On 21 December 2016 the final acceptance was performed of SCR installation on unit No. 5. Project in progress.	62.1	203.7	86%	2017
Installation of flue gases denitrification - SNCR for unit No. 3	Notwithstanding IED or BAT environmental standards it is not planned to construct a SCR/SNCR installation on unit No. 3. As a result of the replacement of burners for low-emission ones, the unit is currently capable, using natural methods, of a long-lasting maintenance of NO _x emissions on the level of 300 - 350 mg/Nm ³ . Lack of an installation of flue gases denitrification on unit No. 3 imposes however some operating conditions of the unit which will have to operate jointly with other neighbouring units equipped with SCR installations.	0	42.6	1%	2017
Construction of flue gas desulphurisation plant on K7 and K8 boilers	An agreement was concluded with the National Fund of Environmental Protection and Water Management for the co-financing of the investment as a loan. On 2 February 2016 the Contract Engineer was appointed. On 28 April 2016 the permit for the construction of IOS K7 and K8 became final. The project is being realised.	34	105.5	55%	2017
Modernisation of unit No. 10 as a part of 2 x 500 MW units modernisation programme	In 2017 the modernisation of unit No. 10 is planned. Currently, the material scopes and tender documents are being prepared relating to the works connected with the modernisation of unit No. 10. An agreement for the turbine part was concluded.	0	88.1	1%	2018

In 2017 Enea Capital Group will commission the most modern power unit in Poland and Europe

Works realised in 2016:

- Assembly of the boiler house's main structure
- Assembly of start-up boilers
- Connecting 110 kV voltage
- Assembly of the pressure system
- water test of the boiler
- Assembly of electrostatic precipitator's supporting structure
- Reinforced concrete structure of gypsum store
- Assembly of stacker-reclaimers
- Assembly of coal pulverizers



Works planned in 2017:

- Connecting 400 kV voltage
- Start-up of the starting boiler house
- Rinsing - etching of the boiler
- First coal feeding to the boiler
- First steam feeding to the turbine
- Start-up of the whole power plant
- Synchronisation with the grid
- Unit's commissioning

A new 1075 MW_e unit in Kozenice Power Plant

- The largest in Europe power unit fired with bituminous coal
- Completely independent unit, possessing its own infrastructure
- New unit means a 1/3 increase in the Kozenice Power Plant's capacity
- Unit No. 11 will allow to eliminate deficits of energy on the market
- High efficiency of energy generation
- High availability and low failure rate of the new unit
- The unit satisfies the conditions of the environmental protection



of the progress of the new unit's construction

Activities realised in 2016

Area of Retail Sales

- Launching the Customer Loyalty Programme (Purchase Zone)
- Introduction of new products into the product range for households, e.g. ENERGY+ Photovoltaics and ENERGY+ Professional
- Widening of the gas product range and implementation of new products for business Customers: ENERGY+ Index and ENERGY+ Professional
- Conduct of advertising campaigns and periodic promotional actions targeted at household and C segments communicating the offer
- Customer service quality and satisfaction survey

Area of Customer Service

- Completion of a migration process of Customer data to the central billing system - CCSS-T, CCSS-D
- Launching an Electronic Customer Service Centre for all Customers
- Termination of the proceeding for the selection of a mass printout provider (reducing print costs)
- Opening a modernised monumental office building with a Customer Service Centre in the centre of Szczecin
- Modernisation of customer service centres according to Enea CG's Brand Identity Book in Inowrocław, Nowa Sól, Piła, Stargard, Szamotuły and Zielona Góra
- Launching new services for all Enea CG Companies on Enea Group's on-line service
- The execution of the purchase process of the multi-channel contact centre platform, which will allow for accessing new contact channels by Customers

Area of Wholesale Trade

- Development and implementation of the methodology and a tool for construing futures curves for natural gas on the Polish market
- Development of the methodology of assessing and estimating the risk of electricity price increases and decreases during the offer-making period and securing the offer on the wholesale market assigning the estimated likelihood of price changes
- Development and implementation of a model of long-term price paths for products listed on wholesale markets
- Completion of the process of hedging electricity market, proprietary interests and CO₂ emission allowances for the needs of wholesale portfolios of Enea companies with the concurrent achievement of a positive (in relation to the market benchmark) financial result
- Adaptation of biomass supply agreements to the amended RES act
- Contractation of fuel supplies for the planned electricity generation in 2017 taking into account the open position resulting from the demand for unit No. 11

Activities to be realised in 2017

- Development of the Customer Loyalty Programme (Purchase Zone)
- Implementation of the analytic system aiding the sale-purchase portfolio management and projection
- Introduction of new products for households and business Customers
- Communicating new products
- Customer service quality and satisfaction monitoring
- Promoting new service and communication tools
- Implementation of periodic marketing campaigns in order to obtain contacts and promote new products

- Optimisation of CSC, visualisation of selected CSCs
- Higher quality and scope of services by remote contact channels as a result of increasing the catalogue of Customer matters realised by first contact
- Implementation of a new multi-channel contact centre platform the launching of which will provide Customers with new contact channels
- Development of new concepts of Customer service operation and settlement support areas and preparation of the implementation plan

- Adjustment to the changes resulting from increasing generation assets on Enea Group as regards the improvement of tools and methods of portfolio management and hedging positions within the whole added value chain
- Improvement of analytical models and tools supporting hedging and proprietary trading on domestic and foreign markets
- Development of the fundamental model of long-term price paths for bituminous coal
- Development of tools supporting distributed generation in relation to the changes in the renewable energy sources support mechanisms which enter into force after 1 January 2018
- Contractation of generation fuel supply for planned energy generation for 2018
- Coordination of the planning and contractation principles as results from the extension of the fuel portfolio



Agreements of significance to Enea Capital Group operations

In 2016 Enea Capital Group companies did not conclude any significant agreements, i.e. agreements with the value exceeding 10% of Enea's equity, yet in the reporting period an annex was concluded to the Multiannual Agreement No. UW/LW/01/2012 for supplies of fuel coal between Enea Wytwarzanie and LW Bogdanka. Pursuant to the Annex the volume of supplies to Kozienice Power Plant in the period of 2017-2036 was increased, as a result of which the value of the aforementioned agreement grew by ca. PLN 2.7 bln. Additionally, on 23 December 2016 Enea Wytwarzanie sp. z o.o. concluded a deadline amending annex to the agreement of 21 September 2012 on the investment implementation. The subject of the annex is extension of the deadline for the performance of the agreement relating to the construction of a power unit in Kozienice Power Plant until 19 December 2017, and shifting the deadline of its completion stems from objective reasons beyond the control of the contractual parties. The value of the agreement did not change as a result of the annex conclusion.

Execution of significant agreements

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

Agreements on coal supplies and transportation

Agreements concluded by Enea Wytwarzanie sp. z o.o.

Date of conclusion	Party to the agreement	Description
4 March 2010		Multiannual agreement No. UW/LW/01/2010 - specifies the general terms of coal supplies in 2010-2017
3 March 2016		Annual Agreement for supplies of fuel coal in 2016 - completed
15 December 2016	LW Bogdanka SA	Annual Agreement for supplies of fuel coal in 2017 - Appendix No. 8 to the Agreement No. UW/LW/01/2010
23 January 2012		Multiannual agreement No. UW/LW/01/2012 - specifies the general terms of coal supplies in 2017-2036
15 December 2016		Annual Agreement for supplies of fuel coal in 2017 - Appendix No. 2 to the Agreement No. UW/LW/01/2012
3 December 2014		Multiannual agreement - specifies the general terms of coal supplies in 2015-2017
9 September 2015	Katowicki Holding Węglowy SA	Annual Agreement for supplies of fuel coal in 2016 - completed
20 September 2016		Annual Agreement for supplies of fuel coal in 2017
31 March 2015	Jastrzębska Spółka Węglowa SA	Coal supply agreement - specifies the terms of coal supplies in 2015-2017
12 January 2015	Kompania Węglowa SA (after transformation Polska Grupa Górnicza sp. z o.o.)	Coal supply agreement - specifies the detailed terms of coal supplies in 2015-2016 - completed
16 May 2016	PKP Cargo SA	Performance of fuel coal transportation service for Enea Wytwarzanie from LW Bogdanka SA in the period from 25 May 2016 to 25 August 2017 (or until the exhaustion of the volume of 5,050,000 t)
9 June 2016	PKP Cargo SA	Performance of fuel coal transportation service for Enea Wytwarzanie from Katowicki Holding Węglowy SA, Polska Grupa Górnicza sp. z o.o., Jastrzębska Spółka Węglowa SA in the period from 10 June 2016 to 10 June 2017 (or until the exhaustion of the volume of 1,250,000 t)

Signing of the Investment Agreement with Energa SA and Elektrownia Ostrołęka SA relating to the construction and operation of the power unit in Ostrołęka Power Plant

On 19 September 2016, Enea SA and Energa SA signed a Letter of Intent relating to undertaking the cooperation on the preparation, implementation and operation of a modern 1,000 MW unit in Ostrołęka Power Plant (investment, Ostrołęka C).

The Parties' intention is joint elaboration of Ostrołęka C effective business model, verification of its design documentation and optimisation of technical and economic parameters of the new unit. The cooperation includes also the performance of the tender procedure to select the general contractor for the Investment.

In the Parties' agreeable opinion the implementation of the Investment will positively affect the Polish energy security, will satisfy the highest environmental standards and will guarantee a next high-performance and low-emission source of energy in the Polish Power System.

On 8 December 2016 the Company concluded an Investment Agreement relating to the implementation of Ostrołęka C project. The subject of the Agreement is preparation, construction and operation of the power unit mentioned above. Pursuant to the concluded Agreement the course of the cooperation, as a rule, will be organised in three stages: Development Stage - until the instruction is given to commence works to the general contractor, Construction Stage - until commissioning of Ostrołęka C for commercial exploitation and Operation Stage - commercial exploitation of Ostrołęka C. After the Development stage, Enea SA is obliged to participate in the Construction Stage assuming that the Project's profitability condition is satisfied, and the Project funding will not infringe upon the Company's bank covenants. It is estimated that the total capital expenditures of Enea SA until the end of the Development Stage will amount to ca. PLN 128 mln. In order to implement the Investment Energa SA will sell the shares in Elektrownia Ostrołęka SA, being 50% of the share capital, to Enea SA, in the amount of PLN 101 mln. The condition precedent for the Investment Agreement's entry into force was obtaining the consent of the President of the Office of Competition and Consumer Protection for the concentration being the acquisition of the shares in the special purpose vehicle establish to implement the Project. The condition was satisfied on 11 January 2017.

On 19 December 2016 the special purpose vehicle announced the tender procedure for the selection of a general contractor to construct Ostrołęka C power plant of ca. 1,000 MW capacity and net efficiency of at least 45%, operating on steam supercritical parameters. Elektrownia Ostrołęka SA on the realisation of specific assumptions (with a relevant share of Enea SA, Energa SA and potential Financial Investors) and assuming the introduction of the capacity market or other support mechanisms, will be able to undertake a comprehensive implementation of the project.

Termination/withdrawal from proprietary interests purchase agreements by Enea SA

On 28 October 2016 Enea submitted notices on termination or withdrawal from longer-term contracts for the purchase of proprietary interests resulting from certificates of origin of energy from renewable sources (the so-called green certificates). The reason for termination/withdraw from individual contracts by the Company was exhaustion of possibilities of restoring the contractual balance and equivalence of performance by the parties as a result of law amendments. The financial result stemming from the termination of the Agreements will be avoidance by the Company of a loss being the difference between contractual prices and the market price of green certificates. The estimated total value of Enea's contractual liabilities amounted to ca. 1,187 mln net.

Signing of a letter of intent relating to the preliminary interest in the financial engagement in Katowicki Holding Węglowy

In relation to the process of obtaining capital investors by Katowicki Holding Węglowy SA, in July 2016 the Company commenced talks with potential investors relating to a possibility of implementing a potential investment and its potential parameters.

On 28 October 2016 Enea SA, Węglokoks SA and Towarzystwo Finansowe Silesia sp. z o.o. (Investors) signed a letter of intent expressing the preliminary interest in the financial engagement in Katowicki Holding Węglowy or in KHW's assets. Investors' engagement in KHW depends on the satisfaction of numerous conditions related to e.g. presentation of an acceptable business plan and financial model and obtaining the required corporate consents. The Investors' final decisions as regards the participation in KHW will be made e.g. after the analysis of the due diligence performed and after the determination of the final shape of all the other arrangements.

Acquisition of shares in Polimex – Mostostal SA

On 6 December 2016 targeted talks commenced between the Company and the following: Energa SA, PGE Polska Grupa Energetyczna SA, PGNiG SA (Investors) and between Investors and Polimex-Mostostal SA (Polimex). The goal of these talks was drafting the structure of a potential equity interest of Investors in Polimex (Investment) and development of a potential model of cooperation between Investors on the Investment implementation.

On 27 December 2016 the Company, the Investors and Polimex signed a letter of intent in which the Investors expressed their intention to consider a potential investment in Polimex and based on which they commenced talks with Polimex with the purpose of specifying detailed parameters of the transaction. At the same time, on the same day, the Company and the Investors, lodged a motion with the Office for Competition and Consumer Protection (UOKiK) for issuing the approval by the President of UOKiK to perform the concentration being the takeover by the Investors of a joint control over Polimex. The consent for the concentration being the takeover by the Investors of a joint control over Polimex, mentioned above, was issued on 18 January 2017.

At the same time, also on 18 January 2017, the Company, the Investors and Polimex concluded an investment agreement pursuant to which the Investors undertook to make an investment in Polimex. The investment will consist in the subscription by the Investors for a total of 150 mln shares issued by Polimex. The Company undertook to take up 37.5 mln new issue shares for the total issue price of PLN 75 mln. The agreement was concluded under conditions precedent, described in detail in the current report No. 2/2017. Along with the aforementioned agreement other agreements were concluded which made the terms of cooperation more precise together with the mutual rights and obligations of the Investors on the implementation of the above-mentioned investment, which were concluded with creditors and then existing shareholders of Polimex.

On 20 January 2017 in relation to the satisfaction of conditions precedent reserved in the investment agreement mentioned above, the Company accepted the offer made by the Management Board of Polimex to subscribe, within the private subscription, for 37.5 mln shares, at the issue price of PLN 2 per share, i.e. for the total issue price of PLN 75 mln. Additionally, as the result of the performance of one of the above mentioned additional agreements on 20 January 2017 the Company purchased 15 mln shares in Polimex from its previous shareholder.

On 21 March 2017 the Investors published a tender offer for shares in Polimex in relation to exceeding (as the parties to the memorandum of understanding) of the 33% threshold of the general number of votes at a general meeting of Polimex. The tender offer is consequent and the Investors intend to acquire the said shares in the amount constituting the excess of shares over the number of shares currently held by Investors (i.e. a total of 65.93% of the total number of votes in Polimex) and guaranteeing the achievement of no more than 66% of the total number of votes at a general meeting of Polimex. In relation to the tender offer each of the Investors (including Enea) intends to acquire not more than, approximately 0.018% of the total number of votes at a general meeting of Polimex.

Initial offer for EDF in Poland

On 16 September 2016 Enea SA and PGE SA, Energa SA and PGNiG Termika SA (Business Partners) jointly made a preliminary, non-binding offer to EDF International SAS (EDF) for the purchase of shares in companies belonging to EDF in Poland, holding conventional generating assets and conducting service operations.

On 30 November 2016 the Company and Business Partners submitted a new offer to EDF for the purchase of shares in companies belonging to EDF in Poland, holding conventional generating assets and pursuing a service activity. The submission of the new offer by Business Partners was made in relation to the upcoming expiry of the offer submitted on 16 September 2016.

On 27 January 2017 the Company and Business Partners signed an agreement with EDF Investment SAS relating to the conduct of negotiations regarding the acquisition of EDF's assets in Poland and due diligence examination within this scope. The transaction includes the acquisition of all EDF's shares in EDF Polska SA which in particular is the owner of 4 combined heat and power plants, i.e. Kraków, Gdańsk, Gdynia and Toruń and heat distribution networks in Toruń, Rybnik Power Plant, and the acquisition of all 4 combined heat and power plants, i.e. Wrocław, Zielona Góra, Czechnica and Zawidawie and heat distribution network in Zielona Góra, Siechnice and Zawidawie.

On 15 March 2017 the Business Partners made amendments to the transaction structure being: 1) withdrawal of PGNiG Termika SA from the transaction, 2) takeover of the so far declared share of PGNiG Termika SA in the transaction by PGE SA, which results in the growth in PGE SA's share in the transaction to 60%, 3) maintaining the shares of Enea SA and Energa SA in the transaction on the same level of 20% for each company. Pursuant to the above amendments in the transaction structure confirm filing no objections by EDF.

Acquisition of shares in ENGIE Energia Polska

On 30 September 2016 the Company submitted an offer for the acquisition of 100% shares in ENGIE Energia Polska SA. The offer was submitted compliant with the process initiated by ENGIE, the owner of 100% of shares in ENGIE Energia Polska, which is considering their sale.

On 2 December 2016 the Company was granted exclusivity to conduct further negotiations relating to the acquisition of shares in ENGIE Energia Polska SA, owned by ENGIE.

On 23 December 2016 the Company and ENGIE International Holdings B.V. signed a conditional agreement on sale of 100% of shares in ENGIE Energia Polska SA (Agreement). Based on the Agreement the Company will purchase 100% of shares in the share capital of ENGIE Energia Polska SA, and indirectly also 100% shares in ENGIE Bioenergia sp. z o.o. ENGIE Energia Polska SA is the owner of Połaniec Power Plant. The enterprise value of ENGIE Energia Polska SA, i.e. the one calculated excluding the debt and cash in the company, was agreed on PLN 1,073,140,672. The final price for 100% of shares in ENGIE Energia Polska SA will be calculated based on the enterprise value, taking into account the net debt and working capital as at 31 December 2016.

Closing the transaction depends on the fulfilment of the following significant conditions precedent:

- obtaining the consent of the Minister of Energy, pursuant to the Act on control over certain investments,
- obtaining the consent of the President of the Office of Competition and Consumer Protection for the concentration,
- waiver of the pre-emptive right by the President of the Agricultural Property Agency, and
- conversion of ENGIE Energia Polska SA's debt towards ENGIE group entities to equity in ENGIE Energia Polska SA.

The agreement shall expire after the lapse of 6 months of its execution, if 100% of shares in ENGIE Energia Polska SA are not purchased within this period due to failure to satisfy the conditions precedent.

On 28 February 2017 the Company was informed on the fulfilment of the last of the above mentioned conditions, which means that all the above conditions precedent were fulfilled.

On 2 March 2017 the Company received the calculation of the preliminary selling price of 100% of shares in ENGIE Energia Polska SA from ENGIE International Holdings B.V. on the level of PLN 1,264,159,355. It was stipulated in accordance with the terms of the Agreement, however it will be subject to verification by the Company and potential adjustments in the period occurring directly after taking the control over ENGIE Energia Polska SA, under the terms specified in the Agreement, compliant with the market standards applying to such transactions.

On 14 March 2017 the Issuer acquired 100% of shares in ENGIE Energia Polska SA, i.e. 7,135,000 shares, entitling to the same number of votes for the initial price of PLN 1,264,159,355. Taking over the control over EEP is in line with Enea Capital Group's development strategy until 2030. The detailed information relating to the above transaction was published in the current report No. 10/2017 of 14 March 2017.

Insurance contracts

Insurance agreements in Enea Group are concluded in accordance with the corporate Insurance Policy. Due to the common Policy insurance standards were standardised in the Group and insurance protection acquisitions were consolidated obtaining indicative benefits both as regards the insurance and insurance costs.

Enea Group Companies transfer the risk of incurring losses as a result of property damage and third party claims by conclusion of insurance agreements with largest insurance agencies such as: PZU SA, TUiR WARTA SA, STU Ergo Hestia SA, TU Allianz Polska SA.

Due to a great exposure of Enea Group Companies to damage and latent claims it may not be ruled out that the concluded insurances may prove insufficient. The insurance coverage level does not diverge from the standards applied in the Polish electrical power industry and is adjusted to the specifics of operations of particular companies.

Agreements between shareholders of the parent company

The Company is not aware of any agreements between shareholders of Enea SA.

Collaboration or cooperation agreements

Incorporation of ElectroMobility Poland SA

PGE Polska Grupa Energetyczna, Energa, Enea and Tauron Polska Energia incorporated ElectroMobility Poland on 19 October 2016. The operations of the new company are to contribute to the creation of the electromobility system in Poland.

The new company's share capital is PLN 10 mln. Each of the companies incorporating ElectroMobility Poland holds 25% in the share capital with 25% of votes at a general meeting.

The letter of intent regarding cooperation in the research and development projects

Based on the letter of intent of 2014 concluded between Enea SA, PGE Polska Grupa Energetyczna SA, Energa SA and Tauron Polska Energia SA, in 2016 its signatories continued the operations led by the Polish Electricity Association (PEA), whose goal was to establish a Power Sector Research Programme (PSRP) by the National Centre for Research and Development (NCRD). The first competition for financing research and development projects within PSRP was announced on 30 September 2016.

Transactions with related parties

In 2016 Enea and its subsidiaries did not conclude any transactions with related entities on non-market conditions.

Information on transactions with related entities concluded by Enea or its related entity are described in note 42 to the consolidated financial statements of Enea Capital Group for 2016.

Dependence on suppliers or recipients

The only means of transport used to deliver bituminous coal to Enea Wytwarzanie - segment of System Power Plants in 2016 was a rail transport. PKP Cargo forwarder realised 100% of supplies.

Financing sources of the investment programme

Enea SA finances the investment programme using financial surpluses from the conducted business operations and external debt. Enea Capital Group realises the investment financing model in which Enea SA obtains external funding and distributes it to its subsidiaries.



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

Enea SA holds the programme agreement relating to the bond issue programme up to the amount of PLN 3 bln with banks operating as Underwriters, i.e.: PKO BP SA, Bank Pekao SA, BZ WBK SA and Bank Handlowy w Warszawie SA. The financing is not hedged on Enea Capital Group's assets.

The funds obtained from the programme are allocated to the realisation of investment projects in Enea Group, including e.g. for the construction of the 1,075 MW_e gross supercritical bituminous coal fired power unit, which is being constructed as a part of Enea Wytwarzanie's operations.

On 23 July 2015, Enea SA concluded an annex to the Agreement which amended the financing conditions adapting them to the current market situation and amended the legal basis for the issue of new series of bonds to the Bond Act of 15 January 2015.

In 2016 Enea SA issued three tranches of 6-year bonds of the value of PLN 750 mln bearing floating rate interest (WIBOR plus margin).

As at 31 December 2016 the value of the bonds issued within the aforementioned Programme totalled to PLN 1,951 mln.



Financing source utilisation rate



Programme Agreements on the bond issue programme guaranteed by BGK

On 15 May 2014, Enea SA concluded a programme agreement relating to the bond issue programme up to the amount of PLN 1 bln guaranteed by Bank Gospodarstwa Krajowego. The financing is not hedged on Enea Capital Group's assets. The funds from that programme are allocated e.g. to the implementation of the investments by Enea SA and its subsidiaries.

On 1 September 2015 an annex was signed to the said Agreement which amended the legal basis for the issue of successive series of bonds to the Bond Act dated 15 January 2015.

As at 31 December 2016, Enea SA issued bonds in the said Programme of the total value of the Programme being PLN 1 bln. The bond redemption period is maximally 12.5 years from the date of their issue. The interest is based on floating WIBOR rate increased with the margin.

On 3 December 2015, Enea SA concluded another programme agreement relating to the bond issue programme up to the amount of PLN 700 mln guaranteed by Bank Gospodarstwa Krajowego. The funds from that programme are allocated e.g. to the implementation of the investments and financing the current operations of Enea SA and its subsidiaries. In 2016 Enea SA did not issue bonds within the aforementioned programme.



Financing source utilisation rate



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

On 30 June 2014, Enea SA concluded a programme agreement relating to the bond issue programme up to the amount of PLN 5 bln with five banks acting as dealers: ING Bank Śląski SA, PKO BP SA, Bank Pekao SA and mBank SA. As a part of 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. The first series bonds in the amount of PLN 1 bln were issued in February 2015. The bonds are registered with the National Depository for Securities and traded on the alternative trading system on Catalyst.

On 7 September 2015 an annex was signed to the said Agreement which amended the legal basis for the issue of successive series of bonds to the Bond Act dated 15 January 2015.

On 16 September 2015, Enea SA issued 6-year bonds in the total amount of PLN 500 mln for one investor. The interest is based on floating WIBOR rate increased with the margin.



Financing source utilisation rate



Investment loans granted by the European Investment Bank

On 18 October 2012, Enea SA concluded a financial agreement with the European Investment Bank (EIB) based on which the Company was granted a loan in the amount of PLN 950 mln or its equivalent in EUR (tranche "A"). On 19 June 2013, another loan agreement (tranche "B") was concluded with EIB for the amount of PLN 475 mln. The funds in the total amount of PLN 1,425 mln obtained from the loan are designated for the financing of a multiannual investment plan regarding the modernisation and extension of the power grids of Enea Operator. The loan repayment period is up to 15 years from the planned disbursement of the facility.

As at 31 December 2016 within "A" and "B" tranches, Enea SA drew funds from the loan in full, i.e. in the amount of PLN 1,425 mln in 4 separate amounts paid out from September 2013 to July 2015. The currency of the disbursed loan is Polish Zloty, floating rate, based on WIBOR rate for 6-month deposits, increased with the Bank's margin. In the case of one disbursement the interest was based on the flat interest rate.

On 29 May 2015 another loan agreement was concluded based on which EIB provided the Company with new financing in the amount of PLN 946 mln or its equivalent in EUR (tranche "C"). The funds obtained from the loan will be allocated to the financing of a multiannual investment plan in order to modernise and extend the power infrastructure of Enea Operator. The financing is not hedged on Enea Capital Group's assets. In 2016 a loan was drawn in the amount of PLN 100 mln. Enea SA withdrew a total of PLN 200 mln within this loan. The loan interest rate is floating based on WIBOR rate for 6-month deposits increased with the Bank's margin. The tranches will be paid in instalments, and the final repayment will be made in September 2030.



Financing source utilisation rate

Financing sources of LW Bogdanka investment programme



The Programme Agreements on the bond issue programme of LW Bogdanka SA

LW Bogdanka SA has two bond issue programmes. Within the first Programme Agreement concluded on 23 September 2013 with Bank Pekao SA LW Bogdanka SA issued bonds of the total value of PLN 300 mln. The redemption date is in 2018. The interest rate of the bonds is based on WIBOR 3M rate increased with the fixed margin. The other Programme Agreement was concluded on 30 June 2014 with Bank Pekao SA and Bank Gospodarstwa Krajowego up to the total amount of PLN 600 mln (two Tranches No. 1 and 2, PLN 300 mln each) and then on 27 June 2016 it was amended with an annex, within which LWB02B300616 series bonds were redeemed according to the Agreement totalling to PLN 100 mln. The redemption of LWB01B300616 series totalling to PLN 300 mln was performed through roll-up, i.e. the issue of new LWB01C300617 series of the total amount of PLN 300 mln. The Availability Period for Tranche II expired on 30 May 2016. The redemption date for LWB01C300617 series totalling to PLN 300 mln is 30 June 2017. It should be added that in accordance with the Agreement the Company may issue subsequent series of bonds within a given tranche to refinance the previous issue. The Programme ends on 31 December 2019. The interest rate of the bonds is based on WIBOR 3M rate increased with the fixed margin. As at 31 December 2016 PLN 600 mln worth of bonds were issued within the two above mentioned agreements.



Financing source utilisation rate

Enea SA's further actions will concentrate on guaranteeing the appropriate level of diversification of external financing sources for investments planned in Enea Group Strategy in order to optimise the amount of costs and dates of debt repayment.

Issue of Enea SA's securities

Enea SA issued securities of the total amount of PLN 750 mln in 2016. The nominal debt for the bonds issued by Enea SA as at 31 December 2016 totalled to PLN 4,451 mln.

Interest rate risk hedging transactions

Implementing the Interest Rate Risk Management Policy Enea SA concluded transactions in 2016 which hedge the interest rate risk (Interest Rate Swap) for the total equivalence of the debt in the amount of PLN 1,440 mln. The concluded transactions hedge the level of settlements and payments resulting from the debt through the change of floating interest streams into fixed ones.

Use of proceeds from the issue of securities

The funds obtained by Enea SA from the bond issue are applied to the implementation of real and equity investments conducted by Subsidiaries. Enea Wytwarzanie has been constructing the most modern power unit in Poland in Świerże Górne. All the issues performed by Enea Wytwarzanie in 2016 were devoted to financing the expenses associated with the project.

Assessment of the feasibility of implementing investment plans

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

Distribution of cash - subsidiaries' bond issue programme

PLN 3 bln - Programme Agreement of 8 September 2012 Enea Wytwarzanie

In 2016, as part of the Programme, Enea Wytwarzanie issued three tranches of 6-year bonds of the value of PLN 750 mln bearing floating rate interest (WIBOR plus margin). As at 31 December 2016 the total value of the bonds issued within the aforementioned Programme totalled to PLN 1,951 mln.

PLN 1,425 mln - Enea Operator's Bonds

The PLN 1,425 mln worth of the programme was fully utilised by Enea Operator. The bonds, depending on the series, bear fixed or floating interest rate. The bonds will be redeemed in instalments from September 2017, and the final redemption date is in June 2030.

PLN 1 bln - Programme Agreement of 17 February 2015 Enea Wytwarzanie

On 17 February 2015, Enea Wytwarzanie, Enea and PKO Bank Polski concluded the Bond Issue Programme Agreement for the amount of PLN 760 mln. On 3 June 2015 an annex was concluded to the agreement based on which the parties increased the amount of the Programme to PLN 1 bln. As at 31 December 2016, Enea Wytwarzanie issued bonds in the said Programme of the total value of PLN 1 bln. The programme is fully utilised by Enea Wytwarzanie.

PLN 946 mln - Programme Agreement of 7 July 2015 Enea Operator

The Executive Bond Issue Programme Agreement for the amount of PLN 946 mln was concluded between Enea as guarantor, Enea Operator as issuer and PKO Bank Polski as agent. The bond redemption date - in instalments, however not later than within 15 years of the date of issue. The bonds may bear the fixed rate or floating rate interest based on WIBOR rate plus margin, with the interest rate revision after 4 or 5 years. As at 31 December 2016, Enea Operator issued bonds in the said Programme of the total value of PLN 200 mln.

PLN 936 mln - Programme Agreement of 16 July 2013 Enea Wytwarzanie

On 30 May 2016 an agreement was reached between Enea, Enea Wytwarzanie and mBank amending the Bond Issue Terms of 13 July 2015 within which the maturity of bonds was amended to 31 May 2016. On that date Enea Wytwarzanie redeemed all the bonds issued within the Programme of AI107/2015 series in the total amount of PLN 936 mln.

PLN 740 mln - Bond Issue Programme Agreement Enea Wytwarzanie

Within the Programme of PLN 740 mln, as at 31 December 2016 Enea Wytwarzanie issued bonds of the total value of PLN 350 mln.

PLN 260 mln - Programme Agreement of 12 August 2014 Enea Wytwarzanie

The PLN 260 mln worth of the programme is fully utilised by Enea Wytwarzanie. The bonds bear a fixed rate interest. The bonds will be redeemed in instalments from September 2017 to December 2026.

PLN 360 mln - Programme Agreement of 18 July 2016 Enea Operator

The Executive Bond Issue Programme Agreement for the amount of PLN 360 mln was concluded between Enea as guarantor, Enea Operator as issuer and PKO Bank Polski as agent. Within the Agreement, Enea Operator may perform a single issue of bonds. On 28 July 2016 Enea Operator issued bonds totalling to PLN 360 mln, floating rate - WIBOR 3M plus margin. The redemption date of the bonds is December 2017.

Other agreements

In previous years, Enea SA concluded also intergroup bond issue programme agreements via subsidiary companies which are to finance the investments in the segments of RES and Heat. These programmes are fully used and redeemed in instalments. The total amount of the bonds for redemption within these programmes was PLN 102,850 thou. as at 31 December 2016.

Credit and loan agreements concluded and completed

According to the nominal debt as at 31 December 2016, Enea SA had loans in the amount of PLN 1,625,000 thou., including borrowings drawn by Enea SA in 2016:

Start date	End date	Creditor	Contract value	Amount of the loan drawn in 2016 [PLN '000]	Interest rate	Debt on loans as at 31 December 2016 [PLN '000]	Repayment period
29 May 2015	31 March 2032	(C) European Investment Bank	946 000	100 000	base rate + margin	200 000	principal instalments determined on the loan tranche release
19 June 2013	31 December 2030	(B) European Investment Bank	1 425 000	0	base rate + margin	1 425 000	principal instalments determined on the loan tranche release
TOTAL						1 625 000	

Credits and loans drawn in 2016 by Enea Group Companies

In December 2015 Enea Wytwarzanie sp. z o.o. concluded a financing agreement in the form of a loan from the National Fund of Environmental Protection and Water Management for the amount of PLN 60,075 thou. in relation to the undertaking titled "Construction of the flue gas desulphurisation plant for K7 and K8 boilers in Białystok Heat and Power Plant". The loan was granted for the period from April 2016 to December 2026, WIBOR 3M interest rate, repayment in quarterly instalments. The first disbursements were made in June and December 2016 for the total amount of PLN 16,161 thou. In November 2016 Miejska Energetyka Ciepłna Piła sp. z o.o. disbursed the whole available amount totalling to PLN 358 thou. within the agreements concluded for co-financing as a loan from the Provincial Fund for Environmental Protection and Water Management. On 16 December 2016 LW Bogdanka SA and mBank SA concluded an overdraft facility agreement with the limit of up to PLN 100,000 thou. The loan may be used until 29 November 2018. The loan final repayment date is on 30 November 2018. The loan interest is WIBOR 1M plus the bank's margin.

As at the balance sheet date the loan was not utilised.

In 2016 Enea Group Companies did not terminate the loan agreements.

The total amount of the debt due to the loans and credits drawn by Enea SA and Enea Capital Group Companies as at 31 December 2016 amounted to PLN 1,691,795 thou. nominally.

Loans granted

As regards the loans granted by Enea SA to the Companies within Enea Capital Group, the total indebtedness as at 31 December 2016 amounted to PLN 151,062 thou. In 2016 the subsidiaries did not grant any loans.

The information on the loan agreements concluded with Enea SA in 2016 and the utilisation level are presented in the table below:

Date of granting	Date of full repayment	Company	Amount of loan granted [PLN '000]	Interest	Debt on loans as at 31 December 2016 [PLN '000]
12 December 2016	30 June 2025	Enea Centrum sp. z o.o.	75 000	None	0
TOTAL			75 000		0

Granted and received sureties

The list of suretyships granted in 2016 by Enea SA is presented in the table below:

Date surety / guarantee was granted	Date of validity of surety / guarantee	Entity for which surety / guarantee was granted	Entity to which surety / guarantee was granted	Amount of security granted [PLN '000]	Designation of amounts covered with surety / guarantee
4 August 2016	30 June 2019	Enea Trading sp. z o.o.	Polenergia Obrót SA	5 000	in order to hedge the liabilities of Enea Trading against hedging future liabilities of the company towards Polenergia Obrót SA (wholesale trade in electricity and proprietary interests to certification of origin for energy)
19 October 2016	30 November 2018	Enea Trading sp. z o.o.	Shell Energy Europe Limited	15 484	in order to hedge the liabilities of Enea Trading against hedging future liabilities of the company towards Shell Energy Europe Limited (natural gas), hedging value EUR 3.5 mln (average exchange rate of the National Bank of Poland of 30 December 2016)
8 November 2016	1 January 2018	Enea Trading sp. z o.o.	Polski Koncern Naftowy Orlen SA	4 000	in order to hedge the liabilities of Enea Trading against hedging future liabilities of the company towards Polski Koncern Naftowy Orlen SA (natural gas) in Płock
TOTAL				24 484	

The total off-balance sheet value of sureties granted as at 31 December 2016 was PLN 208,290 thou.

Granted and received guarantees

The total off-balance sheet item value of bank guarantees granted as at 31 December 2016 was PLN 20,720.29 thou.

Guarantees granted on order of Enea SA in 2016 amounted to PLN 14,823.38 thou.

The information relating to the greatest amounts of guarantees granted in 2016 (materiality threshold > PLN 1 mln):

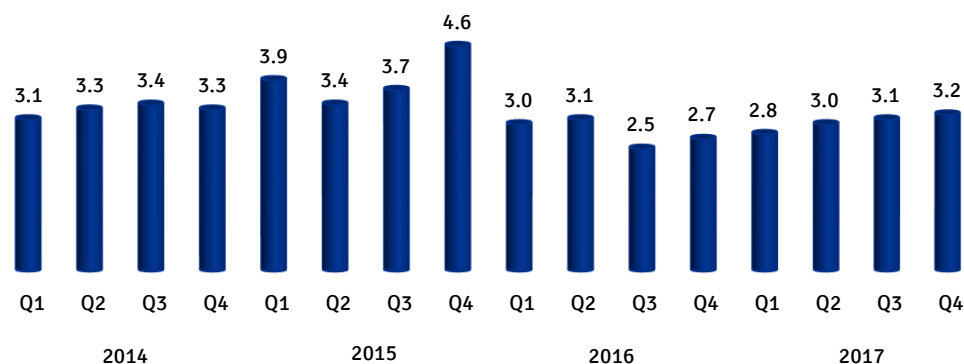
Date collateral was granted	Date of collateral validity	Entity to which collateral was granted	Purpose of the agreement	Form of collateral	Value of collateral granted [PLN thou.]
1 January 2016	11 August 2018	Górecka Projekt sp. z o.o.	payment for rent	within the guarantee facility in the amount of PLN 350,000,000	1 662.00
21 December 2016	30 January 2018	Urząd Marszałkowski Województwa Zachodniopomorskiego in Szczecin	good performance of the contract	within the guarantee facility in the amount of PLN 350,000,000	1 325.10

Macroeconomic situation

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

According to the preliminary data of the Gdańsk Institute for Market Economics (IBnGR) in 2016 the economic growth pace was 2.8%. It has been the lowest pace of economic growth for three years.

2014-2017 GDP dynamics [%]



The key factor of the economic growth in 2016 was the domestic demand. The element of the domestic demand with the lowest dynamics in 2016 was gross fixed capital formation, i.e. investments. The total consumption grew much faster than the economic growth rate. In 2016 it grew by 3.6%. The same pace was reported for individual consumption.

As regards sectors the fastest growing area of economy in 2016 was market services. In 2016 the added value in the industry grew by 3.5%, and production sold of the industry grew by 3.2%. The deepest crisis observed for the last ten-odd years has been reported in the construction industry. In the whole year, the added value in the construction industry dropped by 11.9%, and production sold of the industry dropped by 14.1%.

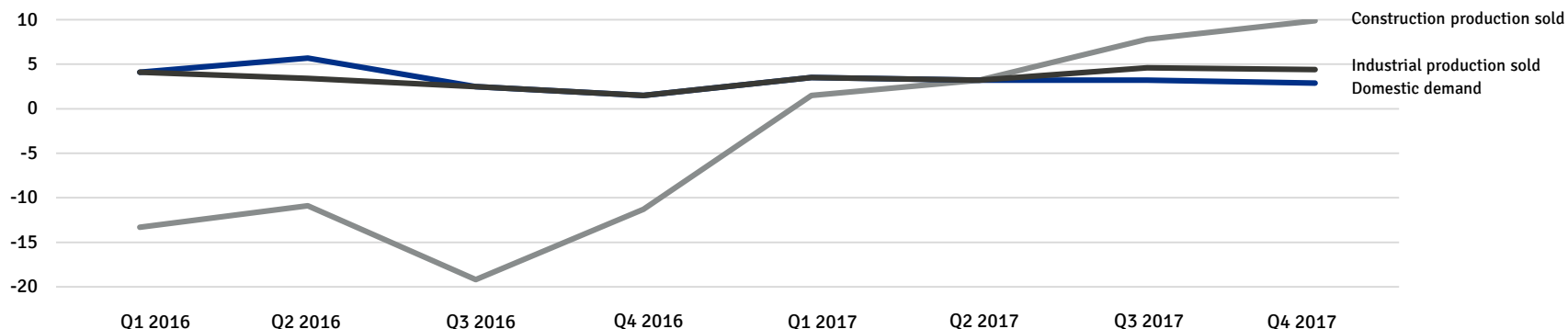
Pursuant to the forecast of IBnGR the rate of growth of the gross domestic product in 2017 will amount to 3.0%, which means it will be slightly higher than in the preceding year. Pursuant to the forecast by IBnGR, the economic growth will accelerate during the next quarters, and its quarterly structure will not be very differentiated - in Q1 GDP will grow by 2.8%, and in Q4 by 3.2%. In 2018 it is expected that GDP will still be slightly increasing and should total to 3.2%.

In 2017 the added value in the industry will grow, pursuant to the forecasts of IBnGR, by 4.3%, thus the growth will be slightly faster than in the previous year. On the other hand, the situation in the construction industry will improve considerably. The pace of growth of the domestic demand in 2017 will amount to 3.1%, i.e. slightly more than in 2016.

During 2017-2018 prices in Poland will grow moderately - inflation will not exceed the level set by the inflation target of the National Bank of Poland. According to the Institute’s forecast, in 2017 the average inflation level will be 1.3%. On the other hand, in 2018 the inflation should amount to 2.2% as the annual average. The main factor impacting the pace of growth in consumer prices will be higher prices of fuel and food.

The summary of the key macroeconomic ratios characteristic for the Polish economy in 2016-2018 is presented below.

Description	unit	2016	2017	2018
GDP	change %	2.8	3.0	3.2
Added value in industry	change %	3.5	4.3	4.5
Added value in construction sector	change %	-11.9	6.8	7.7
Added value in market services	change %	4.7	3.2	3.4
Domestic demand	change %	2.8	3.1	3.3
Gross expenditures on fixed assets	change %	-5.5	3.6	7.1
Industrial production sold	change %	3.2	3.9	4.2
Construction production sold	change %	-14.1	5.0	7.0
Inflation	in %	-0.6	1.3	2.2



Source: Developments by IBnGR and economic situation forecast No. 93 (February 2017)

Legal frames of energy market functioning

Regulatory surrounding

The legal basis for energy market functioning in Poland is the act of 10 April 1997 Energy Law and related secondary legislation (regulations).

At the same time, along with Poland accessing the European Union, the Polish legal regulations relating to the energy market were reconciled with the European laws, including in particular EU Directives regarding the principles of the common electricity market.

The central public administration body nominated pursuant to the Energy Law to realise the duties relating to the fuel and energy management and promote the competition is the President of the Energy Regulatory Office. The objective of the President of the Energy Regulatory Office is regulation of the operations of generators, distributors and companies trading in energy compliant with the Energy Law and Polish energy policy strategies with a concurrent pursuing of balancing the interests of particular participants of the energy market.

Enea SA's operations are conducted in the environment subject to detailed legal regulations, both in Poland and in the European Union. Legal regulations relating to the energy sector are often derivatives of political decisions, therefore there is a risk of frequent changes within this area which the Company is not able to foresee, and which may, as a consequence, result in a lack of unity and uniformity of regulations, based on which Enea SA conducts its operations.

Amendments within regulatory surrounding

Act of 20 February 2015 on renewable energy sources

In H1 2015, the President of the Republic of Poland signed an act on renewable energy sources. The goal of the act is increasing the energy security and environment protection, e.g. as a result of an efficient use of renewable energy sources. The act provides for, e.g., achievement of at least 15% share of energy from renewable sources in the final gross consumption of energy in 2020. Enea SA will be the so called obliged vendor, i.e. an entity obliged to purchase electricity generated in RES installations connected to the network of Enea Operator sp. z o.o.

On 29 December 2015 the Sejm adopted, after consideration of the Senate's amendments, the content of the act amending the act on renewable energy sources and the Energy Law (J. L. of 2015 No. 2365).

The goal of the amendment which came into force on 31 December 2015 is adjournment by 6 months of entry into force of the provisions of chapter 4 of the Act of 20 February on renewable energy sources (J. L. of 2015, item 478; further on as: RES act), and in particular the issues relating to the launching of the auction system for the purchase of electricity from renewable energy sources installations and mechanism supporting the generation of electricity in microinstallations of the total installed electrical capacity not greater than 10 kW. Changes were proposed to be made to the provisions of the RES act, enabling the application of the existing provisions until 30 June 2016, and new regulations - from 1 July 2016.

The act amendment finally settles two issues:

- certificates of origin do not apply to energy generated from 1 January 2016 in installations with the capacity greater than 5 MW using hydropower to generate this energy
- certificates of origin adjusted with 0.5 coefficient apply to electricity generated from 1 January 2016 in multi-fuel firing installations excluding electricity generated in the dedicated multi-fuel firing installation

On 1 July 2016 the act of 22 June 2016 entered into force amending the act on renewable energy sources and some other acts (J. L. of 2016 item 925). The goal of the act is removal of interpretative doubts of legal and editorial regulations which entered into force in the act of 20 February 2015 on renewable energy sources (J. L. of 2015 item 478 and 2365), in particular Article 41 of the RES act.

Additionally, auctions will be performed in each group for the below mentioned buckets:

1. with the level of utilisation of installed electrical power, total, notwithstanding the origin source, greater than 3,504 MWh/MW/year
2. using for electricity generation some biodegradable fraction of industrial and municipal waste of plant or animal origin, including waste from waste processing installations and waste from water and sewage treatment, in particular sewage sludge, pursuant to the regulations on waste within the qualification of fractions of energy recovered from thermal recycling of waste
3. in which CO₂ emission is lower than 100 kg/MWh, with the rate of utilisation of installed electrical power not greater than 3,504 MWh/MW/year
4. by members of energy cluster
5. by members of energy cooperative
6. utilising exclusively agricultural gas for electricity generation
7. other than that mentioned in item 1-6

On 16 July 2016, the act of 20 May 2016 on investments in wind power plants entered into force (J. L. of 2016 item 961). Among the key regulations implemented based on the above mentioned act the following must be distinguished:

1. Locating of a wind power plant is exclusively based on the local zoning plan mentioned in Article 4 of the act of 27 March 2003 on spatial planning and development (J. L. of 2016 item 778 and 904).
2. Establishment of the location requirement (Article 4 item 1 and 2 of the above mentioned act) being the prohibition to construct a wind power plant in the distance smaller than 10x its height measured from the ground level to the object's highest point, including technical elements, in particular rotor with blades (the total height of the wind power plant) from the following elements of the surroundings:
 - residential building or any building with a residential function, which includes residential function,
 - forms of nature conservation mentioned in Article 6 item 1(1-3) and 5 in the act of 16 April 2004 on environmental protection (J. L. of 2015, item 1651, 1688 and 1936),
 - forest promotional complexes mentioned in Article 13b item 1 of the act of 28 September 1991 on forests (J. L. of 2015 item 2100),

however, the establishment of these forms of nature conservation and forest promotional complexes does not require observation of the distance mentioned above.

3. Amending the qualification of all the elements of a wind power plant as a building taxed with a fixed tax on buildings.

Licences

Energy groups operate on the Polish energy market based on granted licences. The table below presents the licences held by Enea CG Companies:

Company	Licence for:
Enea SA	<ul style="list-style-type: none"> generation of electricity - valid until 31 December 2025 trade in gas - valid until 31 December 2030
Enea Operator sp. z o.o.	<ul style="list-style-type: none"> distribution of electricity - valid until 1 July 2030
Enea 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
Enea Trading sp. z o.o.	<ul style="list-style-type: none"> trade in electricity - valid until 31 December 2030 trade in gas - valid until 31 December 2030 trade in natural gas with abroad - valid until 31 December 2030
MPEC Białystok sp. z o.o.	<ul style="list-style-type: none"> generation of heat - valid until 30 September 2018 transmission and distribution of heat energy in water and steam - valid until 30 September 2018 trade in heat - valid until 30 September 2018
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
LW Bogdanka SA	<ul style="list-style-type: none"> mining bituminous coal from Bigdanka's deposit within Puchaczów V mining area - valid until 31 December 2031 mining of bituminous coal from Lubin Coal Basin - K-3 area within Stręczyn mining area - valid until 17 July 2046 identification of Ostrów bituminous coal deposit located on the area of communes: Ludwin, Łęczna, Ostrów Lubelski, Puchaczów, Sosnowica, Uścimów in Lubelskie province - valid until 30 July 2020 Identification of Orzechów bituminous coal deposit located on the area of communes: Sosnowica, Uścimów, Urszuli, Cyców, Puchaczów and Ludwin in Lubelskie province - valid until 14 November 2019

REMIT

Since 7 October 2015 there has been a duty to report basic transactions and data (for standard contracts for electricity and gas supplies) to the European Agency for the Cooperation of Energy Regulators (Agency or ACER). Pursuant to the REMIT regulation, i.e. the regulation of the European Parliament and the Council (EU) No. 1227/2011 dated 25 October 2011 on wholesale energy market integrity and transparency (REMIT), until the above mentioned date the participants of the wholesale energy and natural gas market mentioned in Article 9 item 1 of REMIT are obliged to register with the national regulatory authority.

With the Act of 11 September 2015 on amendment of the Energy Law and some other acts (J. L. of 2015, item 1618), which entered into force on 30 October 2015, the principles were introduced guaranteeing REMIT application, including the penal provisions (Chapter 7A) for breaching the duties resulting from REMIT.

On 7 April 2016, as per Article 12 item 2 sentence 3 and 4 of the Commission (EU) implementing regulation No. 1348/2014 of 17 December 2014 on data reporting implementing Article 8 items 2 and 6 of Regulation (EU) No. 1227/2011 of the European Parliament and of the Council on wholesale energy market integrity and transparency, an obligation entered into force of reporting to ACER the other transactions in wholesale trade (standard and non-standard contracts for supply of electricity or natural gas concluded on OTC market, transmission contracts) and data on the operation of systems published by operators of transmission systems, LNG operators and operators of warehousing systems.

Directive of the European Parliament and of the Council No. 2015/2193 of 25 November 2015 on the limitation of emissions of certain pollutants into the air from medium combustion plants

On 28 November 2015 the Directive of the European Parliament and of the Council No. 2015/2193 of 25 November 2015 on the limitation of emissions of certain pollutants into the air from medium combustion plants (MCP Directive) was published in the Official Journal of the European Union. MCP Directive applies to combustion plants with the nominal heating capacity not lower than 1 MW and lower than 50 MW (the so-called "medium combustion plants"), notwithstanding the type of fuel they use (Article 2 item 1). Additionally, MCP directive applies to the connections of new medium energy combustion plants, specified in Article 4, including connections for which the total nominal heating power amounts to not less than 50 MW, unless the connection is the object of energy combustion plant included in the application scope of chapter III of directive 2010/75/EU. Article 4 of MCP directive provides that the connection of at least two new medium combustion plants is deemed one medium combustion plant, and their nominal heating power is summed in order to calculate the total nominal heating power of the plant, if vent gases of such medium combustion plants are removed via a common chimney, or in the assessment of the relevant authority, taking into account technical and economic factors, vent gases of such medium combustion plants could be removed via a common chimney.

The key scope of the MCP Directive regulation is specification of: the emission norms for three types of air pollutants - sulphur dioxide (SO₂), nitric oxides (NO_x) and dusts for medium combustion plants, and also dates until which it is necessary to satisfy the duty of observing relevant volumes of air pollution in the existing and new medium combustion plants. As per Article 17 item 1 sentence 1 of the MCP Directive, member states are obliged to bring into force the laws, regulations and administrative provisions necessary to comply with the Directive by 19 December 2017.

The provisions of the MCP Directive are significant as regards the companies in which Enea Wytwarzanie sp. z o.o. holds shares and in which the so-called medium combustion plants directly defined in the MCP Directive are located. These companies include: Przedsiębiorstwo Energetyki Ciepłej sp. z o.o. in Oborniki (PEC Oborniki), Miejska Energetyka Ciepła Piła sp. z o.o. in Piła (MEC Piła) and Miejskie Przedsiębiorstwo Energetyki Ciepłej sp. z o.o. in Białystok (MPEC Białystok).

Allowances for emissions of CO₂

Poland, until the selection of the target trading platform, performed sales of its allowances for emissions of CO₂ via EEX exchange seated in Germany. Last year, 17,125 mln allowances for emissions of CO₂ were sold. The schedule of the Polish auctions in 2016 foresaw a significant growth in the volumes offered for sale, to almost 40.55 mln allowances for emissions of CO₂. Last year, 63% of the volume was sold in 8 offers. One of the offers, dated 25 May, closed unsuccessfully in the light of insufficient number of purchasers. As of September 2016 Poland stopped selling on the German EEX exchange, intensifying at the same time the operations aiming at the establishment of the national auction platform, whose legal frames are specified in the act on greenhouse gas emission allowance trading of 17 July 2015. In Q1 2017 it is expected that a tender will be announced for the conduct of auction sales. One of the candidates to manage the platform will be the Polish Power Exchange which in December 2016 obtained the permit for trading in EUA emission allowances. The act on greenhouse gas emission allowance trading scheme foresees two exceptions from the auction system - derogations for energy sector and national execution measures. At least 50% of inflows from the auctions is to be allocated to purposes strictly defined in the act and related to the climate policy.

Auction date	Volume	Auction price [EUR]	Volume, cumulatively	% volume, cumulatively
3 February 2016	3 526 000	5.70	3 526 000	9%
2 March 2016	3 526 000	4.80	7 052 000	17%
30 March 2016	3 526 000	4.77	10 578 000	26%
27 April 2016	3 526 000	6.94	14 104 000	35%
25 May 2016	3 526 000	The auction was not settled		
22 June 2016	4 407 500	5.55	18 511 500	46%
20 July 2016	4 407 500	4.65	22 919 000	57%
17 August 2016	2 644 500	4.65	25 503 500	63%
14 September 2016	3 526 000	Auction cancelled - no new agreement with EEX		
12 October 2016	3 526 000	Auction cancelled - no new agreement with EEX		
9 November 2016	3 526 000	Auction cancelled - no new agreement with EEX		
7 December 2016	3 526 000	Auction cancelled - no new agreement with EEX		

Reduction of emission of pollutants

Pursuant to the EU regulations, in particular the Directive of the European Parliament and the Council No. 2010/75/EU of 24 November 2010 on industrial emissions - IED (integrated pollution prevention and control), new, stricter standards of environmental protection have been in force since 1 January 2016. In relation to the above, all producers of electricity in Poland who use mainly high-emission coal technologies, are obliged to adjust the units to new environment requirements. The law, meeting the problems of entrepreneurs, provides for a possibility of using derogatory mechanisms. Mitigation of the requirements of the IED directive in the form of derogations, allows to achieve additional time for adaptation of generating units to stricter standards of pollutant emissions into the air.



Introduction of the quality tariff

From 2016 the President of the Energy Regulatory Office introduced elements of the quality regulation to the process of determining tariffs for ODSs - operators of the distribution systems (in Enea CG the function of ODS is held by Enea Operator). They were described in detail in "QUALITY REGULATION IN 2016-2020 FOR OPERATORS OF THE DISTRIBUTION SYSTEMS (who separated their operations as of 1 July 2007)". It means that the President of ERO set, for each ODS, goals for 2016-2020 whose non-performance (subject to the existence of mechanisms allowing to exceed the goal within certain limits) will result in financial consequences for these enterprises.

Annual settlements of each of the ratios of the quality regulation, starting from 2016, affect the tariff calculation, and thus ODSs' income.

The President of ERO indicated that the ratios which have a direct impact on the regulated income of ODSs are the following efficiency ratios:

- SAIDI - system average interruption duration index
- SAIFI - system average interruption frequency index
- Connection Realisation Time (CRT)

Additionally, DST ratio - Settlement and Measuring Data Submission Time will be introduced to the quality regulation as of 2018.

2016 Tariff - distribution of electricity

Detailed rules of tariff calculation are governed by the Energy Law and relevant regulations relating to tariffs. Pursuant to the Energy Law, tariffs for a incensed energy company are approved by the President of ERO.

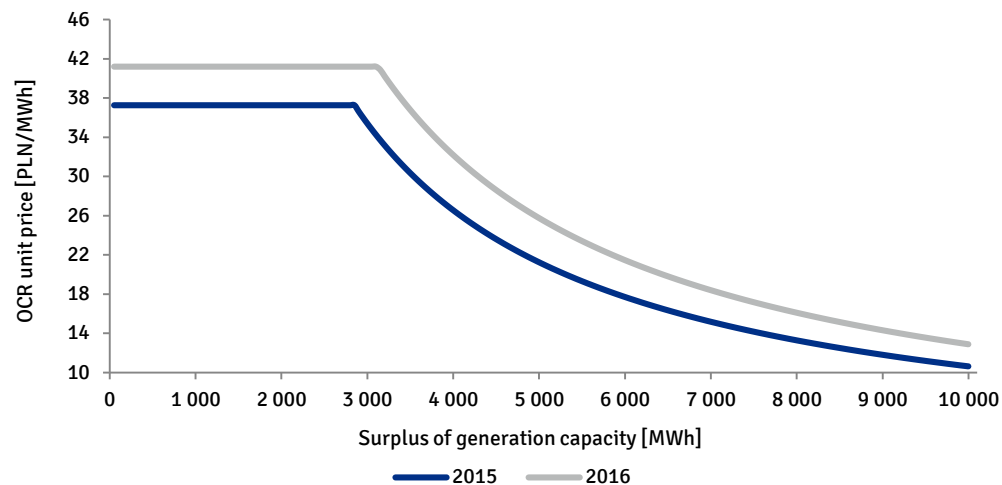
The tariff for Enea Operator for 2017 was approved by the President of ERO on 15 December 2016. It was prepared in accordance with the strategy developed and published by the President of ERO in the document titled "ODS tariffs for 2017". The rates of fees for the distribution services approved for 2017 resulted in changes in average payments for Customers in particular tariff groups in relation to 2016:

- A tariff group set - growth by 0.96%
- B tariff group set - growth by 5.73%
- C tariff group set - growth by 4.91%
- G tariff group set - growth by 5.61%

Operating Capacity Reserve (OCR)

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

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



Parameters of the OCR settlement model for 2016-2017:

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

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 OTS 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 from OCR are distributed among the units participating in the reserve.

Since 2017, consumption units with the possibility of reducing the demand are included within OCR (POR).

Areas of operations

In 1997 the process of demonopolisation of the Polish electricity market was commenced. It led to its division into particular areas: generation, transmission and distribution and trade in electricity.

With time, in order to hedge the supply chain for the area of generation the largest power groups widened its operations also with the area of mining.

Poland is the largest producer and sales market for bituminous coal among the European Union states. Bituminous coal in Poland, in the perspective of the next ten-odd years, will be the material which is the most used for the generation of heat and electric energy.

Bituminous coal, for heating purposes, is **mined** in Poland mainly by the entities controlled by the State Treasury. They in particular include Jastrzębska Spółka Węglowa SA, Kompania Węglowa SA, Katowicki Holding Węglowy SA, Polska Grupa Górnicza sp. z o.o., Tauron Wydobycie SA. Apart from the entities with the State Treasury shareholding, in recent years the significance of private or privatised mines has grown in the area of mining.

Most of electricity on the Polish market is **generated** based on conventional fuels, i.e. bituminous coal and lignite. However, during the recent years the awareness grew in Poland in relation to the environment damage caused by conventional energy, and membership in the European Union was an additional impulse to restructure the Polish energy sector.

Renewable energy is obtained due to natural and repeated processes. Pursuant to the Energy Law in the generation process a renewable source of energy uses wind energy, sun light, aero thermal energy, geothermal energy, hydrothermal energy, energy of waves, currents and tides, lower levels of rivers and energy obtained from biomass, biogas derived from waste depots, and also biogas generated in the processes of disposal or treatment of waste water or decomposition of plant and animal remains.

Development of electricity generation from renewable sources results from the need to protect the environment and enhance the energy security. The goal of these activities is increasing the volume of energy generated from renewable sources, technology development and innovation support, creating possibilities of regional growth and greater reliability of energy supplies, especially on a local scale.

The obligations resulting from e.g. 3 x 20 climate package include Poland's duty to obtain 15% share of RES in energy consumption until 2020. Pursuing the growth of this share in the electricity production balance in Poland, due to high investment costs, requires using relevant support systems, being the guarantee of their regular development.

Transmission of electricity means its transportation via transmission networks (to distribution networks or end users connected to the grid). **Energy distribution** is its transportation to end users using distribution networks.

Pursuant to the Energy Law, performing business activities within transmission or distribution of electricity requires obtaining a licence from the President of ERO. Key distributors of electricity in Poland are: Enea Operator sp. z o.o., Tauron Dystrybucja SA, PGE Dystrybucja SA and Energa Operator SA.

Trade in electricity is business activity within wholesale or retail sale of electricity requiring obtaining a licence from the President of ERO. Trade in electricity in Poland is performed in three substantial segments of the energy market: contract market, exchange market and balancing market.

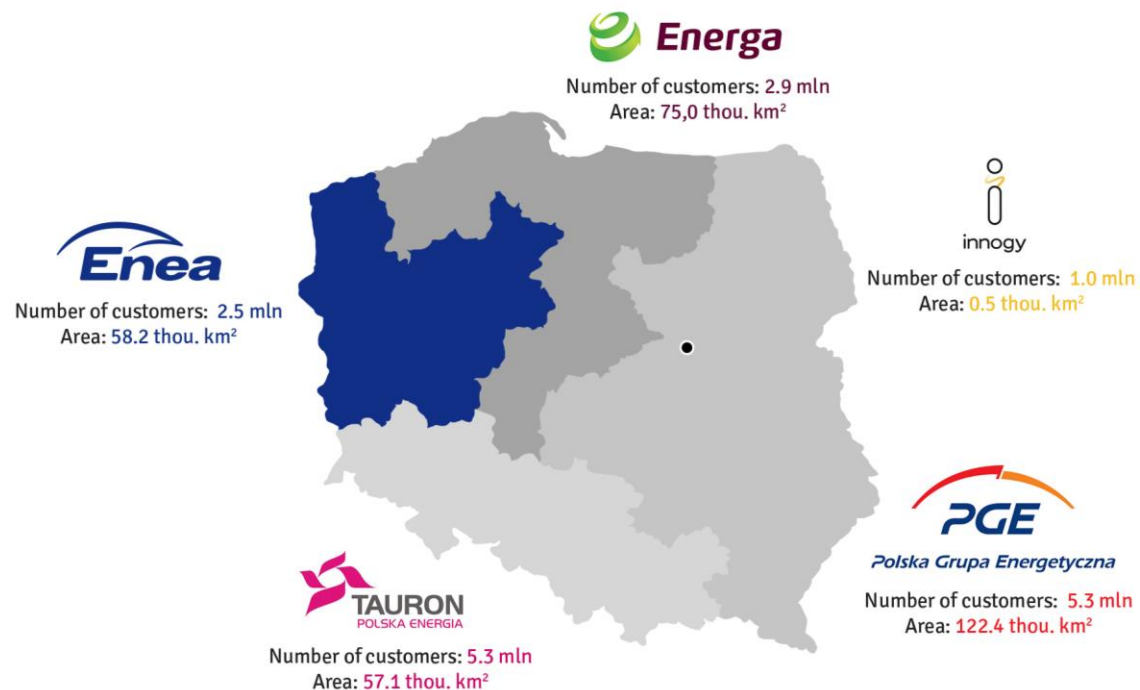
Trade in electricity on the contract market is performed based on bilateral contracts (agreements) concluded between energy producers and companies trading in energy and end Customers.

The exchange market includes trade on the energy exchange (Polish Power Exchange). Trade in energy on PPE is performed mainly on the so called Day Ahead Market (DAM). DAM is conducted as at the date preceding the day on which the physical delivery takes place.

The Balancing Market is a specific area of the energy market, on which the differences between the transactions concluded among particular market participants and the actual demand for electricity are balanced.

The energy market in Poland is composed mainly by four energy groups: Enea, PGE, Tauron, Energa.

Key energy groups

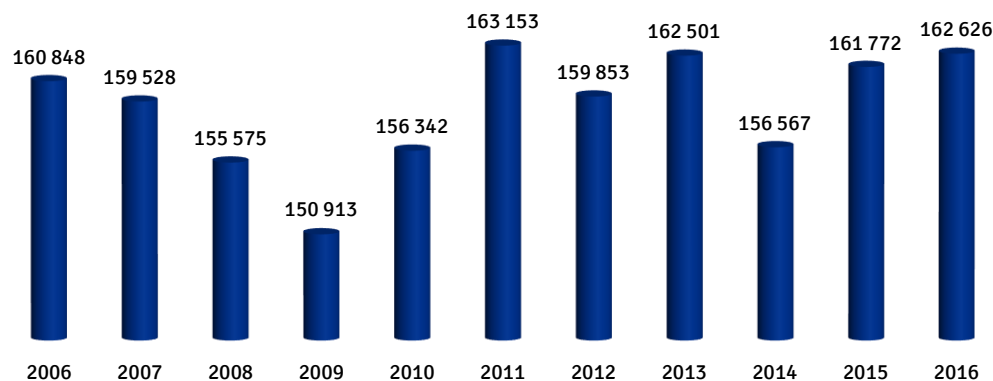


Situation on the electricity market

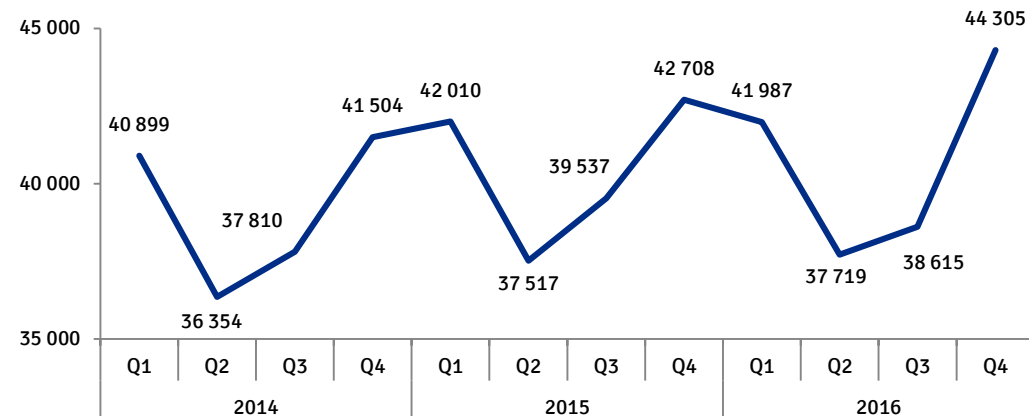
Production of electricity

Pursuant to the data published by Polskie Sieci Energetyczne the domestic production of electricity in 2016 amounted to 162,626 GWh.

Domestic production of electricity - annually in 2006-2016 [GWh]



Domestic consumption of electricity - quarterly in 2014-2016 [GWh]



Electricity generation structure in Polish power plants [GWh]

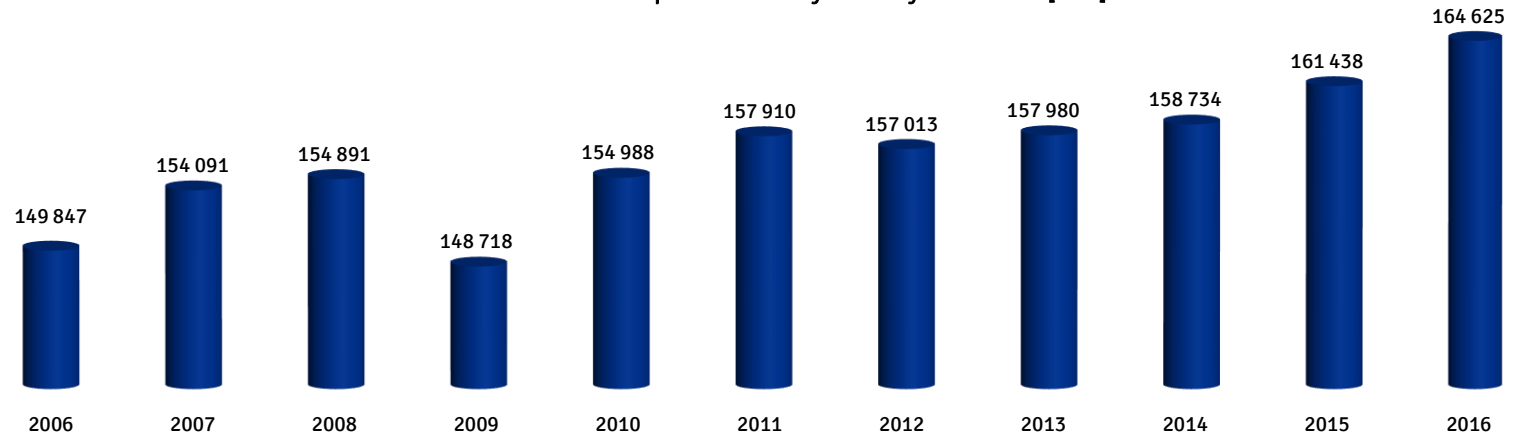
Types of power plants	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Commercial on bituminous coal	92 111	93 133	86 550	84 274	89 212	90 811	84 492	84 566	80 284	81 883	81 348
Commercial on lignite	53 518	51 142	53 798	50 797	49 459	53 623	55 592	56 959	54 212	53 564	51 204
Industrial	8 280	8 216	8 045	8 204	8 923	9 000	8 991	9 171	9 020	9 757	10 130
Gas	4 046	3 908	3 988	4 052	4 166	4 355	4 485	3 149	3 274	4 193	5 776
Commercial hydroelectric	2 822	2 682	2 516	2 751	3 268	2 529	2 264	2 762	2 520	2 261	2 399
Wind	69	436	672	821	1 300	2 798	3 954	5 823	7 184	10 041	11 623
Other renewable	1	10	8	14	11	35	71	72	73	73	146

Source: http://www.pse.pl/index.php?modul=8&y=2016&m=12&id_rap=212

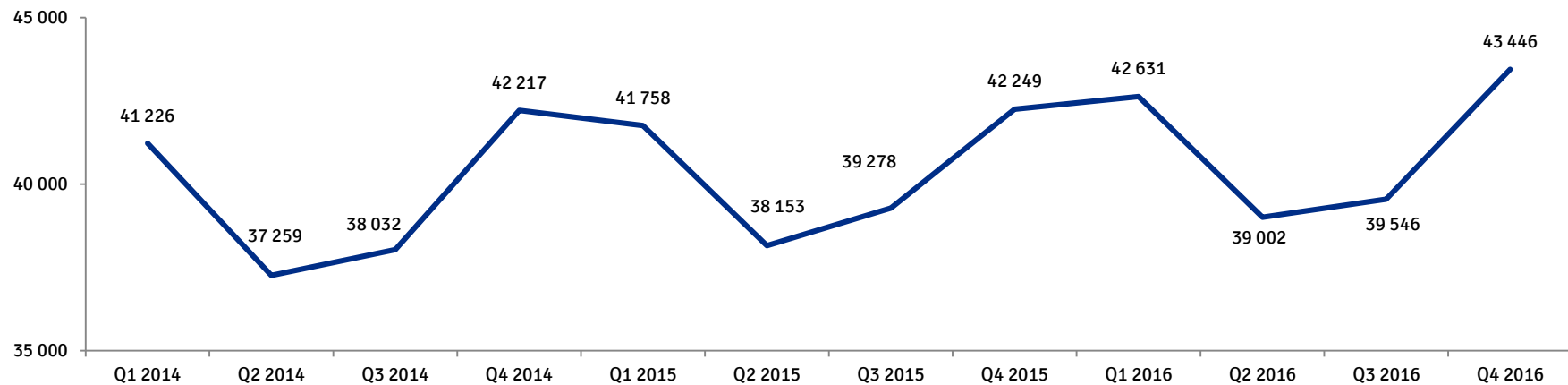
Domestic consumption of electricity

Pursuant to the data published by Polskie Sieci Elektroenergetyczne the domestic consumption of electricity in 2016 was higher by 1.97% than in 2015.

Domestic consumption of electricity - annually in 2006-2016 [GWh]



Domestic consumption of electricity - quarterly in 2014-2016 [GWh]

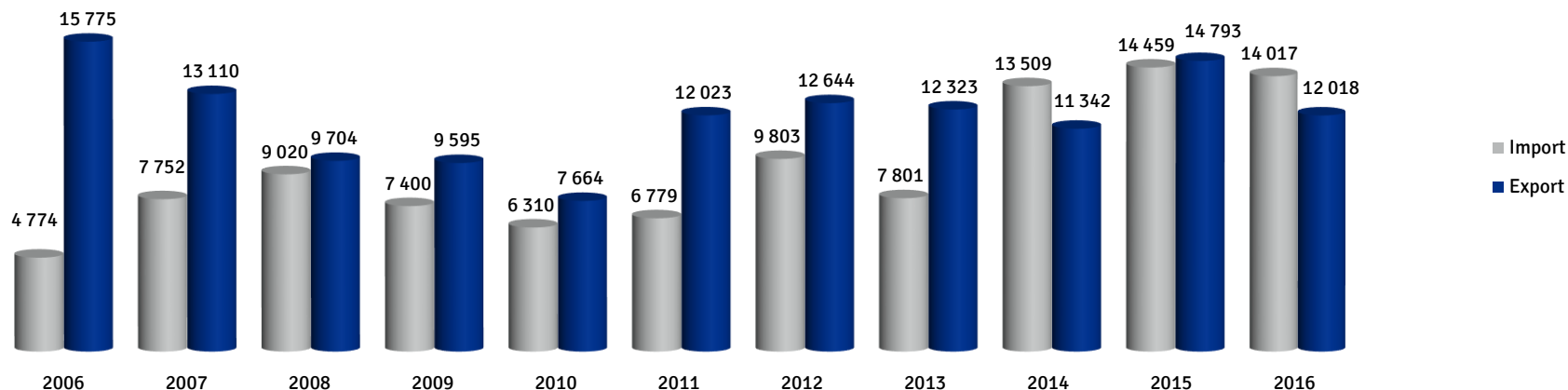


Source: http://www.pse.pl/index.php?modul=8&y=2016&m=9&id_rap=212

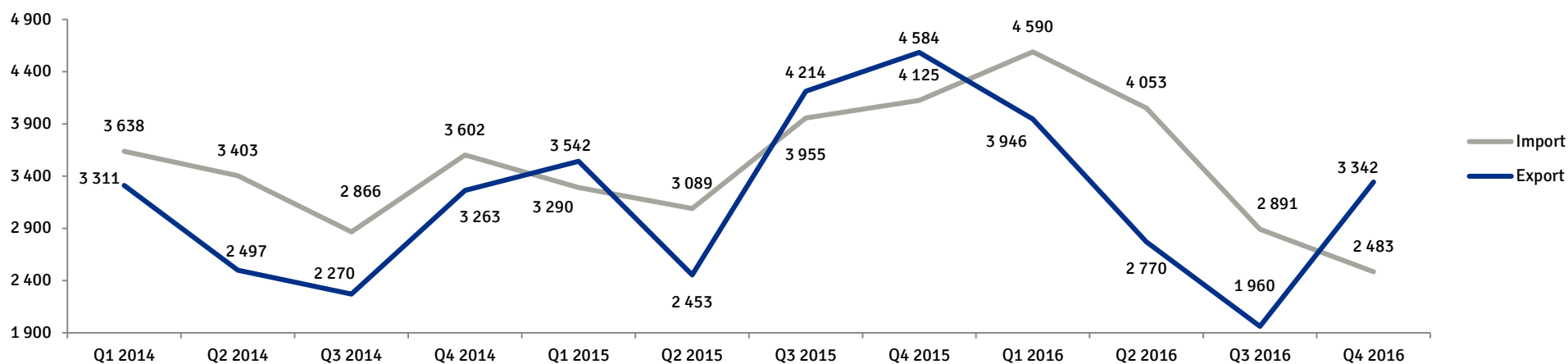
Intersystemic exchange

In 2016 the balance of intersystemic exchange was negative as a result of a surplus of energy imported from abroad over the energy exported in the amount of 1,990 GWh. For comparison, in 2015 the balance of intersystemic exchange of electricity amounted to +334 GWh.

Exchange of electricity with abroad - annually in 2006-2016 [GWh]



Exchange of electricity with abroad - quarterly in 2014-2016 [GWh]

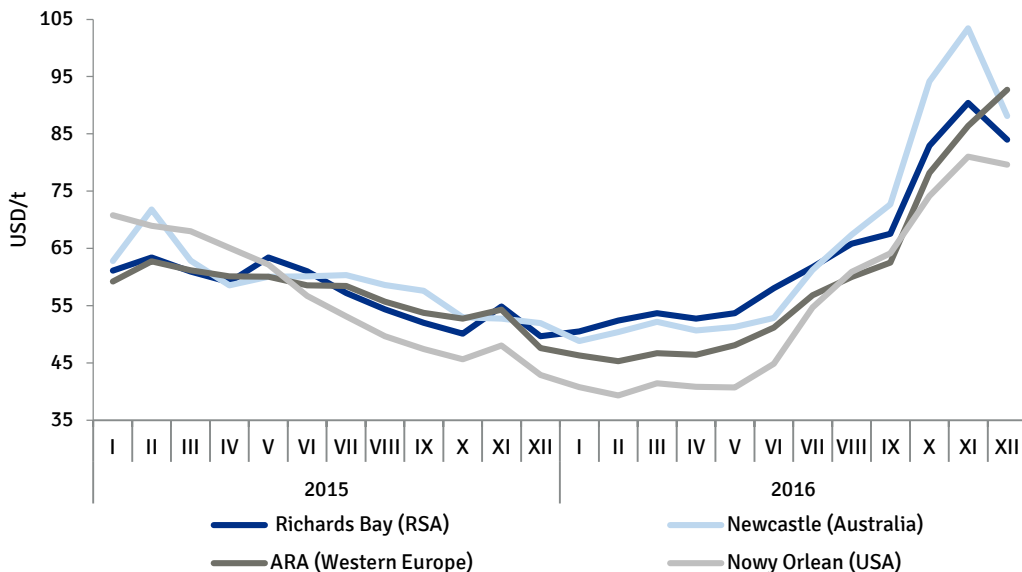


Source: http://www.pse.pl/index.php?modul=86id_rap=222

Coal market prices

- Since May 2016 a constant growth of coal prices on the global markets has been observed. For producers of bituminous coal a boom commenced where transactions were closed at a price of even over 100 USD/t.
- In 2016 indices of power coal in ARA ports generally demonstrated an upward trend. The growth amplitude between the monthly minimum and maximum value was over 100%. The average annual index for 2016 amounted to 60 USD/t. What significantly affected such a path of development of the situation on the global markets was mainly China - as the largest exporter of that commodity in the world and its biggest consumer at the same time.
- The prices grew also on Richards Bay ports reporting growths on the level of 66.4% yoy in Q4 2016, with the highest average monthly transaction price in November 2016 on the level of 103.44 USD/t.
- Indicative process of the Australian fuel coal in the first half of Q4 2016 grew to almost 5-year maximums. Spot FOB Newcastle benchmark reached the values not seen since Q1 2012, reporting even 110 USD per tonne in November - with the average for that month totalling to 102 USD/t.
- A considerable revival on the American coal market and growths on the level of 72% yoy in Q4 2016 were demonstrated by the representative price benchmark of the commodity in New Orleans.
- The major factors resulting in growths in coal prices in 2016 include political decisions in China, where production capacities of mines were reduced in 2016 by further 100 mln tonnes, structural problems of the Indonesian producers and temporary interruptions in supplies from Australia and Indonesia as a consequence of intensive rainfalls.

Monthly indices of coal prices [USD/t]

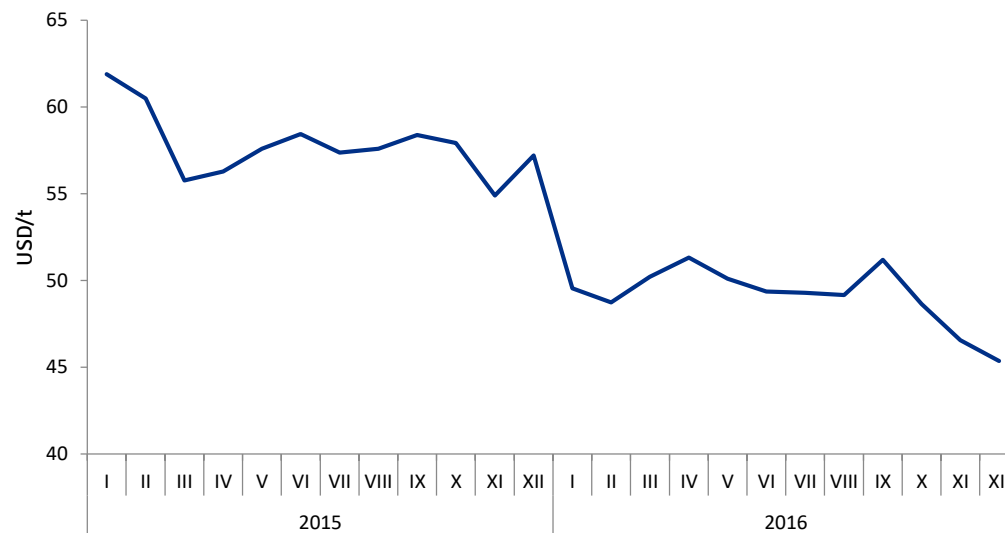


Source: own development based on data from www.globalcoal.com and the paper of the Mineral and Energy Economy Research Institute of the Polish Academy of Sciences

Despite wintertime and dynamic growths on global spot markets, the index of the Polish coal, PSCMI1, in Q4 2016 dropped to the level of 46.85 USD/t, i.e. -17.34% yoy. The index value indicates two fundamental features of the domestic coal market:

- low impact of the situations on spot coal markets on the Polish market dominated by long-term contracts and merely observable content of flexible elements in such contracts
- domestic producers of energy and heat, in the situation of high growths on spot markets, search for coal with the quality worse than the model parameters, yet cheaper, which may be used for mixtures and therefore reduce the fuel price

Polish Steam Coal Market Index - PSCMI1



Source: own development based on data from www.gpi.tge.pl



Wholesale electricity prices

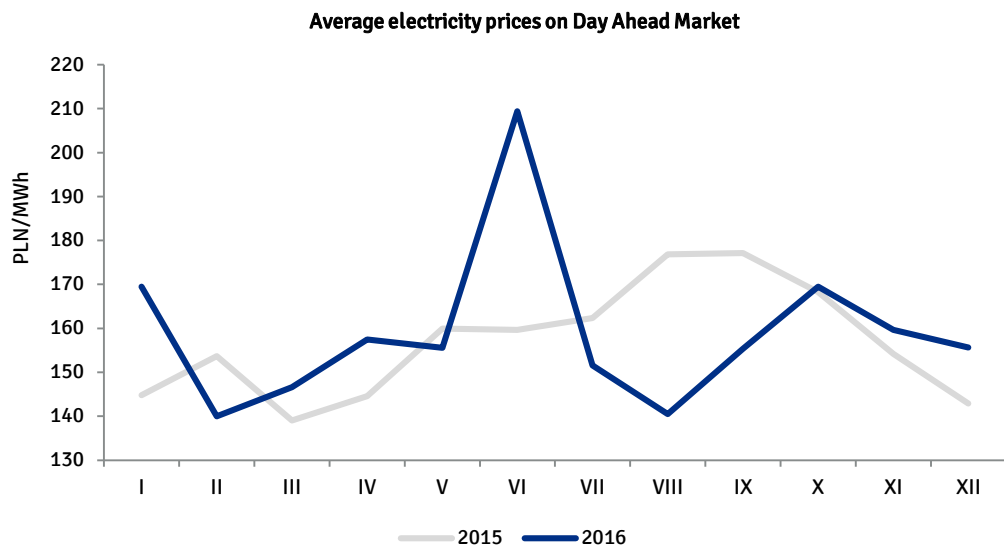
The average price on SPOT market in 2016 was higher by 1.4% in comparison with the same period of 2015. It was a result of e.g. higher prices in January and April, and most of all in June and December 2016, which stemmed from the following factors:

- no capacity in PPE system
- low wind generation
- hydrological problems
- growth in demand for energy

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

Period	Average price [PLN/MWh]	Change [%]
2015	156.95	-
2016	159.20	↑ 1.4%

Source: Own paper based on data from PPE.



We observed drops in electricity prices on the forward market. In 2016, the price of the most liquid product, BASE Y-17, dropped from 165.00 PLN/MWh at the beginning of January to 162.00 PLN/MWh at the end of December.

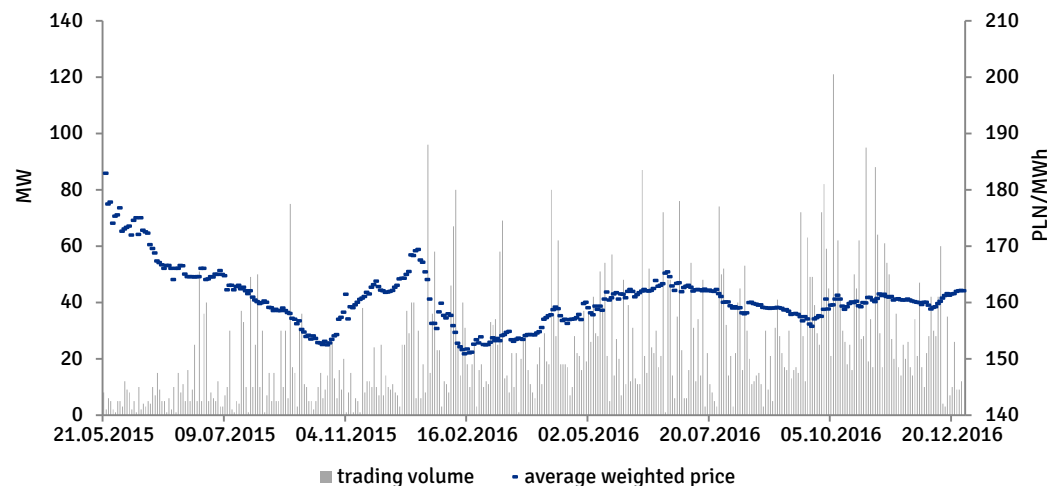
Source: Own paper based on data from PPE.

Table 2. Prices on the forward market

Product	Price at the end of quotations	Change yoy	Average price from quotations	Change yoy
	[PLN/MWh]	[%]	[PLN/MWh]	[%]
BASE Y-14	151.00	-	160.27	-
BASE Y-15	177.00	↑ 17.2%	168.13	↑ 4.9%
BASE Y-16	167.50	↓ 5.4%	166.49	↓ 1.0%
BASE Y-17	162.00	↓ 3.3%	159.31	↓ 4.3%

Source: Own development based on data from PPE and TFS.

Transaction prices and volumes - BASE Y-17



On PPE forward market a very low liquidity is observed - when comparing turnover in 2015 and 2016 then the turnover drop for e.g. BASE-Y amounts to ca. 50%. The main reason for this situation may be extinguishing of the so-called 100% exchange obligation related to Long-term Agreements.

Source: Own development based on data from PPE and TFS.

The prices of BASE Y-17 changed similarly to PEAK Y-17 prices. At the beginning of January the market valuation for this product amounted to 225.00 - 227.00 PLN/MWh, and at the end of December 2016 to 207.00 - 208.00 PLN/MWh.

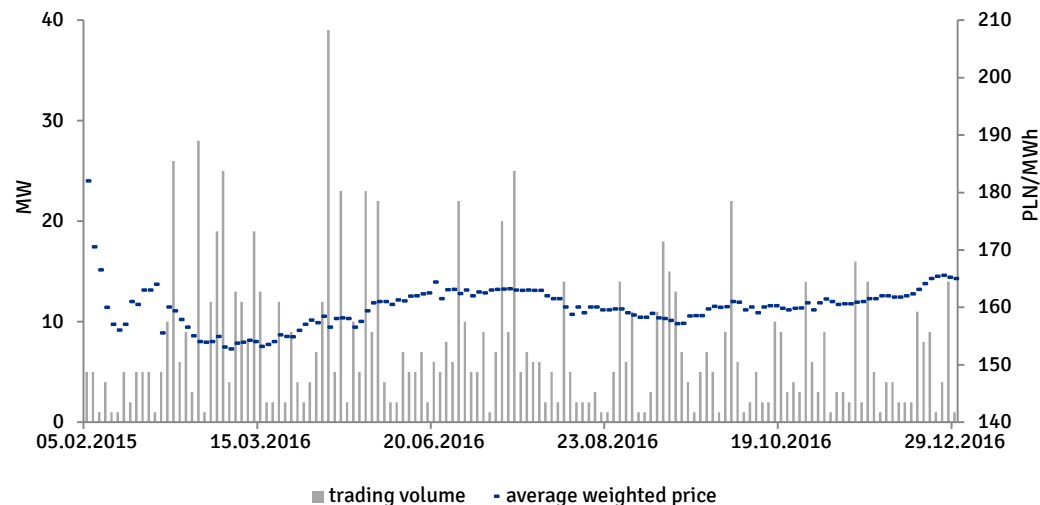
In 2016, the forward market reported a slow growth in electricity prices. It was related to e.g. a great volatility in prices of allowances for emissions of CO₂ (a range between the maximum and minimum - 4.18 EUR/t). What had a great importance for the shaping of the market situation was also a significantly decreased, as compared to the volume of trade in BASE Y-16 in the same period of the previous year, volume of trade in BASE Y-17 on PPE.

Some factors of uncertainty are still:

- the question of the Great Britain's exit from the European Union, which may cause potential changes in the Community Emission Trading Scheme and fluctuations of prices of allowances for emissions of CO₂ (EUA) in a longer term
- direction of changes in the system and introduction of new solutions (e.g. capacity market) within guaranteeing relevant levels of power in Public Power System

Hence, potential moderate growths in prices cannot be ruled out.

Transaction prices and volumes - BASE Y-18



Source: own development based on data from PPE and TFS.

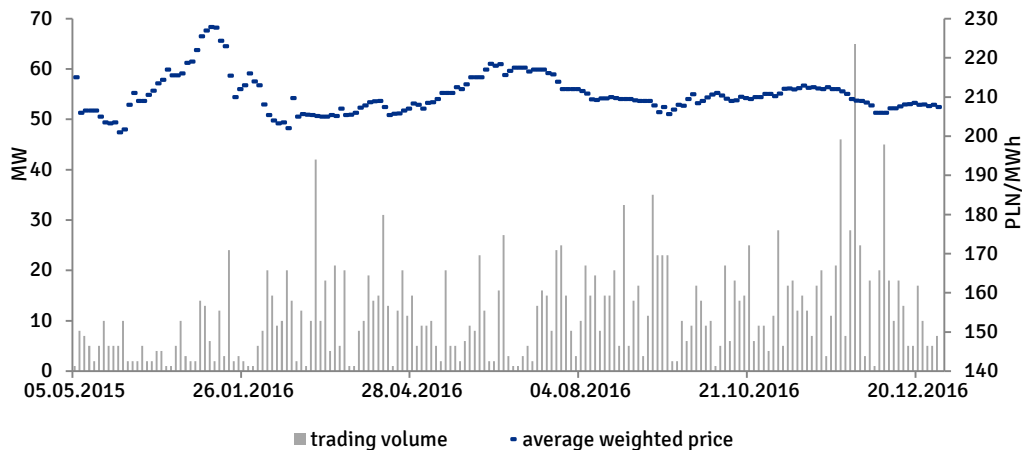
Obligations with respect to obtaining energy certificates of origin

In accordance with the regulations being in force energy companies selling electricity to end users in 2016 were obliged to obtain and redeem the following types of certificates of origin:

- for energy generated in renewable sources, the so called "green" certificates - the obligation on the level of 15.0% of sales to end users realised in H1 2016 and 14.35% in H2
- for energy generated from agricultural biogas, new certificates under the amendment to the Act on renewable energy sources dated 20 February 2015 - an obligation on the level of 0.65% of sales to end users realised in H2
- for energy generated in methane-fired cogeneration, the so called "violet" certificates - the obligation on the level of 1.5% of sales to end users
- for energy generated in gaseous cogeneration units or units with the total installed capacity up to 1 MW, the so called "yellow" certificates - the obligation on the level of 6.0%
- for energy generated in other cogeneration sources, the so called "red" certificates - the obligation on the level of 23.2%
- energy efficiency certificates, the so-called "white" certificates - the obligation on the level of 1.5%

The contracting price structure on the PPE's session market for particular proprietary interests in 2016 is presented in table No. 3. The analysis excludes PMOZE "green" PIs due to lack of trading volumes and their entire replacement with PMOZE_A.

Transaction prices and volumes - PEAK Y-17



Source: own development based on data from PPE and TFS.

In 2016, transactions were also concluded on BASE Y-18, however due to a distant delivery horizon, the trading volumes were significantly lower than for BASE Y-17.

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

	Average price in 2016	Change in relation to Q4 2015		Maximum price PLN/MWh	Minimum price PLN/MWh
		%	PLN/MWh		
OZEX_A ("green" proprietary interests)	73.63	↓ -37.4%	↓ -44.07	118.98	31.13
OZEX_BIO ("light blue" proprietary interests)	295.52	-	-	301.50	271.00
KGMX ("yellow" proprietary interests)	2015	↑ 0.9%	↑ 1.09	122.00	118.00
	2016	-	-	123.20	114.00
KECX ("red" proprietary interests)	2015	↑ 0.3%	↑ 0.03	11.00	9.20
	2016	-	-	10.76	10.00
KMETX ("violet" proprietary interests)	2015	↑ 0.4%	↑ 0.23	63.00	61.80
	2016	-	-	62.70	61.00
EFX ("white" proprietary interests) ¹⁾	977.35	↑ 1.5%	↑ 14.40	1 230.00	930.00

1) Values in PLN/toe

Source: Own paper based on data from PPE.

Limits of CO₂ emission allowances and their market prices

In 2016, the prices of allowances for emissions of CO₂ (EUA), apart from fundamental factors, were affected e.g. by the macroeconomic situation in the world, issue of free allowances for the industry and progress of works within the reform of EU ETS system. Price levels were significantly affected also by events of December 2015, i.e. COP21 climate conference and a complaint lodged by Poland relating to an amendment to the start date of MSR (mechanism of steering the supply of emission allowances whose introduction is to eliminate the surplus to which units withdrawn from the market as part of the so-called backloading will be directed). The Polish government approved lodging a complaint for declaring invalidity of the decision determining operation of MSR before 2021, referring to the breach of e.g. the principles of: a loyal cooperation, legal certainty, protection of legitimate expectations and proportionality.

The European Union ratified the climate agreement adopted during COP21 in Paris, and therefore the criterion relating to the entry into force of its objectives was satisfied (ratification of the agreement by at least 55 countries generating at least 55% of the emissions in the world). For many followers of making the climate policy stricter the adopted obligations are insufficient, mainly due to a small engagement of the largest issuers (USA, China, India) and as a result will not translate into the actual reduction of emissions during the coming years. Another, sudden price reduction in allowances for emissions of CO₂ occurring in June was a result of a referendum in the Great Britain as a consequence of which the majority of citizens were in favour of Brexit. Even though the country announced that it would remain in the EU ETS system, determining the budget for the activities reducing the emission for 2028-2032, it confirmed the continuation of the climate policy, the prices of allowances significantly dropped.



Table 4. EUA and CER price change

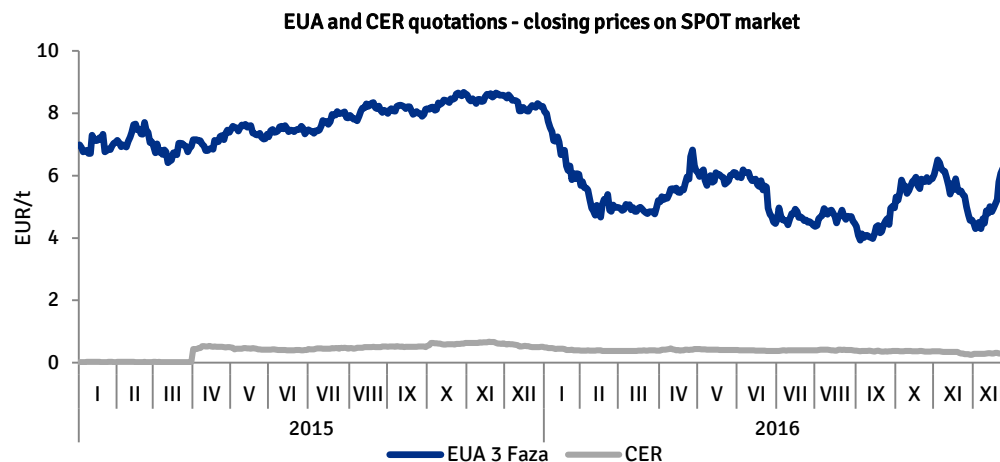
Product	Price [EUR/t]		Change %
	Beginning of January 2016	End of December 2016	
EUA Spot	8.04	5.64	↓ 29.9%
CER SPOT	0.49	0.27	↓ 44.9%
EUA Dec-16	8.11	5.09	↓ 37.2%
CER Dec-16	0.47	0.32	↓ 31.9%

Source: own development based on data from ICE.

Pursuant to the most up-to-date data published by the European Commission over 97% of free allowances was issued for the industry (there are still ca. 22 mln allowances mainly for Spain, Italy and Great Britain). The allowances were issued with a delay. Italy issued the allowances for 2015 as late as in March.

According to the European Commission's publication dated 19 May 2016 the surplus of EUA in the system amounted to 1.78 bln after the realisation of the duty for 2015 (drop by 0.3 bln). The emissiveness in the Union dropped by 0.4%. The annual minimum achieved by the most liquid of forward products (Dec-16) was set on the level of 3,93 EUR/t.

The upward trend commenced at the beginning of September is a result of an agreement between the environmental (ENVI) and industry (ITRE) committees within the changes in the EU ETS system after 2020. The most important changes include withdrawing the allowances for the lost generation capacity or cancelling a specified pool of allowances withdrawn from the market to MSR. On 15 February 2017 a voting was conducted in the European Parliament, during which a package of amendments to the EU ETS Directive was adopted including e.g. withdrawal of 24% instead of 12% of allowances from the market during at least 4 years of MSR operation, redemption of 800 mln allowances withdrawn from the market as part of backloading increasing the linear reduction coefficient to 2.2% (from 1.74%).



Source: own development based on data from BlueNext and ICE.

Risk management

Enea Group in each segment of the conducted operations is exposed to risks. Their materialisation may significantly and adversely affect the continuity of operations of particular Group Companies, their financial standing and ability to realise the set strategic goals.

The awareness of these risks requires maintenance, use and continuous improvement of the formalised and integrated risk management system (ERM). Its frames are specified by the uniform Corporate Risk Management Policy in force in Enea Group. ERM system in Enea Group is based on the comprehensive coverage of the risk management objective, specification of detailed rules of identification and risk assessment. On this basis the key corporate risks are selected and monitoring takes place of the exposure to these risks and preparation and monitoring of the mitigation plans. In the case of some corporate risks, such as credit, loss of liquidity, interest rate risks and commodity risks, a formalised approach to risk management takes the form of dedicated Policies and Procedures.

Adopted rules of risk management are set based on the highest management standards and are compliant with best market practices within this area.

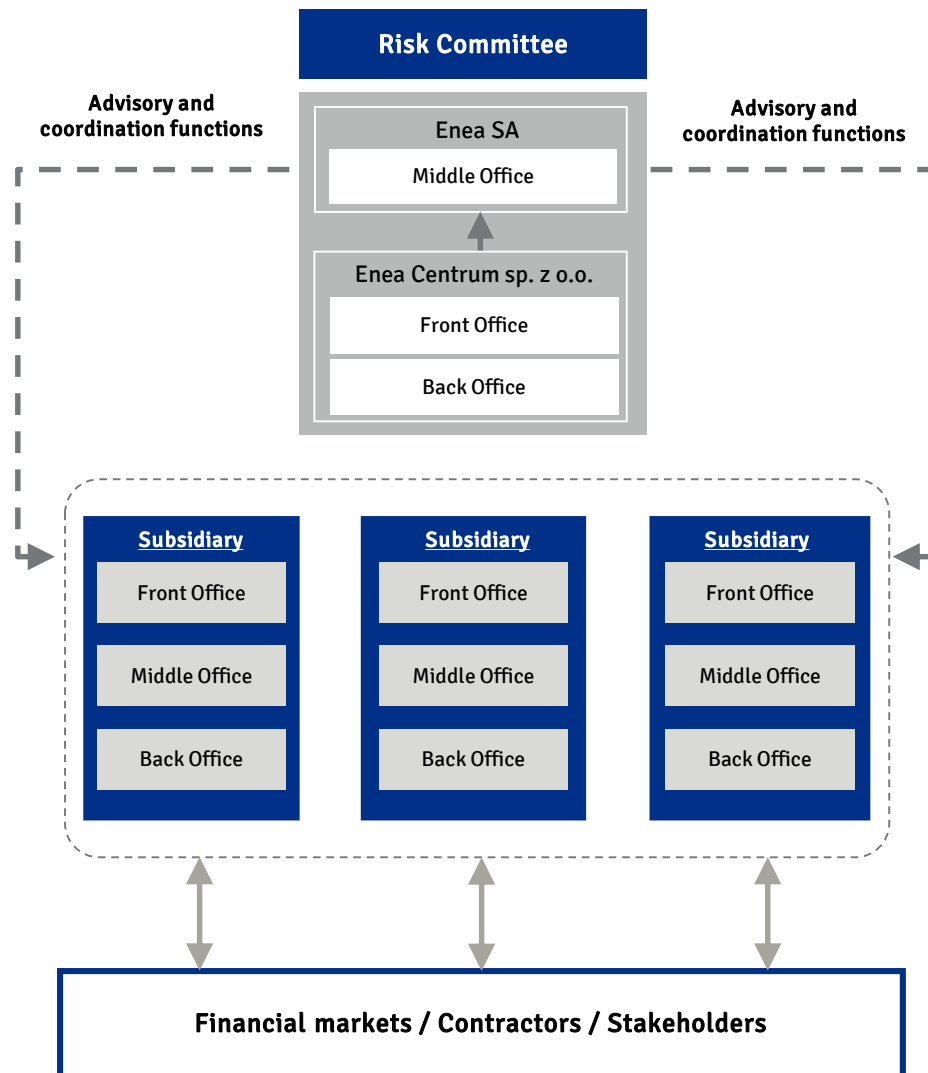
In 2016, the risk management system was subject to further development and process optimisation, e.g. through works related to the integration with LW Bogdanka and relating to the implementation of IT systems.

Management model

The concept of the risk management organisation in Enea Group was based on the coordinated model. The key strategy of its functioning is coordination of the risk management processes in the Group by Enea SA.

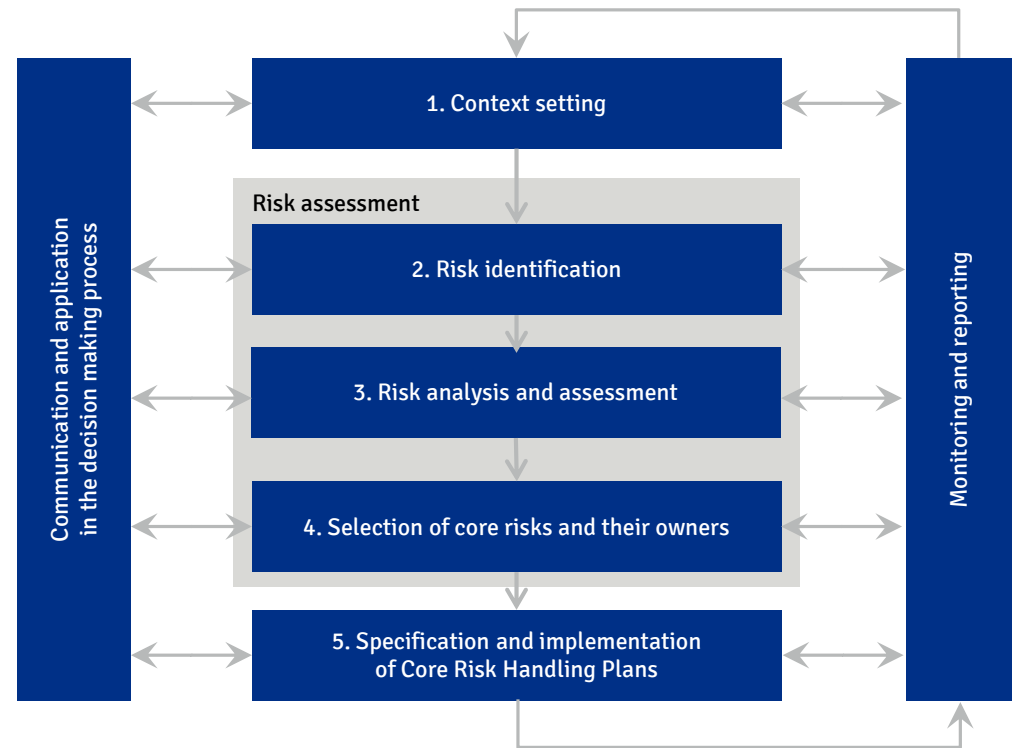
Key features of the coordinated model:

- the Group Companies manage risks based on homogeneous standards specified in Policies and Procedures
- the Companies manage risks operationally within allocated limits and subject to the rules approved by Enea Group's Risk Committee
- individual Companies report to the Parent Company within realised activities as regards risk management
- Enea SA is the process coordinator in the Group
- Front-, Middle- and Back Office organisational division is in force in the Companies



Risk management process

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



Context setting	Risk identification	Risk analysis and assessment	Selection of core risks and their owners	Specification and implementation of Core Risk Handling Plans
Setting strategic goals of Enea Group, identification of the internal and external environment of the Group, Policy updating, operating tools and schedule of risk management	Gathering knowledge on risks to which Enea Group is exposed	Analysis of individual risks in the light of the probability of materialisation and potential effect	Selection of core risks based on the estimate and determination of managers relevant as regards the business for the given area to hold the function of the so called risk owner	Development, in respect of core risks, of the so called <ul style="list-style-type: none"> Response Plans (way of changing the risk level to the level corresponding to the hunger for risk, i.e. the method of bringing the probability and results of risk materialisation to the acceptable values) Reaction Plans (activities, which must be undertaken in case of risk materialisation)

Documentation regulating the risk management process in Enea Group

The whole principles of the risk management system operation in Enea Group are described in the concise set of documents constituting the by-laws comprising relevant Policies and Procedures.

Policies are constitutive documents setting the frames of performed actions, indicating the scopes of participants' liability, and containing fundamental guidelines for the management model. Procedures describe the process of these actions and methods applied within performed tests, measurements, etc.

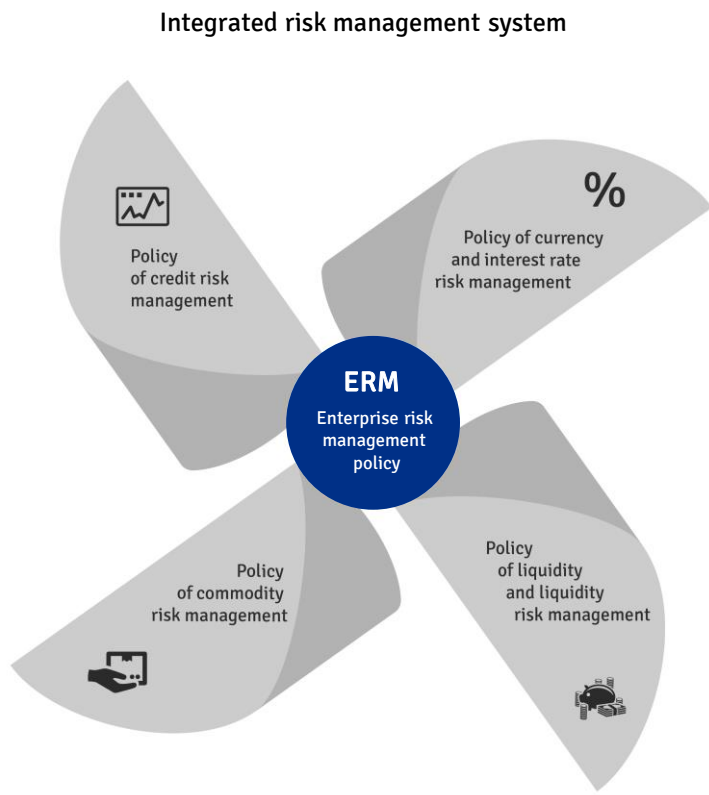
Enea Group's Risk Committee

The core body in the risk management process in Enea Group is the Risk Committee. The Committee is an interdisciplinary body, grouping representatives of key business areas of Enea Group, representing all its core Companies in the committee.

The Risk Committee's composition and its key prerogatives are presented below.

Risk Committee's composition:

- President of the Management Board of Enea - Chairman
- Vice-President of the Management Board for Financial Affairs of Enea - Vice-Chairman
- Vice-President of the Management Board for Financial and Economic Affairs of Enea Wytwarzanie
- Member of the Management Board for Financial and Economic Affairs of Enea Operator
- President of the Management Board of Enea Centrum
- President of the Management Board of Enea Trading
- Enea's Risk Management Department Director
- Enea's Operational Management Department Director
- Enea's Control and Audit Office Manager



Risk Committee's competences:

1. Submitting recommendations to Enea's Management Board as regards approval of policies regulating the processes of managing risks, continuity of operations, insurance and compliance and update changed within this area
2. Accepting and analysis of the information from Specialised Units from the area of risk, continuity of operations and insurance management
3. Issuing opinions on reports within the implementation of the Compliance Policy which are presented to Enea's Management Board for approval
4. Accepting reports on the current implementation of the Compliance Policy and formulating recommendations relating to the implementation of the Compliance Policy
5. Issuing valid interpretations of the provisions of the Compliance Policy
6. Making decisions on the following, in particular:
 - a) approving operating documentation regulating the risk, continuity of operations management process, with acceptance of update changes (risk limits, strategies, procedures, methods, tools, instructions, guidelines, etc.)
 - b) resulting from the operating documentation regulating the risk, continuity of operations management process and granting permissions to divergences from the rules described in the operating documentation regulating these processes
 - c) approving the map of corporate risks, list of core risks with owners of these risks
 - d) approving the methods of risk mitigation, including in particular risk management plans

Enea Group's risk model

RISK MODEL	Enea Group identifies and locates risks within specified area categories.	CORE RISKS TO WHICH ENEA GROUP IS EXPOSED IN AREA CATEGORIES	EXAMPLES OF RISK MITIGATING ACTION GROUPS IN GIVEN AREA CATEGORIES
<p>STRATEGIC</p>	<ul style="list-style-type: none"> Shareholders / Stakeholders Environment Corporate governance Strategy and its implementation 	<ul style="list-style-type: none"> Risk of legal changes in Poland and EU and legislative environment uncertainty Risk of unfavourable changes in the macroeconomic situation in Poland Risk of operations performed contrary to regulators' requirements, in particular of Energy Regulatory Office, Office of Competition and Consumer Protection Risk of ineffective process of implementation of strategic investments and initiatives Risk of loss of core generating and distribution infrastructure as a result of natural events and other fortuitous events Risk of loss of income due to unfavourable volatility of atmospheric factors Reputation risks and risks related to brand management 	<ul style="list-style-type: none"> Monitoring of probable directions of legislative changes in Poland and EU Performing compliance related activities Analysis and verification of efficiency of implemented strategic investments and initiatives Implementation of Enea Group's insurance policy Application of appropriate provisions in contracts Development and application of operating procedures adequate to identified risks
<p>MARKET</p>	<ul style="list-style-type: none"> Market Market structure 	<ul style="list-style-type: none"> Risk of volatile prices of electricity and derivative products (price risk) Volumetric risk related to the acquisition of electricity or gas Risk of volatile currency exchange rates Risk of volatile percentage rates Risk of unbalancing electricity sales 	<ul style="list-style-type: none"> Dedicated market risk management corporate systems (price, currency, interest rate risks) Risk transferring to third parties Undertaking pre-emptive activities as regards market directions Regular market monitoring and analysis
<p>FINANCIAL</p>	<ul style="list-style-type: none"> Liquidity Credit Controlling 	<ul style="list-style-type: none"> Risk of deterioration or loss of financial liquidity Risk of breaches of financing agreements Risk of failure to obtain receivables for electricity sales (credit risk) 	<ul style="list-style-type: none"> Performance of a strict monitoring of keeping the core provisions of financing agreements Consideration of the predicted financial situation of Enea Group in planning core investments Application of systematised methods of credit assessment of key Customers of Enea Group
<p>OPERATING</p>	<ul style="list-style-type: none"> People and organisational culture Processes Support 	<ul style="list-style-type: none"> Risk of failure or unavailability of core generation and distribution infrastructure Risk of discontinuation of fuel supplies Risk of no access to key IT systems or means of communication Risk of inefficient process of proceeding with electricity sales agreements Risk related to human errors in key business processes Risk of implemented processes related to the security of information and physical security 	<ul style="list-style-type: none"> Maintenance and modernisation of assets Optimisation of asset management Internal supervision, reviews, audits and control Conduct of trainings and competence development Implementation of technical and organisational solutions Implementation of dedicated IT systems Monitoring of infrastructure and processes and implementation of relevant recommendations

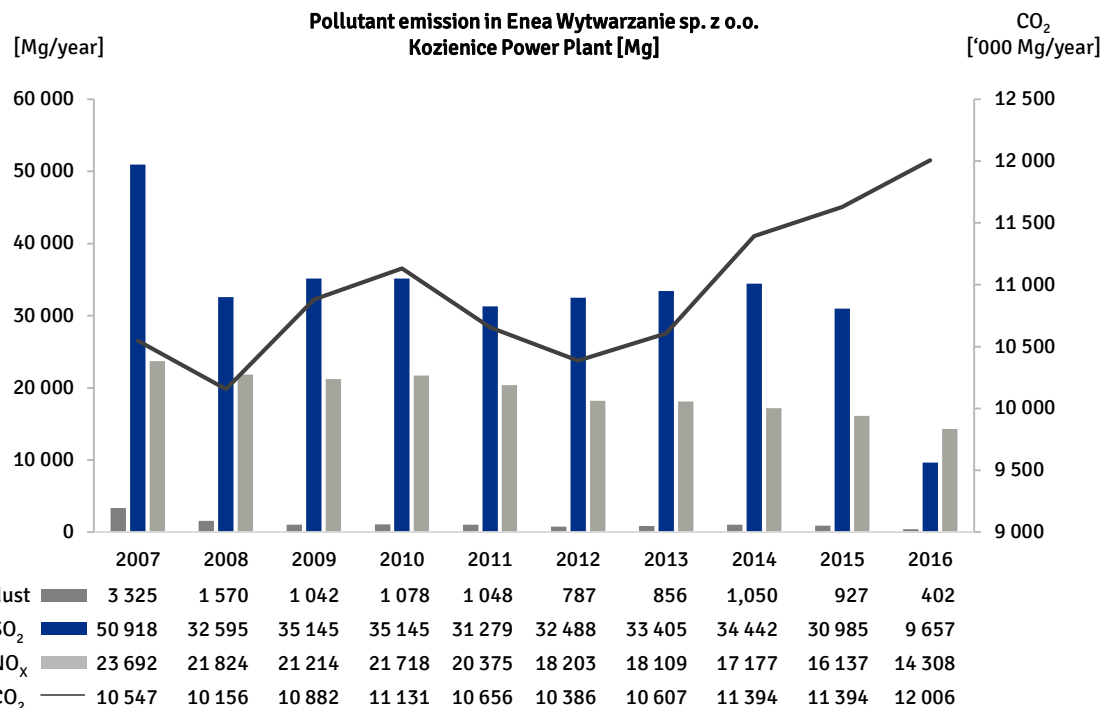
Environmental issues

Segment of System Power Plants

Pursuant to the IED directive, since 1 January 2016, stricter pollutant emissions standards have been in force. Extending their validity is guaranteed by the derogatory mechanism foreseen in the directive in the form of the Transitional National Plan (TNP), in force in the period from 1 January 2016 to 30 June 2020, during the participation in TNP keeping annual mass limits for pollutants reported for derogation by the installation operators (specified for individual installations in the regulation J.L. 2015 item 1138) are in force, and also emission standards are in force as at 31 December 2015. According to the principles of TNP operation it is possible to jointly account for the limits allocated within the Group. In Enea Group, Koziencice Power Plant accounts for SO₂ and dust limits together with Białystok Heat and Power Plant.

The Power Plant joined TNP due to the risk of an untimely commissioning of IOS IV, and Białystok Heat and Power Plant due to the lack of flue gas desulphurisation plant and denitrification plant. Koziencice Power Plant avails itself of the Accession Treaty derogation as regards the NO_x emission standard (in force until 31 December 2017). In order to reduce nitric oxides emissions, a gradual construction of the installation of the catalytic denitrogenation of flue gases - SCR - has been performed since 2013 in Koziencice Power Plant. In 2016, units No. 1, 2, 5, 6 and 7 were equipped with SCR installations. In 2017 it is planned to install SCR for units 4, 8 and 9, and in 2018 - for unit 10.

Desulphurisation of all flue gases using IOS I-IV installations (IOS IV was commissioned at the end of 2015) is the guarantee of keeping the mass limit of pollutant emissions foreseen in TNP and keeping emission standards resulting from IED directives. Relevant exploitation of the installed electrostatic precipitators, and also their gradual replacement with new ones, highly efficient units with the second stage of dust removal guaranteed by the used flue gas desulphurisation installations ensure satisfaction of the dust emission standards in force in 2016. In 2017 the replacement of the electrostatic precipitator of unit No. 9 is planned.



Pollutant concentration in Koziencice Power Plant in 2016

- SO_x lower by **71%** than the acceptable concentration
- NO_x lower by **23%** than the acceptable concentration
- Dust lower by **83%** than the acceptable concentration



The implemented investment activities in order to reconcile to the requirements of the Directive No. 2010/75/UE regarding industrial emissions (IED) – Koziencice Power Plant

Unit	Generating capacity (MW)	Denitrification installation (compliant with IED < 200 mg/Nm ³)					Desulphurisation installation (compliant with IED < 200 mg/Nm ³)		Dedusting equipment (electrostatic precipitators) (compliant with IED < 20 mg/Nm ³)		
		2014	2015	2016	2017	2018	2019	2014	2015	2016	2017
B1	215			✓							
B2	228		✓								
B3	225										
B4	228				✓						
B5	225			✓							
B6	228	✓									
B7	228		✓								
B8	228				✓						
B9	560					✓		✓			✓
B10	560							✓			✓

Environmental issues

Within the requirements specified by the IED directive, and also BAT conclusions planned for implementation (cBat) - Enea Wytwarzanie has been realising, consistently for several years, the specified schedule of adaptation investment activities.

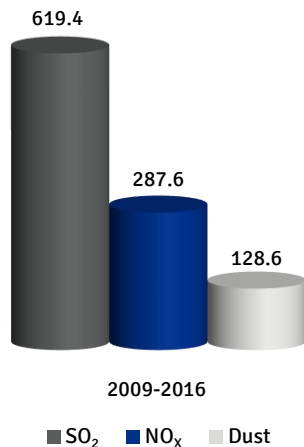
In 2016 the following occurred in Kozenice Power Plant:

- a concept of adjustment of Enea Wytwarzanie sp. z o.o. to the requirements of BAT conclusions was prepared
- a comprehensive programme of adjusting Enea Wytwarzanie sp z o.o. was launched Segment of System Power Plants as regards the adjustments to the requirements of BAT conclusions - realisation time is 2017-2021
- an installation of the catalytic denitrogenation of flue gases (SCR) was installed on 3x 200 MW units No. 1, 4 and 5 (with concentrations below 100 mg/Nm³), so that to significantly reduce nitric oxide

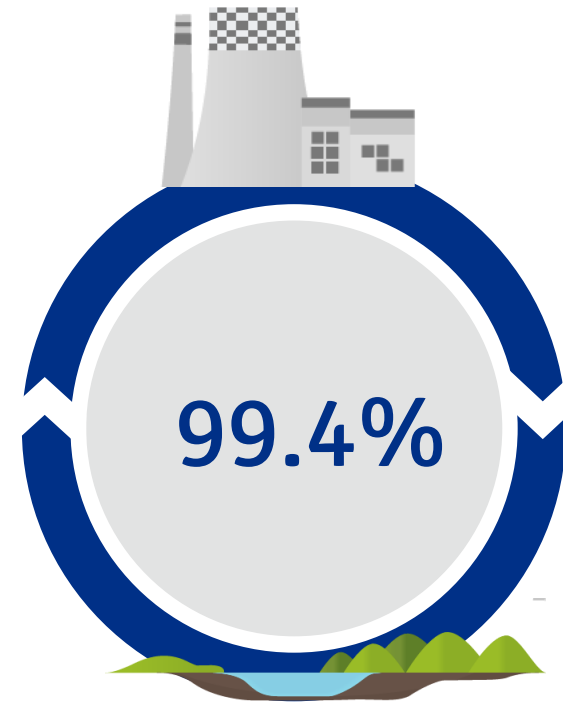
During 2017-2018 the construction of installations on the other three units is planned: No. 8 (200 MW) and two 500 MW units (No. 9 and 10).

Installation until 2018, of the SCR plant, and also currently used IOS installations, provide the Company with a possibility of satisfying the requirements of IED directive and future cBAT.

Total financial expenditures for reduction of emissions of SO₂, NO_x and dust to the air during 2009-2016 in Kozenice Power Plant [PLN mln]



Water consumption in energy generation process



99.4% of collected water is reverse intake. Kozenice Power Plant does not use underground water for production purposes.

Environmental issues

Transitional National Plan

More rigorous emission standards, introduced with IED directive, may be postponed in time by using TNP derogation mentioned in Article 32 of IED directive (implementation to the Polish law through Article 146c of the Environmental Protection Law J. L. 2001 No. 62 item 627, as amended). Koźienice Power Plant and Białystok Heat and Power Plant reported their participation in TNP as regards the following emissions: SO₂, dust – Koźienice Power Plant and SO₂, dust and NO_x – Białystok Heat and Power Plant.

Departure from the emission standards for sources covered with TNP is valid from 1 January 2016 to 30 June 2020, which means that the standards as at 31 December 2015 are in force in that period (for Koźienice Power Plant: dust - 50 mg/Nm³, SO₂ - 1,200 mg/Nm³ for five 200 MW units and 400 mg/Nm³ for the other units). Pursuant to the Environmental Protection Law, the Minister of Environment issued the regulation of 21 July 2015 relating to the requirements important for the implementation of the Transitional National Plan (J.L. 2015 item 1138), which for sources covered with TNP specifies mass limits of substances for 2016 - 2019 and for H1 2020 (the table below). Koźienice Power Plant and Białystok Heat and Power Plant account jointly for the emissions of pollutants reported to TNP within the allocated limits.

Source name	Maximum substance emission [Mg]														
	2016			2017			2018			2019			H1 2020		
	SO ₂	NO _x	dust	SO ₂	NO _x	dust	SO ₂	NO _x	dust	SO ₂	NO _x	dust	SO ₂	NO _x	dust
Enea Wytwarzanie sp. z o.o. – Koźienice Power Plant (8x200MW)	9 942.4	-	1 242.8	8 285.33	-	994.23	6 628.27	-	745.67	4 971.2	-	497.1	2 485.6	-	248.55
Enea Wytwarzanie sp. z o.o. – Koźienice Power Plant (2x500 MW)	5 084.6	-	635.6	4 237.17	-	508.47	3,389.73	-	381.33	2 542.3	-	254.2	1 271.15	-	127.1
Enea Wytwarzanie sp. z o.o. - Białystok Heat and Power Plant (K6, K7)	1 570.3	779.5	129.9	1 155.13	606.27	97.43	739.97	433.03	64.97	324.8	259.8	32.5	162.4	129.9	16.25
Enea Wytwarzanie sp. z o.o. - Białystok Heat and Power Plant (K5, K8)	2 074.47	949.0	158.12	1 511.43	741.48	118.26	948.37	533.96	78.4	385.33	326.44	38.54	192.67	163.22	19.27
Enea Group	18 671.77	1 728.5	2 166.42	15 189.06	1 347.75	1 718.39	11 706.34	966.99	1 270.37	8 223.63	586.24	822.34	4 111.82	293.12	411.17

Information on the utilisation in 2016 of pollutant emissions thresholds reported to TNP:

Source name	Emission volume [Mg]			Emission threshold [Mg]			Emission volume's share in emission threshold [%]		
	SO ₂	NO _x	dust	SO ₂	NO _x	dust	SO ₂	NO _x	dust
Enea Wytwarzanie sp. z o.o. – Koźienice Power Plant (8 x 200MW)	5 675.11	-	238.91	9 942.4	-	1 242.8	57.08	-	19.22
Enea Wytwarzanie sp. z o.o. – Koźienice Power Plant (2 x 500 MW)	3 086.29	-	80.74	5 084.6	-	635.6	60.70	-	12.70
Enea Wytwarzanie sp. z o.o. - Białystok Heat and Power Plant (K6, K7)	710.93	268.06	55.72	1 570.3	779.5	129.9	45.27	34.39	42.89
Enea Wytwarzanie sp. z o.o. - Białystok Heat and Power Plant (K5, K8)	479.72	278.85	59.37	2 074.47	949.0	158.12	23.12	29.38	37.55
Enea Group	9 952.05	546.91	434.74	18 671.77	1 728.5	2 166.42	53.30	31.64	20.07

Emission for the needs of TNP (calculated in accordance with the executive decision of the Commission of 10 February 2012, establishing the regulations relating to the transitional national plans mentioned in the directive of the European Parliament and Council 2010/75/UE regarding industrial emissions (2012/115/EU)) does not constitute any basis for calculating fees for the economic use of the environment.

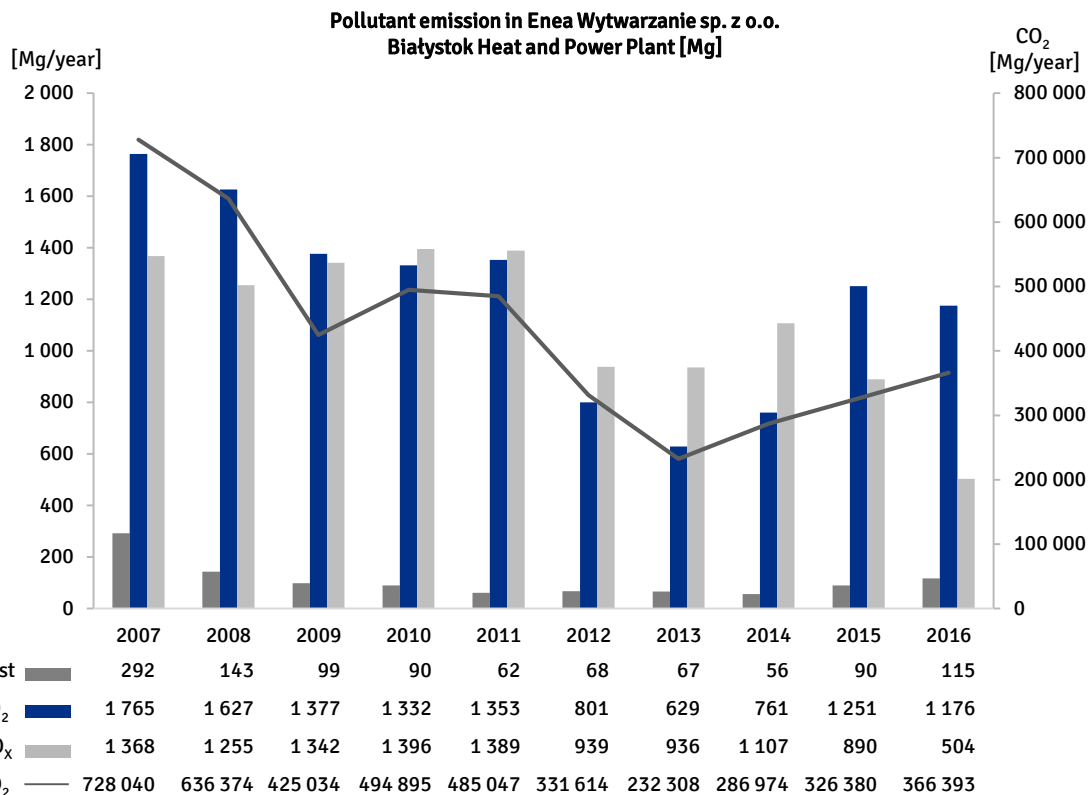
Environmental issues

Segment of Heat

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

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

Currently, the flue gas desulphurisation plant is being installed for OP-230 boilers No. 7 and 8 - date of completion 2017.



The implemented investment activities in order to reconcile to the requirements of the Directive No. 2010/75/EU regarding industrial emissions (IED) – Białystok Heat and Power Plant

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

Environmental issues

Issues relating to the area of Mining - LW Bogdanka:

Protection of atmospheric air

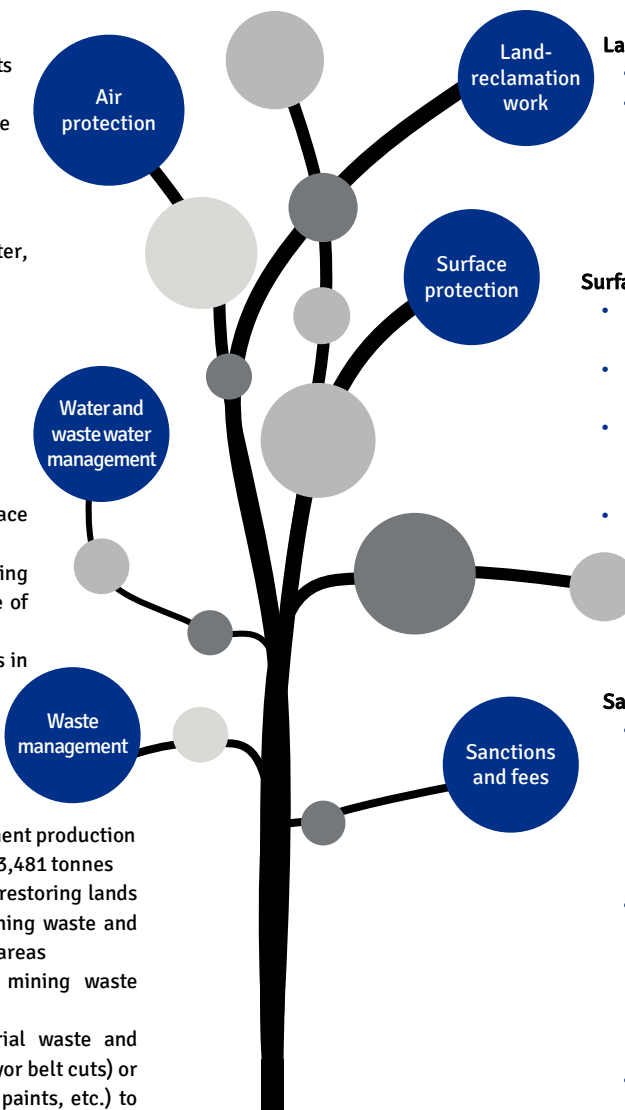
- LW Bogdanka SA does not hold any organised emission source emitting dusts and gases to the atmosphere
- The mining waste neutralisation plant in Bogdanka is a non-organised source which may emit dusts on dry and windy days
- Non-organised emission to the air comes from firing fuels in combustion engines used in the company and welding processes

Water and waste water management relates mainly to underground water, including:

- draining of formations in the area of mining excavations
- controlled drainage of Jurassic layers
- economic use of water for fire protection and technological purposes
- pumping-up water to the surface
- economic use of underground water on the surface (Zakład Przeróbki Mechanicznej Węgla, Łęczyńska Energetyka sp. z o.o. - within Water Treatment Plant)
- underground water retention in reservoir-settling tank on the surface in order to reduce the suspension
- water drop from the reservoir through the system of discharging trenches and stream - Rów Żelazny to the Świnka River in the volume of ca. 14,623 m³/day
- underground water characterises with the total chlorides and sulphates in the amount of 1,035 mg/dm³

Waste management:

- In 2016 the total revenue of mining waste amounted to 6,372,549 tonnes
- Approximately 45% of waste was recovered and managed. The waste recovery, i.e. use for land rehabilitation, road hardening, cement production in Cementownia "Ożarów" and other numerous goals amounted to 2,893,481 tonnes
- 98% of waste is used for the degraded land reclamation. It consists in restoring lands to their original shape through filling post-sand excavations with mining waste and then covering them with a soil layer and development to rural or forest areas
- The other mining waste (3,479,068 tonnes) are dumped in the mining waste neutralisation plant in Bogdanka.
- LW Bogdanka SA performs the management of the other industrial waste and delegates waste which is fit for use (wood, used oil, scrap metal, conveyor belt cuts) or for neutralisation (used sources of light, packagings after adhesives, paints, etc.) to other authorised entities.



Land-reclamation work

- In 2016, no land-reclamation works were performed on post-industrial areas
- The maintenance of the organised green areas, of the mining waste neutralisation plant and post-industrial areas recultivated in previous years in the region of Bogdanka, Nadrybie and Stefanów Fields and railway facilities is performed on a continuous basis

Surface protection

- The impact of the mining exploitation in 2016 on the surface was visible, as so far, mainly in the form of increasing surface scope of the existing impacts
- In the region of Bogdanka and Nadrybie Wieś the maximum subsidence remains on the level of 5,00 m in the central part of the subsidence basin
- The damage in the buildings in 2016 - as so far - in most cases related to the rural developments, the reported damages in these buildings posed no danger to users and were removed on a continuous basis
- The costs of removing damage caused by the mining exploitation in 2016 amounted totally to ca. PLN 3.28 mln

Sanctions and fees faced by the Company due to environmental protection

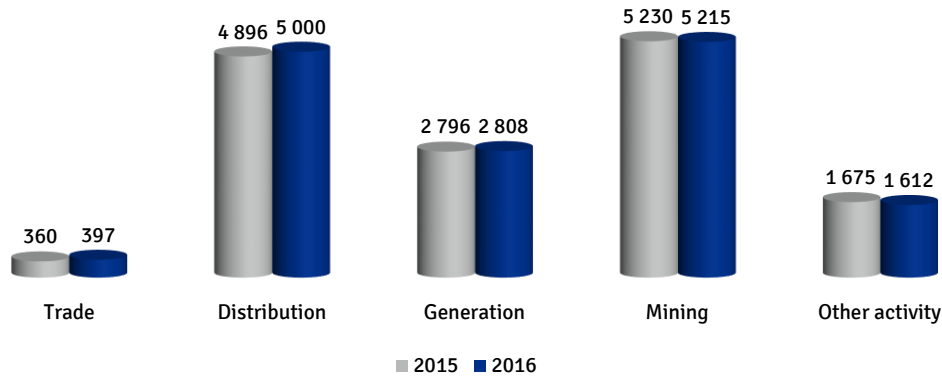
- The mining operations entail the exploitation fee due to the use of the natural environment and a range of costs related to:
 - post-mining waste management
 - post-industrial land rehabilitation
 - environmental monitoring
 - development of surveys and documentation necessary for the plant operation
- The exploitation fee is paid every six months to the accounts of the municipalities the territory of which is exploited (60%) and for the National Fund of Environmental Protection and Water Management (40%). The licence fee constitutes also in 40% the income of the National Fund of Environmental Protection and Water Management and in 60% the income of mining municipalities.
- LW Bogdanka SA satisfies the standards within ecology and in 2016 did not pay any penalties for the breach of the conditions of using the natural environment specified in the laid down in the legal provisions in force

Information on employment

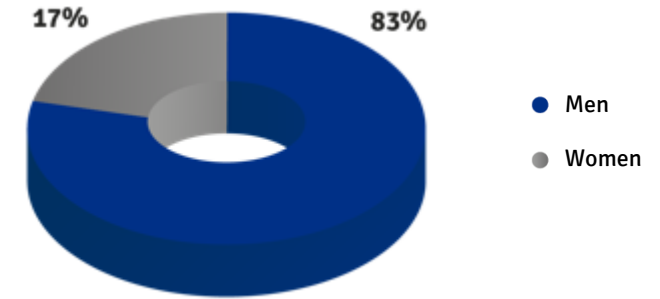
As at the end of 2016, 15,032 people were employed in Enea Capital Group. The dominant group was people aged between 26 and 55 years, constituting 79% of all the employees. 79% of the Group's employees are people with middle or higher qualification.

Detailed information on employment is presented on the diagrams below.

Employment in Enea Capital Group as at 31 December 2016 - employees



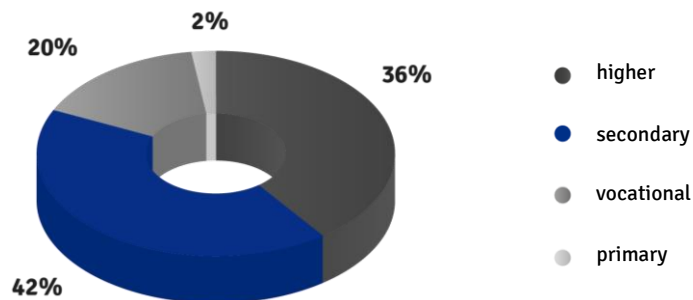
Employment in Enea Capital Group as at 31 December 2016 - sex



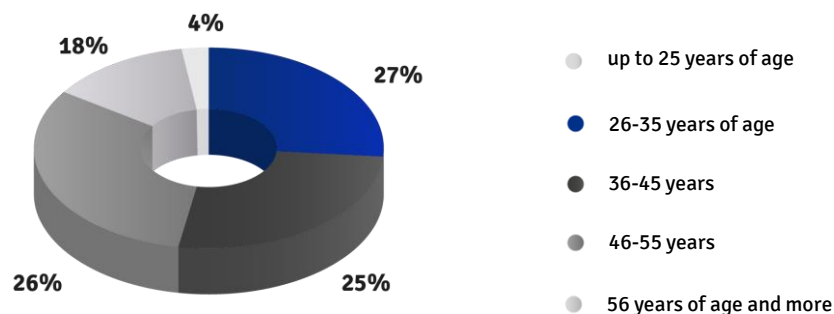
Changes in employment in Enea Capital Group in 2016 - employees



Employment in Enea Capital Group as at 31 December 2016 - education



Employment in Enea Capital Group as at 31 December 2016 - age



Realisation of the HR Policy in Enea Capital Group in 2016

1. HR work organisation model optimisation in order to improve the Group’s operations.

The essence of the new model is:

- HR policy creation on the level of Enea SA and cascading the strategy for implementation to individual Group companies, which, as a consequence is to guarantee HR operating coherence
- ensuring HR local support in the Group companies via establishment of local HR Business Partners responsible for implementing HR solutions, supporting Management Board and managerial staff in human resources management, cooperation with corporate trade unions
- ensuring uniform HR processes and standards in the whole Enea Group in the following areas: recruitment, development policy, trainings, management by objectives, incentive schemes etc.
- leaving in Enea Centrum, in the Shared Service Centre, only those operating activities which relate to the payroll services, training logistics and servicing the Company Social Benefits Fund

2. Launching the Generation Change Programme (GCP) in order to ensure an appropriate flow of staff and keep competences which are the guarantor of maintaining the business process continuity within Enea Group. GCP includes 3 elements: the Programme of Voluntary Redundancy started in 2016, Competence Improvement Programme and New Pay Policy. The above mentioned constituents are systemic in their nature and will be continued during the next years in the whole Enea Group.
3. HR process digitisation - commencement of actions with the goal of introducing an electronic personal record (e-file), electronic flow of documents within the processes administered by HRBP (recruitment, employment, amending employment conditions, etc.). The implementation is planned for 2017.
4. Activities from within the employer branding, with the aim to obtain the best candidates for work, including activities dedicated to students, such as e.g. promotion on universities and job fairs of the new programme of trainings and internships "Install yourself in Enea" which entered into force in January 2017.
5. Constant overview of incentive schemes and their market facilitation; implementation of a tool for the management by objectives being the basis for a legible and motivation-based remuneration policy for the achieved results, in particular for the managerial staff and sales people.

Information on the remuneration policy in Enea SA

In 2016 the Company did not run any formalised remuneration policy in relation to the Company’s officers or key managers. However, the Company has numerous formal pay regulations in place. The basis for determining remunerations in Enea SA is the corporate collective labour agreement, bonus schemes and work regulations. The remuneration policy in Enea SA is related to its strategy, objectives, interests and performance. Additionally, the remuneration policy includes the issues related to lack of discrimination due to any reason. Subject to the changes in the remuneration policy applying to managers and supervisors in 2016 there were no significant changes in the remuneration policy in force in the Company.

The non-financial pay constituents (including key managers) applicable in Enea SA in 2016 included in particular: medical care, trainings, social benefits (within the Company Social Benefit Fund, i.e. subsidies to employee holidays, subsidies to sports and recreation, cultural and educational activities, low-interest loans for residential purposes), additional day off, preferential insurance offer, company car with a possibility of their use for private purposes or employee pension scheme.

As mentioned above, in 2016 Enea SA ran no formalised remuneration policy. However, the remuneration rules in force in the Company are positively assessed as regards the achievement of its objectives, in particular a long-term growth in the value for shareholders and stability of the enterprise operation.

As at 31 December 2016 neither the Issuer nor any Enea Capital Group company held any liabilities (including incurred) resulting from pensions or similar benefits allocated individually to former managers, supervisors or former members of the administrative bodies.

Collective disputes

There are no collective labour disputes in any of the key companies comprising Enea CG. In order to eliminate the risk and occurrence of a potential collective dispute the boards of the companies have a regular dialogue with the society.

Demand for energy

According to the forecasts included in "Update of the projection of demand for fuels and energy until 2030" the demand for electricity in the next years will grow in all the sectors of economy. Compliant with the aforementioned document the net production of electricity will increase until 2030 to 193.3 TWh. At the same time, pursuant to the document titled "Conclusions from forecast analyses for the needs of the Energy Policy of Poland until 2050" until 2050 the production of electricity will increase by ca. 40% - from 158 TWh in 2010 to 223 TWh in 2050.¹⁾

Exemption from the obligation to tariff households

Pursuant to Article 49 of the Energy law, the President of ERO may exempt an energy company from the obligation of submitting tariffs for approval, if he states that it operates competitively. A potential exemption from tariffing may positively affect the margin on sales of energy.

Quality tariff

The new model of the quality regulation came into force on 1 January 2016, yet it will have impact on the finances of Enea Operator (and other ODSs) as late as in 2018. The President of the Energy Regulatory Office made some portion of the regulated income dependant on the quality of services rendered by these entities. Service quality assessment will be performed by measuring numerous ratios, in particular of uninterrupted power supply and time of connecting to the power grid.

Growth in the number of energy sellers

The number of electricity sellers grows regularly. Appearing of a seller conducting an aggressive price policy may result in the pressure on the margin on sales of energy to retail Consumers.

Additionally, it must be noted that more and more Customers decide to change their energy seller. The number of TPA recipients (Third Party Access) among enterprises (tariff group sets A, B, C) as at the end of December 2016 amounted to 173,858, thus grew from the end of December 2015 by 15,262 (9.6%). And among households (tariff group set G) the TPA principle was used, as at the end of December 2016, by 462,630 entities, which means a growth by 71,279 (18.2%) in relation to the end of December 2015.

Limits of allowances for emissions of CO₂

A material element within costs, conditioning the profitability of electricity generation is the allocation of free allowances for emissions of CO₂ and other gases and substances in a given settlement period. Obtaining a free allocation of CO₂ emission is conditional on the implementation of dedicated investments in Enea CG notified in the National Investment Plan (NIP). The value of actual outlays is the base for obtaining allowances.

In 2017 intensified activities will be carried out with the objective to determine the principles of the 4th stage of EU ETS functioning starting from 2021. The major changes which may diametrically affect the market situation, include:

- increasing the linear ratio to 2.2%
- lack of free allowances for the sectors which are not exposed to the carbon leakage risk
- doubling, during the first 4 years of MSR functioning, the number of allowances taken from the auction pool to the reserve to the level of 24% of the allowance surplus
- permanent removal of 800 mln MSR allowances from the market

Limits of Proprietary Interests

The segment of PMOZE_A (certificates of origin for energy generated in renewable energy sources) characterises with a permanent surplus of allowances on the market, translating into low prices. The factor which may improve the situation is enabling the existing installations to convert to the auction system. As at the publication date of the report the announced auction volumes for the existing installations are small and have no significant impact on the improvement of the sectoral situation.

In the segment of PMOZE_BIO (certificates of origin for energy generated from agricultural biogas) a strong shortage is observable of allowances whose prices may be much higher than the compensatory payment in relation to the shortage of allowances on the market and enabling installations to convert to the auction system under favourable conditions. Due to the constructions of legal provisions these Proprietary Interests may be evaluated at even 130% of the value of unit compensatory payments.

For PMEF (energy efficiency) until the end of 2016 there was a shortage of PMEF on the market - on the last day of quotations the transaction prices were higher than the level of the unit compensatory payment.

The proprietary interest system presently in force for cogeneration is valid until the end of 2018.

Gas portfolio

In relation to the amendment to the Energy Law the gas market liberalisation commenced in Poland. As a consequence, as of 1 October 2017 the prices for the consumers other than households will be deregulated.

Situation in the national bituminous coal mining sector

The price path for electricity will be strongly dependant upon the costs of obtaining the production fuel. The necessity of restructuring the mining sector in mid-term will undoubtedly translate into the change in prices of supplied energetic materials. The direction of changes is not unambiguous, however as an essential element of the costs of generating domestic electricity it brings additional risks related to the process of futures contractation.

Continuation of the construction of the power unit

In 2012 Enea Wytwarzanie and Hitachi Power Europe GmbH (presently Mitsubishi Hitachi Power Systems Europe GmbH) and Polimex-Mostostal SA consortium signed an agreement totalling to PLN 5.1 bln net on the construction of 1,075 MW_e gross supercritical bituminous coal fired power unit of the efficiency of 45.6% net.

On 22 August 2016 the consortium submitted a proposal to Enea Wytwarzanie of an updated schedule for the contract with the offer to postpone the date of the investment commissioning from 21 July 2017 to 19 December 2017, of which Enea SA informed in the current report No. 24/2016. On 23 December 2016 Enea Wytwarzanie signed a deadline amending annex relating to the construction of the unit No. 11, accepting the updated schedule (current report No. 45/2016). Extension of the investment completion date stems from objective reasons beyond the control of the contractual parties. The value of the agreement has not changed as a result of the annex execution.

The investment in the construction of the new power unit is one of the key undertakings in order to increase generating capacities of Enea Group for a long-term satisfaction of the demand for electricity of all the Group's Customers. The new power unit in Koźnice Power Plant will be the most modern unit fired with bituminous coal in Poland and Europe. The completion of the investment will allow for increasing generating capacities of the power plant in Koźnice by ca. 30%.

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

2) ure.gov.pl/pl/wskazniki-dane-i-anali/zmiana-sprzedawcy-moni/4776,Zmianaspredawcymonitoring.html

Structure of generating portfolio

Notwithstanding the start-up of 1,075 MW unit in Koziernice Power Plant, Enea plans its engagement in the construction of new sources or acquisitions of the already existing ones on the level of additional 1,500-2,000 MW until 2025. Some of these activities will be implemented via partnerships with other energy groups. The implementation of the strategy will mean a significant growth in Enea's importance in electricity generation for the needs of the Public Power System. The total installed capacity of conventional sources is to increase from the current level of 3.2 GW to 5.8-6.3 GW in 2025. It will allow the Group to generate 20.7-22.8 TWh electricity from own sources, which will mean electricity generation and sales balance.

Long-term development of energy market

On 16 February 2016 the Government of Poland adopted "Plan for Responsible Development of Poland"¹⁾. The document specifies the key directions of the state functioning and new impulses which will ensure its stable development in the future.

The plan foresees that the development of the Polish economy will be based on five pillars: reindustrialisation, innovations, capital, foreign expansion and social and regional development.

Pursuant to the provisions of the document relating to the energy market, in order to increase energy efficiency and unlock the investment after 2020 (including avoidance of blackout and becoming independent from energy imports) the state intends to e.g. support the development of energy infrastructure (energy bridges, power storing technologies), liberalise market areas and introduce capacity market mechanism which would be an impulse for investments in the segment of conventional power engineering.

The process was commenced of implementing a dual-commodity market on which, apart from electricity, also capacity will be traded. The Ministry of Energy, in the document titled "Functional solutions of the capacity market" published on 30 September 2016 justifies the necessity of introducing a new market. At the beginning of December 2016 the Ministry of Energy presented a draft act on the capacity market.

As mentioned in the justification, the introduction of the mechanism is to prevent shortages of generation capacity, create economic incentives for construction, maintenance and modernisation of generating units and managing energy consumption at customers'.

1) www.mr.gov.pl/media/14840/Plan_na_rzecz_Odpowiedzialnego_Rozwoju_prezentacja.pdf

New projections for energy price paths

Long-term financial projections of Enea Group based on the forecast electricity price paths, expectations as regards the changes of market prices of certificates of origin for energy, allowances for emissions of CO₂ and coal prices demonstrate a more and more demanding situation of the area of Generation. Due to the maintaining of energy prices on exceptionally low levels, resulting in the imbalance between generated revenue and costs of energy generation, the Group foresees the necessity of a quick entry into force of the announced support mechanisms for system power engineering (e.g. through the implementation of the capacity market mentioned above). Difficulties in generating good financial results by generating sources will exclude a possibility of incurring expenditures on development investments which during the coming years seem inevitable.

Variability and liquidity on the wholesale market

Since the very beginning of 2016 we faced a decreased liquidity in electricity trade on the Electricity Futures Market managed by the Polish Power Exchange. The situation has not improved in 2017 - according to PPE the trading volume on the futures market in January 2017 dropped by 45.8% in relation to the same period of 2016. A drop in RDN market (spot) was insignificant, however such the turn of events forces to look in the future with some anxiety related to the possibilities of hedging the trading positions. A positive fact here is a growing trade on the natural gas futures market, which allows for the diversification in the trading operations.

Rating

Maintaining on 30 November 2016 by Fitch Ratings agency of a long-term rating of Enea SA in national and foreign currency on the level of "BBB" and a long-term national rating on the level of "A(pol)" in relation to LW Bogdanka acquisition is of a key importance as to the realisation of the investment intentions of the Group. On 3 August 2016, due to methodological changes, Enea's rating was raised to "A+(pol)", which is a result of decreasing the long-term rating of Poland in national currency to "-A" from "A" (resulting also from methodological changes). The outlook of Enea's ratings is stable. Fitch Ratings has performed the Company's credit rating since 2011.

In 2016, EuroRating, in 2016, affirmed Enea's rating four times - on 19 January, 26 April, 8 July and 30 September. On 11 January 2017 the agency reaffirmed Enea's credit rating on the level of BBB. What was changed was the outlook of the rating - it changed from stable to negative.

EuroRating agency awards ratings to companies listed on WIG20 on its own initiative, in reply to the information needs of market participants, and the credit risk assessment process is based on the publicly available information.

Due to Enea SA's leaving WIG20 index EuroRating stopped, as of 17 March 2017, assessing the Company's credit risk, withdrawing at the same time the rating it awarded to the company.

Court and administrative proceedings

As at the date of publication of this report, no proceedings is underway regarding liabilities or claims, the party to which would be Enea SA or its subsidiary, whose single or total value would amount to 10% or more of Enea SA's equity.

The detailed description of the proceedings is to be found in note 47 of the consolidated financial statements of Enea CG for 2016.

Continuation of the cooperation on the construction of the first atomic power plant in Poland

On 3 September 2014, PGE Polska Grupa Energetyczna, Tauron Polska Energia, Enea and KGHM Polska Miedź (Business Partners) concluded a Shareholder Agreement. On 15 April 2015, pursuant to the Shareholder Agreement, an agreement on sale of shares in PGE EJ 1 sp. z o.o. was concluded, as a result of which each of the Business Partners acquired 10% of shares in PGE EJ 1. As a consequence of selling shares in PGE EJ 1 by PGE Polska Grupa Energetyczna to Business Partners, PGE Polska Grupa Energetyczna holds 70% in the share capital of PGE EJ 1, and each of the Business Partners - 10%. In May 2015, the National Court Register registered the new wording of the Company's Articles of Association, resulting from the Shareholder Agreement, and in May and June 2015, the composition of the Company's Supervisory Board was extended with Business Partners' representatives.

Pursuant to the assumptions PGE Polska Grupa Energetyczna is the leader of the construction project and exploitation of the first Polish atomic power plant with the capacity of ca. 3,000 MW, and PGE EJ 1 is to be a future operator of the power plant. Pursuant to the Shareholder Agreement, the Parties jointly undertake, in the proportion to number of shares held, to finance the operations as part of the preliminary stage of the Project (Development Stage). The development stage is to specify such elements as potential partners, including the strategic partner, providers of technologies, EPC (Engineering, Procurement, Construction) contractors, suppliers of atomic fuel and obtaining the financing for the project, and also organisational and competence-based preparation of PGE EJ 1 to the role of the future atomic power plant's operator, responsible for its safe and efficient exploitation. Enea's financial engagement at the Development stage will not exceed the amount of ca. PLN 107 mln.

On 21 December 2016 an Extraordinary General Meeting of Shareholders of PGE EJ1 was held during which the Shareholders decided to raise the Company's share capital by ca. PLN 35 mln. Pursuant to the decision of the Extraordinary General Meeting of Shareholders of the Company Enea took up 24,822 shares of the total nominal value of ca. PLN 3.5 mln and covered them with cash totalling to ca. PLN 3.5 mln.

The Parties to the Shareholder Agreement foresee that the decision relating to the declaration of further participation of particular Parties in the next stage of the project will be made after the completion of the Development stage.



3. Financial position

Consolidated Profit and Loss Statement - 2016

[PLN '000]	2015	2016	Change	Change %
Revenue from sale of electricity ¹⁾	5 696 818	6 548 229	851 411	14.9%
Revenue from sale of heat energy	275 118	312 625	37 507	13.6%
Revenue from sale of natural gas ¹⁾	121 965	179 476	57 511	47.2%
Revenue from sale of distribution services	2 964 470	3 001 032	36 562	1.2%
Revenue from certificates of origin ¹⁾	24 931	13 739	-11 192	-44.9%
Revenue from sales of CO ₂ emission allowances	-	32 780	32 780	100.0%
Revenue from sale of goods and materials ¹⁾	106 141	87 004	-19 137	-18.0%
Revenue from sale of other services ¹⁾	146 254	176 369	30 115	20.6%
Recovery of stranded costs	293 147	-	-293 147	-100.0%
Sale of coal	219 548	904 424	684 876	311.9%
Net sales revenue	9 848 392	11 255 678	1 407 286	14.3%
Amortisation/depreciation	790 375	1 110 350	319 975	40.5%
Employee benefit costs	989 489	1 490 752	501 263	50.7%
Consumption of materials and raw materials and value of goods sold	1 791 115	1 361 884	-429 231	-24.0%
Costs of energy purchases for resale	3 282 923	4 074 797	791 874	24.1%
Transmission services	769 503	860 991	91 488	11.9%
Other outsourced services	423 204	664 644	241 440	57.1%
Taxes and charges	290 201	326 537	36 336	12.5%
Cost of sales	8 336 810	9 889 955	1 553 145	18.6%
Other operating revenue	99 102	144 038	44 936	45.3%
Other operating expenses	262 040	261 625	-415	-0.2%
Profit / (loss) on sales and liquidation of tangible fixed assets	-9 148	-30 662	-21 514	-235.2%
Non-financial fixed assets impairment write-down	1 501 621	98 160	-1 403 461	-93.5%
Operating profit / (loss)	-162 125	1 119 314	1 281 439	-
Financial costs	81 751	127 010	45 259	55.4%
Financial revenue	84 497	76 350	-8 147	-9.6%
Write off of goodwill	251 432	-	-251 432	-100.0%
Dividend revenue	1 833	148	-1 685	-91.9%
Profit / (loss) before tax	-408 978	1 068 802	1 477 780	-
Income tax	-10 100	219 889	229 989	-
Net profit / (loss) for the reporting period	-398 878	848 913	1 247 791	-
EBITDA	2 129 871	2 327 824	197 953	9.3%

2016:

Enea CG's EBITDA change drivers:

- (+) higher revenue from sales of electricity by PLN 851 mln stems from higher volumes of sales by 5,509 GWh despite the average selling price lower by 4%
- (+) higher revenue from sales of natural gas by PLN 58 mln stems from the reported higher volumes of sales by 577 GWh despite the average selling price lower by 11%
- (+) higher sales of distribution services by PLN 37 mln stem from:
 - (+) higher volume (806 GWh) of sales of distribution services to end users and higher rates of shifted charges, e.g. in relation to the entry into force of RES fees since 1 July 2016 (PLN 63 mln)
 - (-) lower revenue from grid connection fees (PLN 31 mln)
- (+) higher revenue from sales of heat energy by PLN 38 mln stems from higher volumes by 613 TJ (e.g. the impact of LW Bogdanka acquisition)
- (+) higher revenue from sales of the other services as a result of LW Bogdanka acquisition
- (+) sales of coal as a result of LW Bogdanka acquisition
- (-) lower average price of proprietary interests (RES 22%) with higher volumes (10 GWh) affects lower revenue from proprietary interest trading
- (-) higher costs of employee benefits as a result of LW Bogdanka acquisition and as a result of higher provisions for employee benefits
- (+) lower costs of materials and value of goods sold stems from the acquisition of the key coal supplier, LW Bogdanka
- (-) higher costs of purchasing transmission services related to a higher PSE fee and in relation to the greater volume of supplied gas to end users
- (-) higher costs of outsourced services due to LW Bogdanka acquisition
- (-) higher taxes and charges mainly as a result of the investment realisation in the area of grid assets and as a result of LW Bogdanka acquisition
- (+) higher costs of purchases of electricity and gas by PLN 792 mln as a result of:
 - (+) higher volumes of electricity (5,318 GWh), despite lower average purchase price of electricity by 2.9%
 - (-) higher costs of ecological and cogeneration obligations by PLN 3 mln (e.g. entry into force of blue obligations)
 - (+) higher costs of purchasing gas in relation to greater volumes (544 GWh)
- (+) higher result on the other operating activity by PLN 24 mln:
 - (+) settlement of the tie existing before LW Bogdanka acquisition totalling to PLN 94 mln (one-off)
 - (+) provisions for claims for damages and litigation PLN 45 mln
 - (+) lower written off debts by PLN 18 mln
 - (+) higher revenue from damages and contractual penalties by PLN 9 mln
 - (+) higher revenue from removal of collisions by PLN 22 mln
 - (-) establishment of the provision related to the estimation of the value of shares in Eco-Power sp. z o.o. in the amount of PLN 129 mln
 - (-) loss on liquidation of tangible assets PLN 21 mln, stems mainly from the liquidation and reconstruction of excavations and liquidation of tangible assets
 - (-) higher costs of donations by PLN 7 mln
 - (-) higher costs of legal provisions relating to grid assets by PLN 4 mln

1) Change in presentation of data published for 2015

Consolidated Profit and Loss Statement - Q4 2016

[PLN '000]	Q4 2015	Q4 2016	Change	Change %
Revenue from sale of electricity ¹⁾	1 470 470	1 669 912	199 442	13.6%
Revenue from sale of heat energy	90 061	102 370	12 309	13.7%
Revenue from sale of natural gas ¹⁾	52 312	43 646	-8 666	-16.6%
Revenue from sale of distribution services	781 241	783 754	2 513	0.3%
Revenue from certificates of origin ¹⁾	15 718	758	-14 960	-95.2%
Revenue from sales of CO ₂ emission allowances	-	10 841	10 841	100.0%
Revenue from sale of goods and materials ¹⁾	34 485	21 324	-13 161	-38.2%
Revenue from sale of other services ¹⁾	34 244	52 546	18 302	53.4%
Recovery of stranded costs	-	-	-	-
Sale of coal	219 548	266 583	47 035	21.4%
Net sales revenue	2 698 079	2 951 734	253 655	9.4%
Amortisation/depreciation	232 104	280 265	48 161	20.7%
Employee benefit costs	309 575	416 205	106 630	34.4%
Consumption of materials and raw materials and value of goods sold	447 948	347 410	-100 538	-22.4%
Costs of energy purchases for resale	855 360	1 027 870	172 510	20.2%
Transmission services	198 191	226 259	28 068	14.2%
Other outsourced services	179 939	215 179	35 240	19.6%
Taxes and charges	76 547	80 533	3 986	5.2%
Cost of sales	2 299 664	2 593 721	294 057	12.8%
Other operating revenue	52 047	45 358	-6 689	-12.9%
Other operating expenses	151 698	173 181	21 483	14.2%
Profit / (loss) on sales and liquidation of tangible fixed assets	-6 239	-11 210	-4 971	-79.7%
Non-financial fixed assets impairment write-down	1 501 621	48 808	-1 452 813	-96.7%
Operating profit / (loss)	-1 209 096	170 172	1 379 268	-
Financial costs	36 276	27 416	-8 860	-24.4%
Financial revenue	41 595	28 461	-13 134	-31.6%
Write off of goodwill	251 432	-	-251 432	-100.0%
Profit / (loss) before tax	-1 455 209	171 217	1 626 426	-
Income tax	-218 493	42 959	261 452	-
Net profit / (loss) for the reporting period	-1 236 716	128 258	1 364 974	-
EBITDA	524 629	499 245	-25 384	-4.8%

Q4 2016:

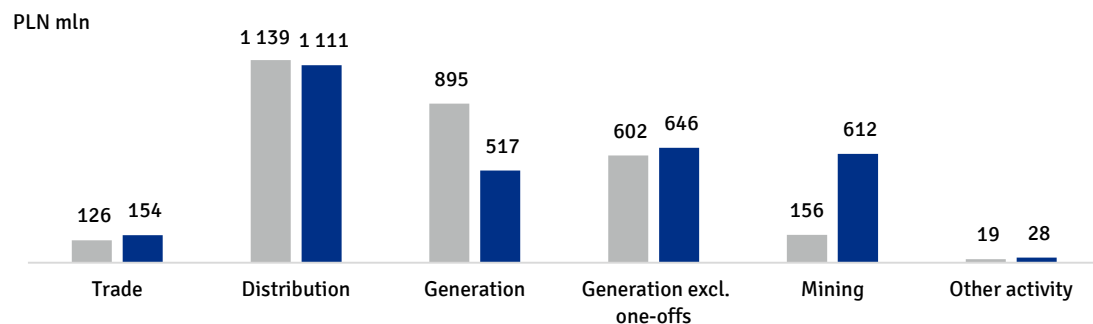
Enea CG's EBITDA change drivers:

- (+) higher revenue from sales of electricity by PLN 199 mln stems from higher volumes of sales by 1,222 GWh with the concurrent drop in the average selling price by 2.8%
- (-) drop in sales of gas result from supplying the volume decreased by 34 GWh
- (+) growth in sales of heat energy by PLN 12 mln stems from a growth in the supplied volumes by 285 TJ
- (-) lower revenue from sales of certificates of origin resulting from lower price of RES Proprietary Interests by 66.9% and lower volumes by 94 GWh
- (+) sales of coal as a result of LW Bogdanka acquisition
- (-) higher costs of employee benefits by PLN 107 mln stemming mainly from the acquisition of LW Bogdanka and in relation to higher provisions for employee benefits
- (-) higher costs of transmission services by PLN 28 mln stem mainly from higher PSE charges
- (+) lower costs of materials and value of goods sold stem from the acquisition of the key coal supplier, LW Bogdanka
- (-) higher cost of taxes and charges, e.g. a higher property tax in relation to the commissioning of grid investments
- (+) higher costs of purchasing electricity and gas by PLN 173 mln:
 - (+) higher volumes of electricity (1,444 GWh) with concurrent lower growth in purchase price of electricity by 2.5%
 - (+) lower costs of ecological obligations
 - (-) lower value of natural gas purchases in relation to lower volumes (33 GWh) and drop in the average price by 11%
- (-) lower result on the other operating activities by PLN 33 mln:
 - (-) establishment of the provision related to the estimation of the value of shares in Eco-Power sp. z o.o. in the amount of PLN 129 mln
 - (-) higher costs of legal provisions relating to grid assets by PLN 8 mln
 - (-) higher costs of donations by PLN 7 mln
 - (-) higher impairment of receivables by PLN 4 mln
 - (-) higher tangible assets liquidation costs by PLN 5 mln
 - (+) settlement of the tie existing before LW Bogdanka acquisition totalling to PLN 94 mln (one-off)
 - (+) provisions for claims for damages and litigation PLN 22 mln
 - (+) higher revenue from damages and contractual penalties by PLN 8 mln
 - (+) lower written off debts by PLN 6 mln

1) Change in presentation of data published for 2015

Results on individual areas of operations of Enea CG

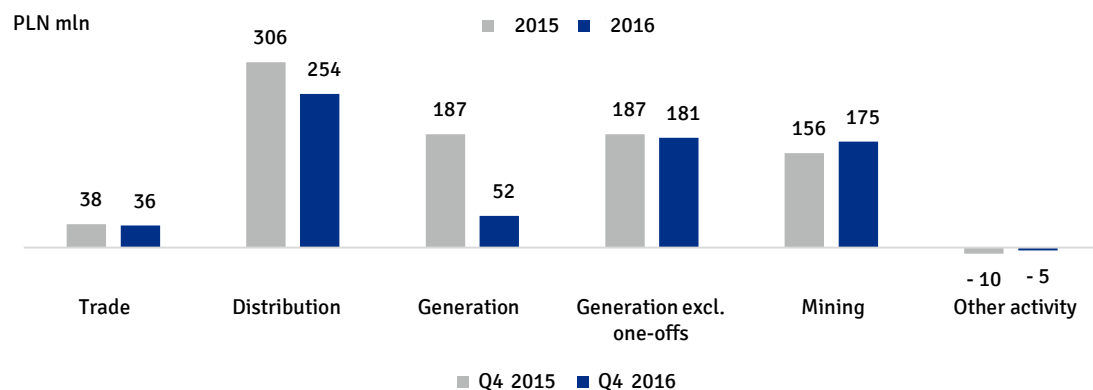
EBITDA [PLN '000]	2015	2016	Change	Change %	Q4 2015	Q4 2016	Change	Change %
Trade	126 095	153 996	27 901	22.1%	38 456	36 306	-2 150	-5.6%
Distribution	1 138 882	1 111 327	-27 555	-2.4%	306 030	253 858	-52 172	-17.0%
Generation	895 409	517 490	-377 919	-42.2%	187 113	52 379	-134 734	-72.0%
<i>Generation excluding one-offs¹⁾</i>	<i>602 262</i>	<i>646 490</i>	<i>44 228</i>	<i>7.3%</i>	<i>187 113</i>	<i>181 379</i>	<i>-5 734</i>	<i>-3.1%</i>
Mining ²⁾	156 107	611 779	455 672	291.9%	156 107	174 722	18 615	11.9%
Other activity	19 252	27 513	8 261	42.9%	-9 871	-4 866	5 005	50.7%
Undistributed items and exclusions	-205 874	-94 281	111 593	54.2%	-153 206	-13 154	140 052	91.4%
Total EBITDA	2 129 871	2 327 824	953	9.3%	524 629	499 245	-25 384	-4.8%



Enea CG 2016:

The highest EBITDA in the area of Distribution

The highest growth in EBITDA in the area of Mining by PLN 456 mln



Enea CG Q4 2016:

The highest EBITDA in the area of Distribution

The highest growth in EBITDA in the area of Mining PLN 19 mln

1) One-offs:

I) settlement of LTTPA in Q3 2015 PLN 293,147 thou.

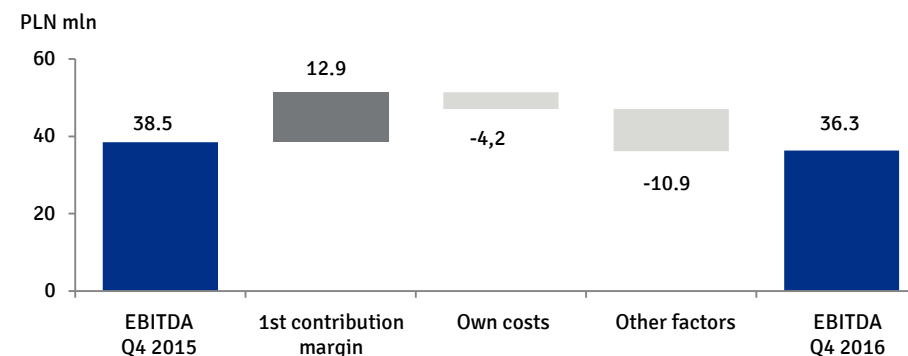
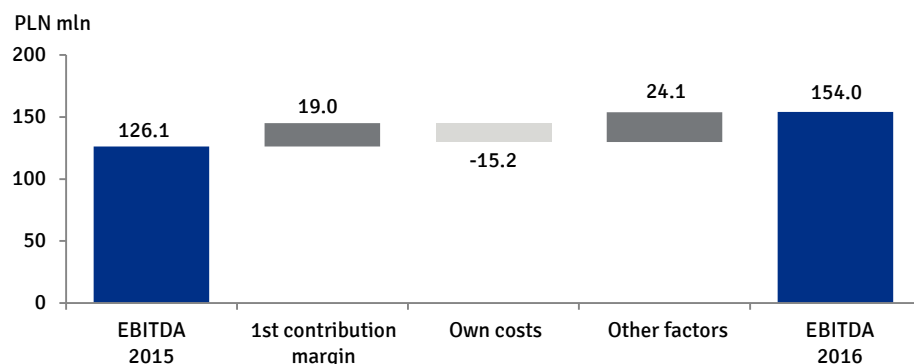
II) establishment of provisions in Q4 2016 for Eco-Power PLN 129,000 thou.

2) The presented data for 2015 relate to the period of November-December

Area of Trade

[PLN '000]	2015	2016	Change	Change %	Q4 2015	Q4 2016	Change	Change %
Sales revenue	5 932 050	7 178 766	1 246 716	21.0%	1 714 166	2 077 804	363 638	21.2%
EBIT	125 312	153 203	27 891	22.3%	38 262	36 063	-2 199	-5.7%
Amortisation / depreciation	783	793	10	1.3%	194	243	49	25.3%
EBITDA	126 095	153 996	27 901	22.1%	38 456	36 306	-2 150	-5.6%
CAPEX	26 520	15 219	-11 301	-42.6%	2 671	14 071	11 400	426.8%
Share of revenue from sales in the segment in the sales revenue of the Group	44%	45%	1 p.p.		44%	48%	4 p.p.	

Enea SA conducts retail sales of electricity and gas
Wholesale is performed by Enea Trading sp. z o.o.



2016 EBITDA change drivers:

First contribution margin

- (-) lower energy average selling price by 1.4%
- (-) higher costs of ecological obligations by 2.7%
- (+) lower average purchase price of energy by 1.7%
- (+) growth in energy sale volumes by 3.0%
- (+) higher result on trade in gas

Own costs

- (-) higher direct costs of sales by PLN 9 mln
- (-) higher general and administrative costs by PLN 1 mln
- (-) higher costs of common services by PLN 5 mln

Other factors

- (+) lower provisions for litigation and latent claims PLN 15 mln
- (+) lower written off debts PLN 19 mln
- (-) costs of donations by PLN 7 mln
- (-) higher impairment of receivables PLN 4 mln

Q4 2016 EBITDA change drivers:

First contribution margin

- (-) lower energy average selling price by 1.3%
- (+) lower costs of ecological obligations by 17.6%
- (+) lower average purchase price of energy by 2.7%
- (+) growth in energy sale volumes by 3.6%
- (+) higher result on trade in gas

Own costs

- (-) higher direct costs of sales by PLN 1 mln
- (-) higher costs of common services by PLN 3 mln

Other factors

- (-) higher impairment of receivables by PLN 7 mln
- (-) costs of donations by PLN 7 mln
- (+) lower written-off debts PLN 6 mln

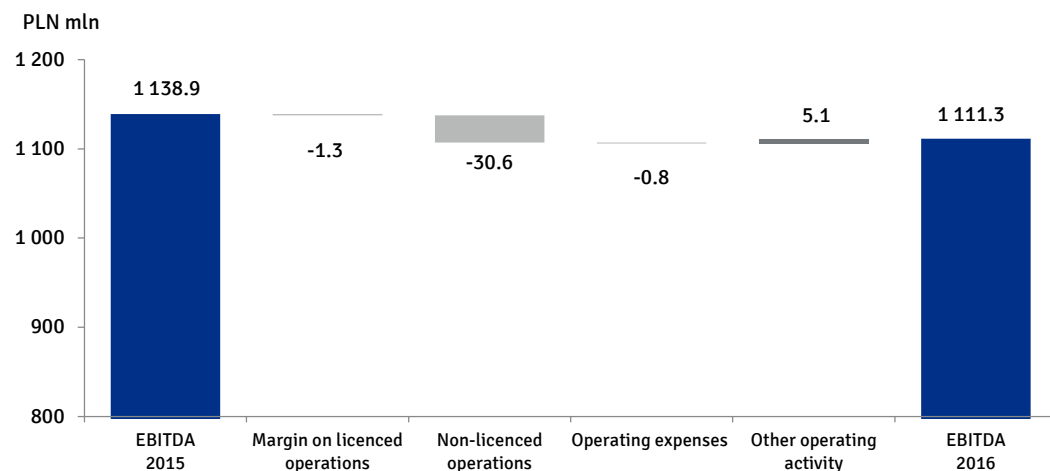
Area of distribution

[PLN '000]	2015	2016	Change	Change %	Q4 2015	Q4 2016	Change	Change %
Sales revenue	3 069 481	3 083 878	14 397	0.5%	801 209	810 333	9 124	1.1%
<i>distribution services to end users</i>	2 824 487	2 887 972	63 485	2.2%	721 931	746 882	24 951	3.5%
<i>fees for grid connection</i>	98 092	67 564	-30 528	-31.1%	43 616	19 845	-23 771	-54.5%
<i>other</i>	146 902	128 342	-18 560	-12.6%	35 662	43 606	7 944	22.3%
EBIT	702 059	631 607	-70 452	-10.0%	197 864	135 476	-62 388	-31.5%
Amortisation / depreciation	436 823	479 720	42 897	9.8%	108 166	118 382	10 216	9.4%
EBITDA	1 138 882	1 111 327	-27 555	-2.4%	306 030	253 858	-52 172	-17.0%
CAPEX	925 106	920 413	-4 693	-0.5%	434 394	274 937	-159 457	-36.7%
Share of revenue from sales in the segment in the net sales revenue of the Group	23%	19%	-4 p.p.		20%	19%	-1 p.p.	

Enea Operator sp. z o.o. distributes electricity to 2.5 mln Customers in the western and north-western Poland. The basic task of Enea Operator is a continuous and reliable supply of energy maintaining appropriate quality parameters.

In the area of Distribution the financial data of the following companies is presented:

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



2016 EBITDA change drivers:

Margin on the licenced operations:

- (+) higher revenue from sale of distribution services to end users by PLN 63 mln
- (+) lower costs of purchasing electricity for coverage of book-tax difference and own needs by PLN 11 mln
- (+) higher revenue from sale of distribution services to other entities by PLN 3 mln
- (-) higher costs of purchase of transmission services by PLN 49 mln
- (-) lower revenue from grid connection fees by PLN 31 mln

Non-licenced operations:

- (-) lower revenue from services as a result of shifting the operations related to the maintenance of street lighting to Enea Oświetlenie by PLN 12 mln
- (-) optimisation of the area of distribution service within:
 - operational activity and realisation of connections - PLN 14 mln (Enea Serwis)
 - meter reading, legalisation and repairs - PLN 3 mln (Enea Pomiar)
- (-) lower revenue from sale of goods and materials by PLN 1 mln PLN

Operating expenses:

- (-) higher costs of taxes and charges by PLN 13 mln (greater value of grid assets as a result of performed investments)
- (-) higher costs of employee benefits by PLN 9 mln, mainly as a result of higher employee benefit provisions
- (+) lower costs of IT, exploitation, assets repairs and materials by PLN 20 mln

Other operating activity:

- (+) higher revenue from removal of collisions by PLN 22 mln
- (-) higher liquidation costs by PLN 9 mln
- (-) higher costs of legal provisions relating to grid assets by PLN 4 mln

Area of distribution

[PLN '000]	2015	2016	Change	Change %	Q4 2015	Q4 2016	Change	Change %
Sales revenue	3 069 481	3 083 878	14 397	0.5%	801 209	810 333	9 124	1.1%
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EBIT	702 059	631 607	-70 452	-10.0%	197 864	135 476	-62 388	-31.5%
Amortisation / depreciation	436 823	479 720	42 897	9.8%	108 166	118 382	10 216	9.4%
EBITDA	1 138 882	1 111 327	-27 555	-2.4%	306 030	253 858	-52 172	-17.0%
CAPEX	925 106	920 413	-4 693	-0.5%	434 394	274 937	-159 457	-36.7%
Share of revenue from sales in the segment in the net sales revenue of the Group	23%	19%	-4 p.p.		20%	19%	-1 p.p.	



Q4 2016 EBITDA change drivers:

Margin on the licenced operations:

- (+) higher revenue from sale of distribution services to end users by PLN 25 mln
- (+) lower costs of purchasing energy for coverage of book-tax difference by PLN 9 mln
- (-) higher costs of purchase of transmission services by PLN 20 mln
- (-) lower revenue from grid connection fees by PLN 24 mln

Non-licenced operations:

- (-) lower revenue from services as a result of shifting the operations related to the maintenance of street lighting to Enea Oświetlenie by PLN 2 mln
- (-) optimisation of the area of distribution service within:
 - operational activity and realisation of connections - PLN 7 mln (Enea Serwis)
- (-) lower revenue from sale of goods and materials by PLN 1 mln PLN

Operating expenses:

- (+) lower costs of IT, exploitation, assets repairs and materials by PLN 11 mln
- (-) higher costs of employee benefits by PLN 18 mln, mainly as a result of higher employee benefit provisions
- (-) higher costs of taxes and charges by PLN 3 mln (greater value of grid assets as a result of performed investments)

Other operating activity:

- (+) higher revenue from removal of collisions by PLN 2 mln
- (-) higher costs of legal provisions relating to grid assets by PLN 8 mln
- (-) higher liquidation costs by PLN 6 mln

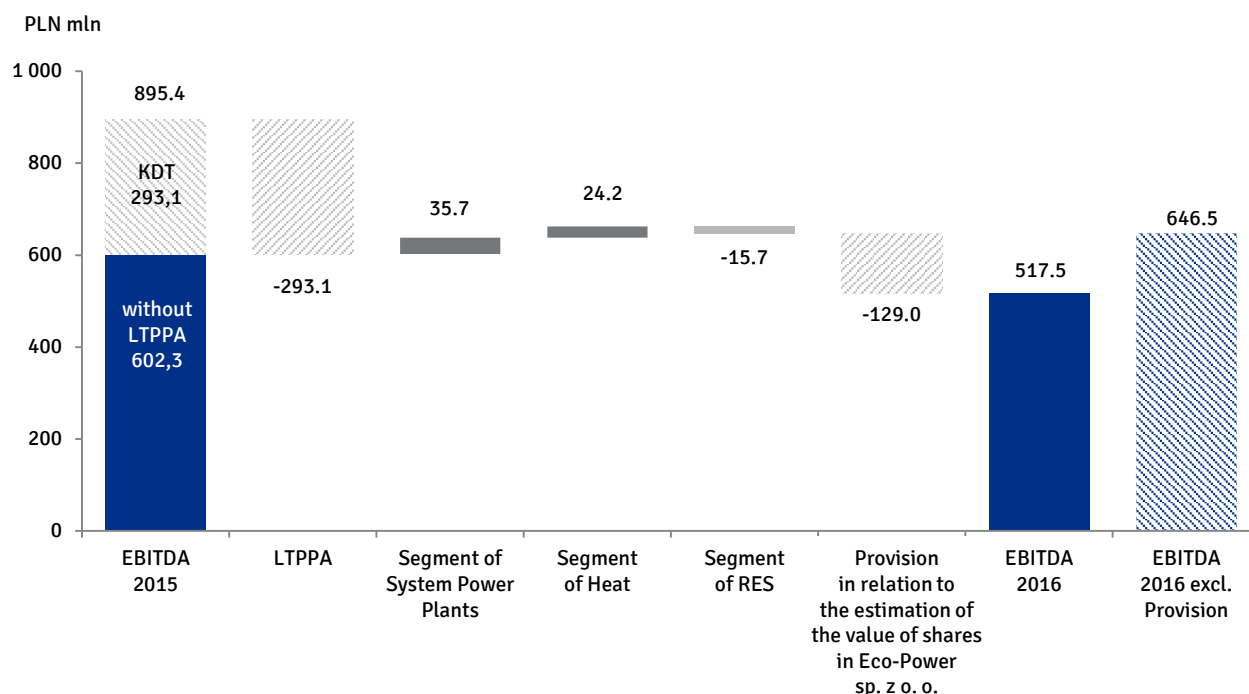
Area of Generation

[PLN '000]	2015	2016	Change	Change %	Q4 2015	Q4 2016	Change	Change %
Sales revenue	3 531 459	3 310 314	-221 145	-6.3%	875 155	852 527	-22 628	-2.6%
<i>electricity</i>	2 820 195	2 909 673	89 478	3.2%	744 583	727 773	-16 810	-2.3%
<i>certificates of origin</i>	120 290	45 537	-74 753	-62.1%	36 227	9 940	-26 287	-72.6%
<i>sale of allowance for emissions of CO₂</i>	-	32 713	32 713	100.0%	-	10 642	10 642	100.0%
<i>heat</i>	275 153	296 771	21 618	7.9%	85 756	97 505	11 749	13.7%
<i>recovery of stranded costs</i>	293 147	-	-293 147	-100.0%	-	-	-	-
<i>other</i>	22 674	25 620	2 946	13.0%	8 589	6 667	-1 922	-22.4%
EBIT	-905 467	178 751	1 084 218	-	-1 393 828	-60 210	1 333 618	95.7%
Amortisation / depreciation	299 255	247 931	-51 324	-17.2%	79 320	63 781	-15 539	-19.6%
Non-financial fixed assets impairment write-down	1 501 621	90 808	-1 410 813	-94.0%	1 501 621	48 808	-1 452 813	-96.7%
EBITDA	895 409	517 490	-377 919	-42.2%	187 113	52 379	-134 734	-72.0%
CAPEX	1 954 870	1 390 165	-564 705	-28.9%	560 383	451 786	-108 597	-19.4%
Share of revenue from sales in the segment in the net sales revenue of the Group	26%	21%	-5 p.p.		22%	20%	-2 p.p.	

The area of Generation presents financial data of Enea Wytwarzanie sp. z o.o. and its subsidiaries.

Enea Wytwarzanie holds e.g. 10 highly-efficient and modernised power units in the segment of System Power Plants.

Annual generation capacity amounts to ca. 16 TWh electricity in this segment.



2016 EBITDA change drivers:

Segment of System Power Plants:

- (-) in 2015 revenue from LTPPA PLN 293.1 mln - completion of the programme in Enea Wytwarzanie
- (-) higher fixed costs by PLN 40 mln - higher provisions for employee benefits by PLN 32.8 mln
- (-) lower margin on trade and the Balancing Market by PLN 6.2 mln
- (+) higher margin on generation by PLN 71.8 mln
- (+) higher result on other activity by PLN 8.5 mln
- (+) higher revenue from Regulatory System Services by PLN 2 mln

Segment of Heat:

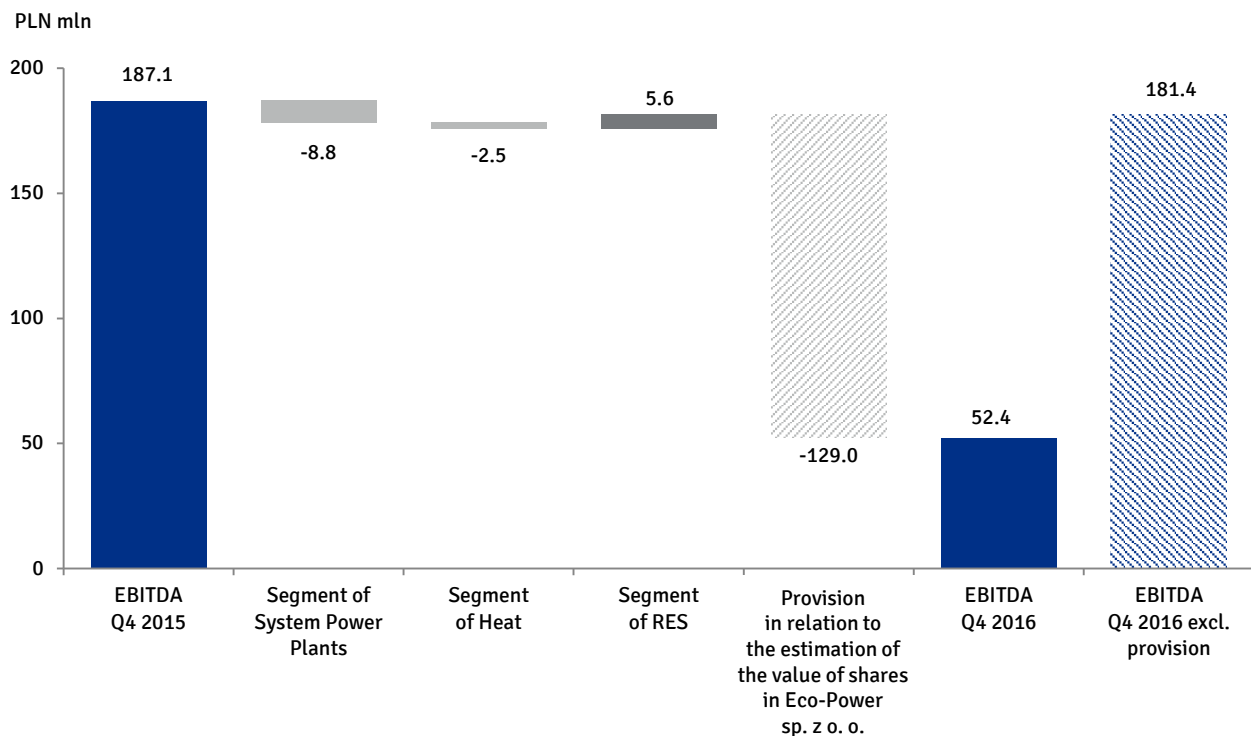
- (+) lower costs of materials by PLN 29.4 mln
- (+) higher revenue from sales of heat by PLN 23.2 mln
- (-) increase of energy purchasing costs for the needs of sales by PLN 4.6 mln
- (-) drop of revenue from certificates of origin by PLN 23.9 mln

Segment of RES:

- (-) establishment of the provision in the amount of PLN 129 mln in relation to the estimation of the value of shares in Eco-Power sp. z o.o.
- (-) area of Wind (PLN -14.4 mln): lower revenue from certificates of origin by PLN 12.5 mln and lower result on the other operating activities by PLN 1.4 mln
- (-) area of Water (PLN -8.0 mln): lower revenue from certificates of origin by PLN 9.1 mln, lower result on the other operating activity by PLN 2.0 mln and higher revenue from electricity by PLN 2.6 mln
- (+) area of Biogas (PLN +6.7 mln): in 2015 establishment of provisions for future liabilities in the amount of PLN 6.2 mln

Area of Generation

[PLN '000]	2015	2016	Change	Change %	Q4 2015	Q4 2016	Change	Change %
Sales revenue	3 531 459	3 310 314	-221 145	-6.3%	875 155	852 527	-22 628	-2.6%
<i>electricity</i>	2 820 195	2 909 673	89 478	3.2%	744 583	727 773	-16 810	-2.3%
<i>certificates of origin</i>	120 290	45 537	-74 753	-62.1%	36 227	9 940	-26 287	-72.6%
<i>sale of allowance for emissions of CO₂</i>	-	32 713	32 713	100.0%	-	10 642	10 642	100.0%
<i>Heat</i>	275 153	296 771	21 618	7.9%	85 756	97 505	11 749	13.7%
<i>recovery of stranded costs</i>	293 147	-	-293 147	-100.0%	-	-	-	-
<i>Other</i>	22 674	25 620	2 946	13.0%	8 589	6 667	-1 922	-22.4%
EBIT	-905 467	178 751	1 084 218	-	-1 393 828	-60 210	1 333 618	95.7%
Amortisation / depreciation	299 255	247 931	-51 324	-17.2%	79 320	63 781	-15 539	-19.6%
Non-financial assets impairment write-down	1 501 621	90 808	-1 410 813	-94.0%	1 501 621	48 808	-1 452 813	-96.7%
EBITDA	895 409	517 490	-377 919	-42.2%	187 113	52 379	-134 734	-72.0%
CAPEX	1 954 870	1 390 165	-564 705	-28.9%	560 383	451 786	-108 597	-19.4%
Share of revenue from sales in the segment in the net sales revenue of the Group	26%	21%	-5 p.p.		22%	20%	-2 p.p.	



Q4 2016 EBITDA change drivers:

Segment of System Power Plants:

- (-) higher fixed costs by PLN 27.0 mln
- (+) higher margin on trade and the Balancing Market by PLN 0.9 mln
- (+) higher revenue from Regulatory System Services by PLN 1.0 mln
- (+) higher margin on generation by PLN 5.1 mln
- (+) higher result on the other operating activity by PLN 11.4 mln

Segment of Heat:

- (-) lower revenue from sales of certificates of origin by PLN 12.0 mln
- (-) higher employee benefits by PLN 3.9 mln
- (-) lower revenue from sale of goods and materials by PLN 1.9 mln
- (-) lower revenue on the other operating activity by PLN 2.9 mln
- (+) lower costs of materials by PLN 10.7 mln
- (+) higher revenue from sales of heat by PLN 11.9 mln

Segment of RES:

- (-) establishment of the provision related to the estimation of the value of shares in Eco-Power sp. z o. o. in the amount of PLN 129 mln
- (+) area of Biogas (PLN +7.1 mln): in 2015 establishment of provisions for future liabilities in the amount of PLN 5.8 mln, lower costs of substrates by PLN 0.9 mln, higher revenue from certificates of origin by PLN 0.5 mln
- (+) area of Water (PLN +1.4 mln): lower costs of salaries by PLN 1.4 mln
- (-) area of Wind (PLN -2.9 mln): lower result on the other operating activity by PLN 2.0 mln, lower revenue from certificates of origin by PLN 5.1 mln, lower costs of outsourced services by PLN 3.8 mln, higher revenue from sales of electricity by PLN 0.8 mln

Area of Mining

[PLN '000]	2015 ¹⁾	2016	Change	Change %	Q4 2015 ¹⁾	Q4 2016	Change	Change %
Sales revenue	362,580	1 785 981	1 423 401	392.6%	362 580	471 878	109 298	30.1%
coal	355 452	1 724 416	1 368 964	385.1%	355 452	452 043	96 591	27.2%
other products and services	3 328	49 896	46 568	1 399.3%	3 328	17 223	13 895	417.5%
goods and materials	3 800	11 669	7 869	207.1%	3 800	2 612	-1 188	-31.3%
EBIT	115 666	241 189	125 523	108.5%	115 666	82 250	-33 416	-28.9%
Amortisation/depreciation	40 441	363 238	322 797	798.2%	40 441	92 472	52 031	128.7%
Non-financial fixed assets impairment write-down	-	7 353	7 352	100.0%	-	-	-	-
EBITDA	156 107	611 779	455 672	291.9%	156 107	174 722	18 615	11.9%
CAPEX	51 114	307 720	256 606	502.0%	51 114	92 611	41 496	81.2%
Share of sales revenue of the segment in the Group's sales revenue	3%	11%	8 p.p.		9%	11%	2 p.p.	

Area of Mining - LW Bogdanka CG

Financial data of LW Bogdanka CG for the period of January - December 2016

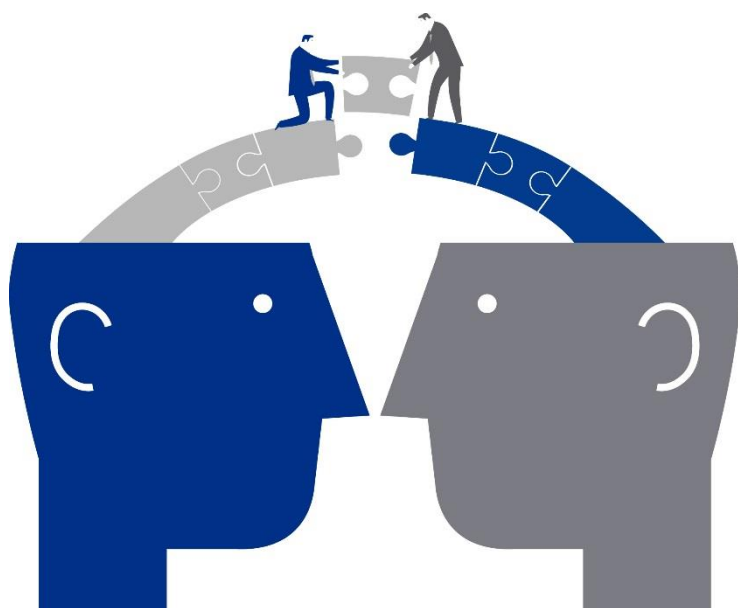
Parent - Lubelski Węgiel Bogdanka SA

Production assortment: fine coal (ca. 99%), pea coal, nut coal

Key customers: commercial and industrial power industry

2016 drivers of generated EBITDA:

- (+) 34.3% EBITDA profitability and 13.5% EBIT profitability
- (+) higher production and sales of coal, including commencement of export sales (Ukraine)
- (+) lower individual cost of mining
- (+) higher quantitative sales of coal at lower selling price



1) The presented data for 2015 relate to the period of November-December

Area of Other activity

[PLN '000]	2015	2016	Change	Change %	Q4 2015	Q4 2016	Change	Change %
Sales revenue	549 156	533 901	-15 255	-2.8%	162 306	138 912	-23 394	-14.4%
EBIT	-341	-747	-406	-119.1%	-16 178	-13 198	2 980	18.4%
Amortisation / depreciation	19 593	28 260	8 667	44.2%	6 307	8 332	2 025	32.1%
EBITDA	19 252	27 513	8 261	42.9%	-9 871	-4 866	5 005	50.7%
CAPEX	93 846	108 496	14 650	15.6%	49 191	54 529	5 338	10.9%
Share of revenue from sales in the segment in the sales revenue of the Group	4%	3%	-1 p.p.		4%	3%	-1 p.p.	

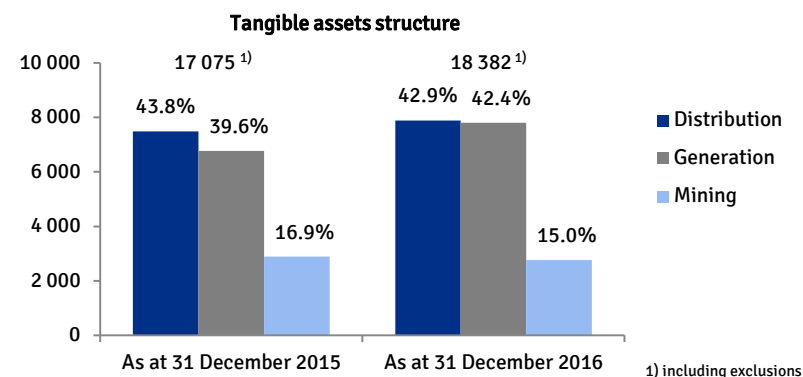


The area of the Other activity includes companies from three areas

- support for the other Group companies:**
 Enea Centrum sp. z o.o. - being the Shared Service Centre in the Group within accounting, staff, teleinformation, customer service
 Enea Logistyka sp. z o.o. - the company specialising in the logistics, warehousing, supply operations
- supplementary operations:**
 Enea Oświetlenie sp. z o.o. - the company specialising in lighting the interior and exterior of buildings; designs, constructs street lighting, illumination of urban areas, lighting monumental buildings and public utility objects, and also rendering construction services and comprehensive servicing of photovoltaic power plants
- other operations:**
 The Group conducts restructuring activities whose objective is keeping in the structure only those companies from the basic value chain and companies supporting and supplementing them.
 These group of companies included Szpital Uzdrowiskowy ENERGETYK, which was sold on 2 December 2016.

Assets - structure of assets and liabilities of Enea CG

Assets [PLN '000]	As at:		Change	Change %
	31 December 2015	31 December 2016		
Fixed assets	18 203 442	19 486 599	1 283 157	7.0%
Tangible fixed assets	17 074 978	18 382 498	1 307 520	7.7%
Perpetual usufruct	74 160	74 899	739	1.0%
Intangible assets	272 116	370 638	98 522	36.2%
Investment properties	20 624	28 020	7 396	35.9%
Investments in subsidiaries and jointly controlled entities	748	2 518	1 770	236.6%
Deferred tax assets	616 795	403 257	-213 538	-34.6%
Financial assets available for sale	23 982	42 482	18 500	77.1%
Financial assets valued at fair value through profit or loss	-	112	112	100.0%
Derivatives	844	40 267	39 423	4 671.0%
Trade and other receivables	28 323	30 690	2 367	8.4%
Funds gathered within Mine Liquidation Fund	90 872	111 218	20 346	22.4%
Current assets	4 785 554	5 049 920	264 366	5.5%
Allowances for emissions of CO ₂	307 521	417 073	109 552	35.6%
Inventories	649 509	448 941	-200 568	-30.9%
Trade and other receivables	1 732 744	1 824 488	91 744	5.3%
Current income tax assets	31 956	9 541	-22 415	-70.1%
Financial assets held to maturity	479	478	-1	-0.2%
Financial assets valued at fair value through profit or loss	222 011	4 852	-217 159	-97.8%
Cash and cash equivalents	1 822 094	2 340 217	518 123	28.4%
Fixed assets for sale	19 240	4 330	-14 910	-77.5%
Total assets	22 988 996	24 536 519	1 547 523	6.7%



Fixed assets change drivers (growth by PLN 1,283 mln):

- increase of tangible assets stems from higher expenditures in relation to the implementation of Enea CG's investment strategy, mainly acceptance of subsequent stages of unit No. 11 construction
- higher intangible assets by PLN 99 mln stem mainly from the development of software for the Group being the support in the companies' operations and granting licences
- lower deferred tax assets (by PLN 214 mln) relate mainly to the last year's impairment of fixed assets
- growth in derivatives by PLN 39 mln stems from the higher evaluation of IRS transactions, related to the greater volume of concluded IRS transactions in 2016
- growth in the funds gathered within the Mine Liquidation Fund stems from increasing the obligatory write-down

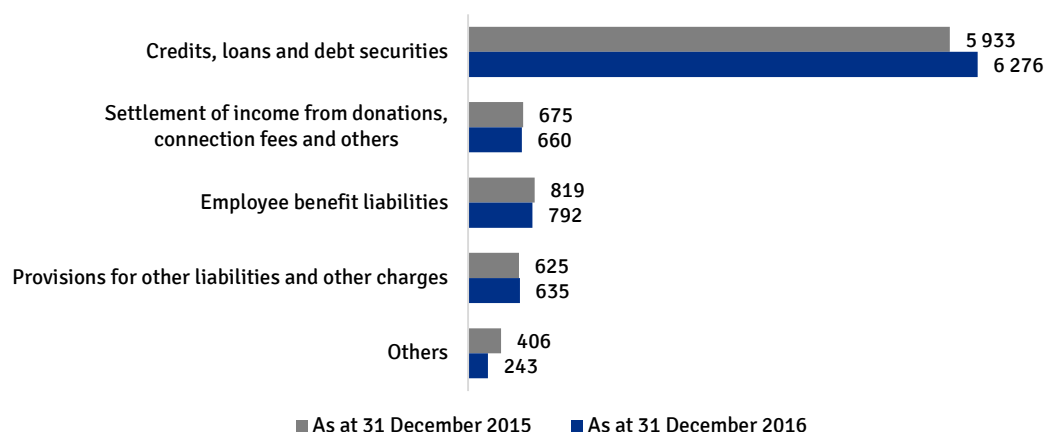
Current assets change drivers (growth by PLN 264 mln):

- growth in CO₂ emission allowances by PLN 110 mln stems from greater purchase of CO₂ emission allowances
- drop in the stock balance by PLN 201 mln stems from a drop in stock levels of coal and certificates of origin for energy
- drop in financial assets valued at fair value through profit and loss account by PLN 217 mln stems from the withdrawal of funds invested in highly liquid securities and their shift to cash and cash equivalents with allocation the implementation of scheduled investment projects in Enea Capital Group
- higher cash and cash equivalents by PLN 518 mln stem mainly from the transfer of funds from financial assets evaluated at fair value through financial result and decision on no distribution of dividend and their allocation to the implementation of the Capital Group's investment strategy

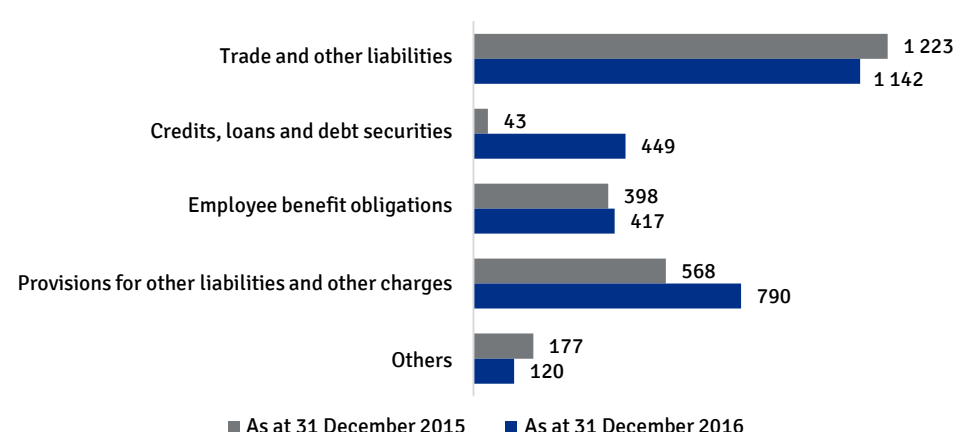
Assets - structure of assets and liabilities of Enea CG

Liabilities [PLN '000]	As at:		Change	Change %
	31 December 2015	31 December 2016		
Total equity	12 122 603	13 011 729	889 126	7.3%
Share capital	588 018	588 018	-	-
Share premium	3 632 464	3 632 464	-	-
Financial instruments revaluation reserve	814	744	-70	-8.6%
Other reserves	-45 883	-25 652	20 231	44.1%
Reserve capital from valuation of hedging instruments	3 980	33 826	29 846	749.9%
Retained earnings	7 158 352	7 946 612	788 260	11.0%
Non-controlling interests	784 858	835 717	50 859	6.5%
Total liabilities	10 866 393	11 524 790	658 397	6.1%
Non-current liabilities	8 457 838	8 606 757	148 919	1.8%
Current liabilities	2 408 555	2 918 033	509 478	21.2%
Total equity and liabilities	22 988 996	24 536 519	1 547 523	6.7%

Structure of non-current liabilities



Structure of current liabilities



Non-current liabilities change drivers (growth by PLN 149 mln):

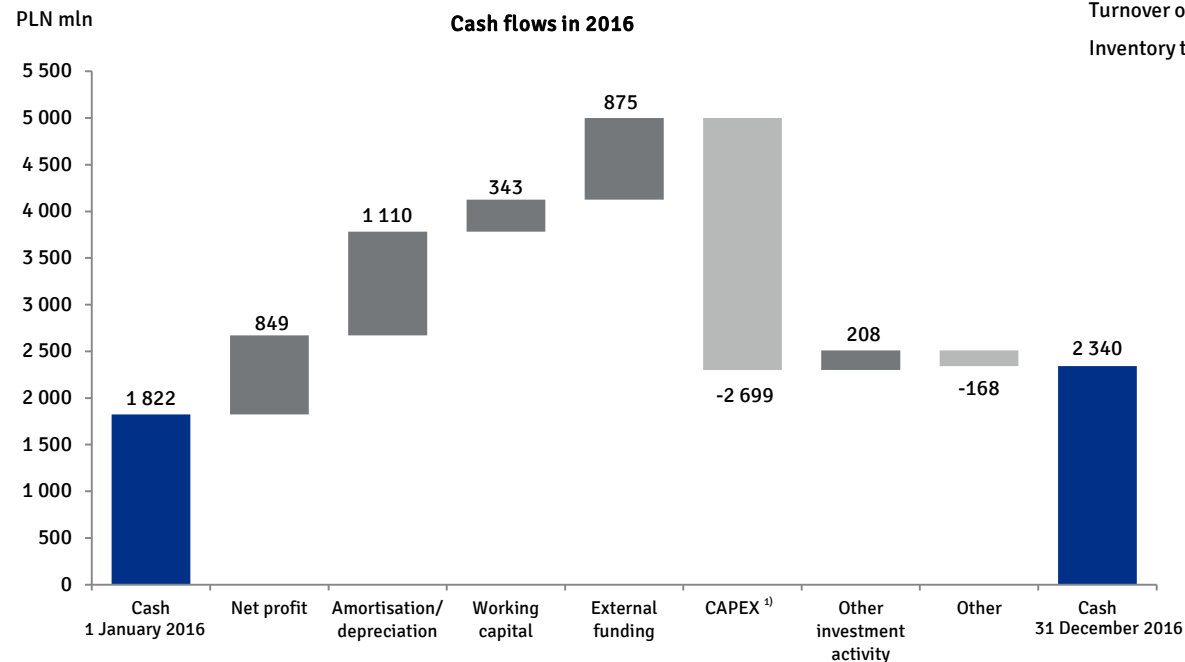
- PLN 342 mln growth in loans, credits and debt securities resulting e.g. from: drawing a loan from EIB in the amount of PLN 100 mln (nominal value); bond issue in the amount of PLN 750 mln (nominal value) allocated to the construction of Unit No. 11; redemption in the amount of PLN 100 mln and reclassification to the short-term portion of the bonds in the nominal value of PLN 300 mln LW Bogdanka
- PLN 196 mln drop in deferred income tax provision

Current liabilities change drivers (growth by PLN 509 mln):

- PLN 406 mln growth in loans, credits, debt securities resulting from e.g.: an overdraft facility in current account, reclassification of a loan from EIB from non-current liabilities to current liabilities, reclassification of loans obtained from Community funds and reclassification of bonds of LW Bogdanka
- PLN 222 mln growth in provisions for the other liabilities and benefits - establishment of the provision related to the estimation of the value of shares in Eco-Power sp. z o.o.
- PLN 82 mln drop in trade and other liabilities, mainly as a result of lower investment liabilities
- PLN 55 mln drop in current income tax liability

Enea CG's cash position

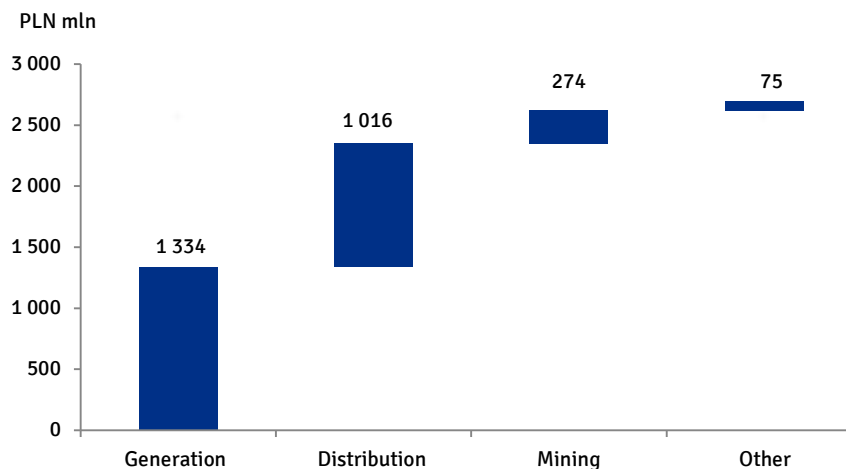
Cash flow statement [PLN '000]	31 December 2015	31 December 2016	Change	Change %
Net cash flows from operating activities	2 206 416	2 424 445	218 029	9.9%
Net cash flows from investing activities	-3 724 664	-2 490 580	1 234 084	33.1%
Net cash flows from financing activities	2 653 026	584 258	-2 068 768	-78.0%
Net increase / (decrease) in cash and cash equivalents	1 134 778	518 123	-616 655	-54.3%
Opening balance of cash and cash equivalents	687 316	1 822 094	1 134 778	165.1%
Closing balance of cash and cash equivalents	1 822 094	2 340 217	518 123	28.4%



Enea CG's ratio analysis²⁾

	2015	2016	Q4 2015	Q4 2016
Profitability ratios				
ROE - return on equity	-3.3%	6.5%	-40.8%	3.9%
ROA - return on assets	-1.7%	3.5%	-21.5%	2.1%
Net profitability	-4.1%	7.5%	-45.8%	4.3%
Operating profitability	-1.6%	9.9%	-44.8%	5.8%
EBITDA profitability	21.6%	20.7%	19.4%	16.9%
Liquidity and financial structure ratios				
Current ratio	2.0	1.7	2.0	1.7
Equity-to-fixed assets ratio	0.7	0.7	0.7	0.7
Total debt ratio	0.5	0.5	0.5	0.5
Net debt / EBITDA	1.8	1.9	1.8	1.9
Economic activity ratios				
Current receivables turnover in days	64	57	59	54
Turnover of trade and other payables in days	63	56	58	54
Inventory turnover in days	31	26	29	25

Acquisition of tangible fixed assets and intangible assets of Enea CG 2016



1) Acquisition of tangible fixed assets and intangible assets and acquisition of a subsidiary in Enea CG 2016
 2) Ratio definitions are to be found on page 119

Profit and loss statement of Enea SA - 2016

[PLN '000]	2015	2016	Change	Change %
Sales of electricity to retail users	3 882 341	3 943 856	61 515	1.6%
Sales of gas to retail consumers	94 437	132 247	37 810	40.0%
Sales of distribution services to users holding comprehensive agreements	1 482 809	1 498 816	16 007	1.1%
Sales of energy and gas to other entities	187 333	99 028	-88 305	-47.1%
Sales of services	3 499	4 027	528	15.1%
Other revenue	12 252	752	-11 500	-93.9%
Excise tax	232 447	257 374	24 927	10.7%
Net sales revenue	5 430 224	5 421 352	-8 872	-0.2%
Amortisation / depreciation	5 657	3 459	-2 198	-38.9%
Employee benefit costs	48 968	55 751	6 783	13.9%
Consumption of materials and raw materials and value of goods sold	1 866	2 416	550	29.5%
Purchase of energy and gas for resale	3 622 261	3 577 904	-44 357	-1.2%
Distribution services	1 482 852	1 498 807	15 955	1.1%
Other outsourced services	146 305	162 450	16 145	11.0%
Taxes and charges	3 134	3 103	-31	-1.0%
Cost of sales	5 311 043	5 303 890	-7 153	-0.1%
Other operating revenue	18 334	27 697	9 363	51.1%
Other operating expenses	56 985	36 873	-20 112	-35.3%
Profit / (loss) on sales and liquidation of tangible fixed assets	1 754	-1	-1 755	-
Operating profit / (loss)	82 284	108 285	26 001	31.6%
Financial costs	2 215 946	200 231	-2 015 715	-91.0%
Financial revenue	173 521	190 159	16 638	9.6%
Dividend revenue	874 236	548 874	-325 362	-37.2%
Profit / (loss) before tax	-1 085 905	647 087	1 732 992	-
Income tax	30 983	26 844	-4 139	-13.4%
Net profit / (loss) for the reporting period	-1 116 888	620 243	1 737 131	-
EBITDA	87 941	111 744	23 803	27.1%

2016:

Enea SA's EBITDA change drivers (growth by PLN 24 mln):

- (+) higher first contribution margin by PLN 19 mln:
- (-) lower energy average selling price by 1.4%
- (-) higher costs of ecological obligations by 2.7%
- (+) lower average purchase price of energy by 1.7%
- (+) growth in energy sale volumes by 3.0%
- (+) higher result on the trade in gas PLN 5 mln
- (-) higher costs of employee benefits (by PLN 7 mln) stemming from:
- (-) higher provisions for employee benefits by PLN 5 mln
- (-) higher costs of outsourced services (by PLN 16 mln):
- (-) higher costs of advertising and entertainment by PLN 2 mln
- (-) higher costs of consultancy services by PLN 2 mln
- (-) higher selling and customer service costs by PLN 6 mln
- (-) higher costs of common services by PLN 7 mln
- (+) higher result on the other operating activity (by PLN 28 mln) stemming from:
- (+) lower provisions for litigation and latent claims by PLN 15 mln
- (+) lower written off debts by PLN 19 mln
- (-) higher costs of donations by PLN 7 mln

Profit and loss statement of Enea SA - 2016

[PLN '000]	Q4 2015	Q4 2016	Change	Change %
Sales of electricity to retail users	997 982	1 020 170	22 188	2.2%
Sales of gas to retail consumers	40 466	35 567	-4 898	-12.1%
Sales of distribution services to users holding comprehensive agreements	381 084	386 682	5 598	1.5%
Sales of energy and gas to other entities	59 859	23 930	-35 929	-60.0%
Sales of services	899	1 096	197	21.9%
Other revenue	3 105	114	-2 991	-96.3%
Excise tax	61 238	71 536	10 298	16.8%
Net sales revenue	1 422 157	1 396 023	-26 134	-1.8%
Amortisation / depreciation	1 259	799	-460	-36.5%
Employee benefit costs	15 283	14 959	-324	-2.1%
Consumption of materials and raw materials and value of goods sold	589	773	184	31.2%
Purchase of energy and gas for resale	947 493	902 650	-44 843	-4.7%
Distribution services	381 078	386 547	5 469	1.4%
Other outsourced services	42 100	45 381	3 281	7.8%
Taxes and charges	729	530	-199	-27.3%
Cost of sales	1 388 531	1 351 639	-36 892	-2.7%
Other operating revenue	13 355	5 670	-7 685	-57.5%
Other operating expenses	19 875	16 746	-3 129	-15.7%
Profit / (loss) on sales and liquidation of tangible fixed assets	673	7	-666	-99.0%
Operating profit / (loss)	27 779	33 315	5 536	19.9%
Financial costs	2 129 258	42 649	-2 086 609	-98.0%
Financial revenue	53 650	50 422	-3 228	-6.0%
Profit / (loss) before tax	-2 047 829	41 088	2 088 917	-
Income tax	7 017	6 380	-637	-9.1%
Net profit / (loss) for the reporting period	-2 054 846	34 708	2 089 554	-
EBITDA	29 038	34 114	5 076	17.5%

Q4 2016:

Enea SA's EBITDA change drivers (growth by PLN 5 mln):

- (+) higher first contribution margin by PLN 13 mln:
 - (-) lower energy average selling price by 1.3%
 - (+) lower costs of ecological obligations by 17.6%
 - (+) lower average purchase price of energy by 2.7%
 - (+) growth in energy sale volumes by 3.6%
 - (+) higher result on the trade in gas by PLN 1 mln
- (-) higher costs of outsourced services (by PLN 3 mln):
 - (-) higher costs of common services by PLN 4 mln
 - (-) higher costs of consultancy services by PLN 1 mln
 - (+) lower costs of advertising and entertainment by PLN 1 mln
- (-) lower result on the other operating activity (by PLN 5 mln) stemming from:
 - (-) higher costs of donations by PLN 7 mln
 - (-) higher impairment of receivables by PLN 7 mln
 - (+) lower written off debts by PLN 6 mln
 - (+) lower provisions for litigation and latent claims by PLN 1 mln

Assets - structure of assets and liabilities of Enea SA

Assets [PLN '000]	As at:		Change	Change %
	31 December 2015	31 December 2016		
Fixed assets	13 876 621	14 912 074	1 035 453	7.5%
Tangible fixed assets	30 699	29 063	-1 636	-5.3%
Perpetual usufruct	1 998	1 970	-28	-1.4%
Intangible assets	4 005	4 814	809	20.2%
Investment properties	15 955	15 405	-550	-3.4%
Investments in subsidiaries and jointly controlled entities	8 323 493	9 448 433	1 124 940	13.5%
Deferred tax assets	63 316	48 562	-14 754	-23.3%
Financial assets available for sale	23 402	41 902	18 500	79.1%
Intergroup bonds	5 339 352	5 136 547	-202 805	-3.8%
Derivatives	844	40 267	39 423	4 671.0%
Trade and other receivables	73 557	145 111	71 554	97.3%
Current assets	2 970 689	3 305 851	335 162	11.3%
Inventories	152 318	84 984	-67 334	-44.2%
Trade and other receivables	1 141 808	1 119 479	-22 329	-2.0%
Intergroup bonds	55 033	486 566	431 533	784.1%
Financial assets valued at fair value through profit or loss	215 488	-	-215 488	-100.0%
Cash and cash equivalents	1 397 632	1 614 822	217 190	15.5%
Fixed assets for sale	8 410	-	-8 410	-100.0%
Total assets	16 847 310	18 217 925	1 370 615	8.1%

Fixed assets change drivers (growth by PLN 1,035 mln):

- growth in investments in subsidiaries and jointly controlled entities by PLN 1,124 mln stems from additional redistributable payments to shares of Enea Wytwarzanie in the amount of PLN 1,136 mln
- drop in intergroup bonds by PLN 203 mln stems from the change in the stock of acquired bonds and reclassification of a portion of bonds from fixed assets to current assets

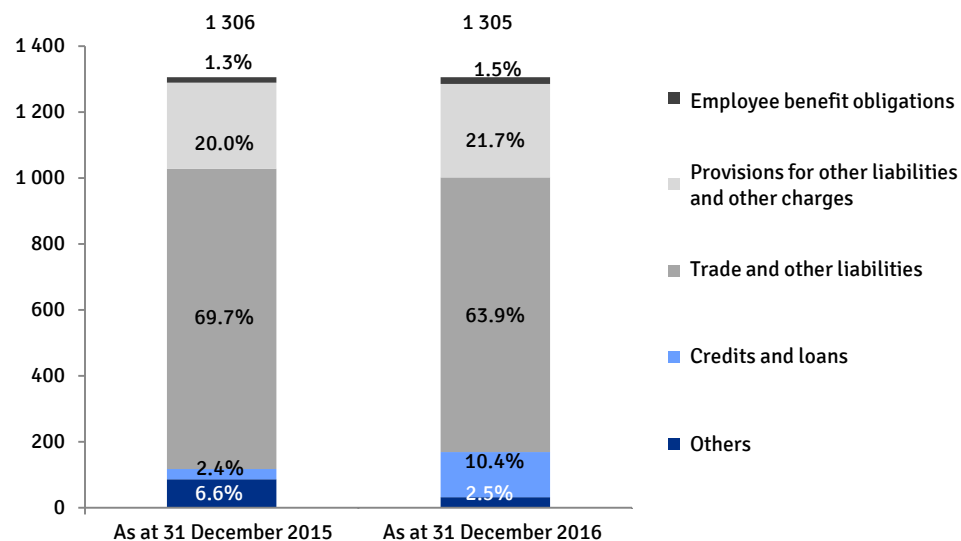
Current assets change drivers (growth by PLN 335 mln):

- growth in intergroup bonds by PLN 431 mln stems from the reclassification of fixed assets to the short-term portion and acquisitions of intergroup bonds
- drop in financial assets evaluated at fair value through profit and loss account by PLN 215 mln stems from the withdrawal of funds invested in highly liquid securities and their shift to cash and cash equivalents with allocation to the implementation of scheduled investment projects in Enea Capital Group
- growth in cash and cash equivalents by PLN 217 mln stems mainly from the transfer of financial resources evaluated at fair value through financial result
- lower inventory by PLN 67 mln relates to the certificates of origin of energy

Assets - structure of assets and liabilities of Enea SA

Liabilities [PLN '000]	As at:		Change	Change %
	31 December 2015	31 December 2016		
Total equity	10 288 005	10 940 479	652 474	6.3%
Share capital	588 018	588 018	-	-
Share premium	4 627 673	4 627 673	-	-
Reserve capital from valuation of hedging instruments	3 980	33 826	29 846	749.9%
Reserve capital	2 640 358	2 640 358	-	-
Retained earnings	2 427 976	3 050 604	622 628	25.6%
Total liabilities	6 559 305	7 277 446	718 141	10.9%
Non-current liabilities	5 253 551	5 972 038	718 487	13.7%
Current liabilities	1 305 754	1 305 408	-346	0.0%
Total equity and liabilities	16 847 310	18 217 925	1 370 615	8.1%

Structure of current liabilities



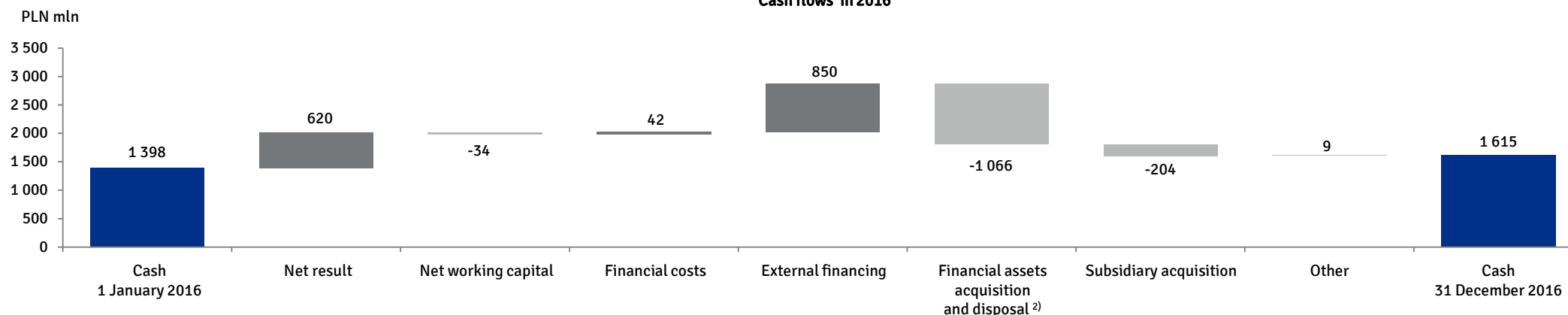
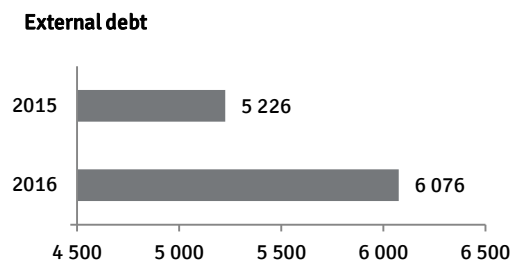
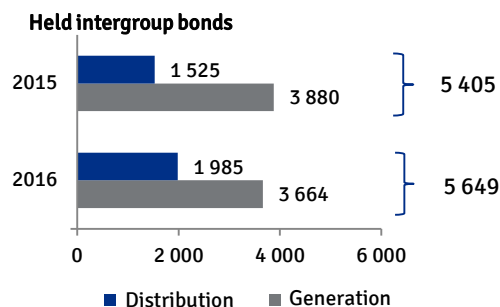
Current liabilities change drivers:

- drawing a special-purpose credit from EIB relating to the modernisation and extension of the distribution assets in the amount of PLN 100 mln (nominal value)
- bond issue programmes - funds in the amount of PLN 750 mln (nominal value) allocated to the construction of the Unit by Enea Wytwarzanie sp. z o.o
- growth in the level of trade liabilities by PLN 79 mln
- higher provision for energy certificates of origin by PLN 26 mln
- drop in the level of tax liabilities (including income tax) by PLN 48 mln
- lower cash pooling liabilities by PLN 160 mln



Cash position of Enea SA

Cash flow statement [PLN '000]	2015	2016	Change	Change %
Net cash flows from operating activities	175 874	83 403	-92 471	-52.6%
Net cash flows from investing activities	-1 977 197	-561 847	1 415 350	71.6%
Net cash flows from financing activities	2 758 140	695 634	-2 062 506	-74.8%
Net increase / (decrease) in cash and cash equivalents	956 817	217 190	-739 627	-77.3%
Opening balance of cash and cash equivalents	440 815	1 397 632	956 817	217.1%
Closing balance of cash and cash equivalents	1 397 632	1 614 822	217 190	15.5%



Enea CG's ratio analysis¹⁾

	2015	2016	Q4 2015	Q4 2016
Profitability ratios				
ROE - return on equity	-10.9%	5.7%	-79.9%	1.3%
ROA - return on assets	-6.6%	3.4%	-48.8%	0.8%
Net profitability	-20.6%	11.4%	-144.5%	2.5%
Operating profitability	1.5%	2.0%	2.0%	2.4%
EBITDA profitability	1.6%	2.1%	2.0%	2.4%
Liquidity and financial structure ratios				
Current ratio	2.3	2.5	2.3	2.5
Equity-to-fixed assets ratio	74.1%	73.4%	74.1%	73.4%
Total debt ratio	38.9%	39.9%	38.9%	39.9%
Economic activity ratios				
Current receivables turnover in days	74	75	68	68
Turnover of trade and other payables in days	36	41	33	38
Inventory turnover in days	9	8	10	12

¹⁾ Ratio definitions are to be found on page 119

²⁾ The item does not include the bond redemption in the amount of PLN 936 mln which was settled in kind

Financial results forecasts

The Management Board of Enea SA did not publish any financial forecasts for 2016.

Principles of preparation of annual consolidated financial statements and basis for publication

This Report of the Management Board on the operations of Enea Capital Group for the financial year of 2016 was prepared in accordance with § 92 item 1(4) and § 92 item 3 in conjunction with § 91 item 5-6 and § 83 item 7 of the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and conditions of recognising as equivalent information required by legal regulations of a state not being a member state (J. L. No. 33, item 259 as amended).

Consolidated financial statements of the Capital Group and non-consolidated financial statements of Enea SA included in the consolidated report of Enea SA for the financial year of 2016 were prepared in accordance with International Accounting Standards and International Financial Reporting Standards (IAS/IFRS) approved by the European Union.

The consolidated financial statements of the Capital Group and non-consolidated financial statements of Enea SA were prepared on a going concern basis by the Issuer and its Capital Group in the foreseeable future. The Company's Board states, as at the execution of the consolidated and non-consolidated report, no facts or circumstances that could indicate any threats to the possibility of continuing the activity during the period of 12 months after the balance sheet date as a result of a wilful or mandatory negligence or substantial limitation of the existing activities.

Financial data presented in the statements, if not stated otherwise, was presented in thousands of PLN.

Used financial instruments

Enea SA has been implementing the strategy of hedging the interest rate risk whose key purpose is hedging cash flows resulting from concluded financing agreements. The adopted strategy foresees the threats of impacting the financial result, changes in cash flows resulting from the risk of interest rate versatility on the market in a given time horizon. In 2016, within the concluded agreements and non-consolidated report, on the financial market the interest rate risk was hedged for the total amount of PLN 1.440.000 thou. Interest rate risk hedging was made based on the Interest Rate Swap (IRS) instruments.

In 2016 Enea Centrum sp. z o.o. did not conclude any transactions hedging currency risk.

In the reporting period Enea Trading sp. z o.o. concluded transactions hedging currency risk (forward transactions of EUR acquisition) in order to hedge the payments resulting from the purchase of CO₂ emission allowances within futures contracts. The volume of active forward contracts for purchases of EUR as at 31 December 2016 amounted to EUR 23,063 thou.

In the reporting period Enea Wytwarzanie sp. z o.o. held active NDF forward contracts for the purchase of biomass in the amount of EUR 521 thou.

Financial resources management

In January 2014 Enea Capital Group Companies and banks PKO BP SA and Pekao SA concluded agreements for the comprehensive banking service. The concluded agreements provide Enea Capital Group Companies with comprehensive bank servicing within the range of available banking products, availability of overdraft facilities and will enable joint management of cash using Cash Pooling. The objective of concluding these agreements was e.g. provision of an efficient management of Group Companies' cash and cost optimisation within the costs incurred on bank services. A Cash Pooling service allows for the consolidation of bank accounts, as a result of which the account balances of Companies belonging to Enea Tax Capital Group (Enea TCG) are balanced by covering transitory financial deficits with surpluses of cash of other Companies incorporated under Enea TCG.

The current Companies' liquidity management is concentrated on planning the cash flows and monitoring the current concentration of cash resources on bank accounts. Enea SA as a Pool Leader deposits the remaining financial surplus in current assets as bank deposits. In order to standardise the liquidity and liquidity risk management process Enea TCG Companies are subject to intergroup regulations, i.e. policy and procedure of liquidity and liquidity risk management. At the same time, in order to limit the risk resulting from lack of cash for the needs of settling of liabilities in a timely fashion Enea Capital Group Companies have an access to intraday limits as part of Cash Pooling services. In lack of the sufficient balance of cash within Cash Pooling there is a possibility of utilising overdraft facilities.

The entity authorised to audit financial statements

KPMG Audyt spółka z ograniczoną odpowiedzialnością sp. k. was selected to perform the financial audit mentioned in the table below. The contract with the above mentioned entity was concluded on 6 May 2015. The information on the net remuneration due to the entity performing the financial revision for Enea SA in 2015-2016 is presented in the table below:

Data in PLN '000	2015	2016
Remuneration for auditing and reviewing the non-consolidated and consolidated financial statements of Enea SA	139	147
Remuneration for other services	41	35
TOTAL	180	182

The remuneration for the other services comprises the remuneration for auditing the regulatory report for 2015 pursuant to Article 44 of the Energy Law and remuneration for the conduct of agreed procedures in respect of bank covenants for 2015.

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

Anticipated financial position

In 2016 LW Bogdanka CG generated very good financial results as compared to the sector. The full compensation for the drop in coal prices with a higher volume of its sales was not achieved during the previous year. Therefore, keeping the unit costs on a relevant level and optimisation of investment expenditures will be a priority. The area of mining's performance should be affected also by the observable price stabilisation on the coal market, and also good cooperation of the area of Generation and Mining as regards the use of coal available within Enea CG.

Area of Generation which in 2016 accounted for 26% EBITDA of Enea CG, is still under the influence of the demanding situation on the energy market. The production concentrated on bituminous coal involves the exposure to risk related to carbon dioxide emission costs. Extensive repairs of generating units planned in 2017 are significant for the results generated by the area of Generation, and they will force relatively long periods of electricity generation suspension on the renovated unit in Koźienice Power Plant. A smaller production by the so far held generating resources will be however compensated by effecting synergies and coherent production management in relation to the acquisition of Połaniec Power Plant's assets. In consequence, in Enea CG's assessment, it should contribute to the generation of better results in the area of Generation.

A large share of the regulated area of Distribution in Enea CG's EBITDA (in 2016 Distribution accounted for 47% of the Group's EBITDA) affects the predictability of cash flows and stabilises them over time. However, two facts are of some importance for this area: a drop in the average weighted average cost of capital adopted by the Energy Regulatory Office (ERO) for tariff calculation (WACC) by 1.522 p.p. (from 7.197% in 2015 to 5.675% in 2016) and introduction of the so called quality tariff as of 2016 by ERO. The introduced mechanism of clearing accounts with distributors of electricity based on SAIDI and SAIFI indices realised in a given year, may significantly affect reduction of EBITDA in the area of Distribution. Reduction of WACC in 2016 decreased EBITDA in the area by ca. PLN 58 mln.

In the area of Trade the operations focus on increasing sales of electricity and gas - due to an attractive product range new Customers are obtained, and the volume of sold energy and gas increases. An increasing competition on the market putting pressure on the realised prices, higher costs of ecological duties and a significant reduction in market prices of proprietary interests have a negative impact on the area's financial results. An increased volume of electricity generated within Enea CG will undoubtedly positively affect the performance of this area.

Despite difficult market and regulatory conditions, due to the consistently realised operating costs optimisation, Enea CG generates financial results on an anticipated level. In the face of a more and more demanding situation on the energy market the Management Board will undertake subsequent activities in order to maintain a positive result of operations.

The Group's financial standing is safe, supported with a significant volume of cash, which as at the end of 2016, including current financial assets kept to maturity and financial assets evaluated at fair value through result, amounted to over PLN 2.3 bln. The amount included the cash on the Companies' accounts, bank deposits, and also cash and cash equivalents managed by an external company. Due to the consistently maintained cost discipline and optimum allocation of held resources the Group is guaranteed a favourable financing of the investments.

Enea Group implements a vast CAPEX programme (capital expenditures) covering mainly the area of generation and the distribution network, and also acquisitions constituting market opportunities (as the recent acquisition of LW Bogdanka or the acquisition of Połaniec Power Plant finalised in March 2017). The implementation of the investment programme will positively affect the financial results of Enea CG.

Significant events occurring after the balance sheet date

Annexing agreements for Comprehensive Bank Services

On 25 January 2017 Enea CG companies signed annexes to the Agreements currently in force for the comprehensive bank services concluded with PKO BP and Pekao SA. The annexed agreements provide Enea CG Companies with comprehensive bank services under uniform terms. Managing the accounts of Companies included in Cash Pooling allows for the generation of added values both in the area of managing financial surpluses and mutual balancing of financial shortages. Therefore, it translates into a growth in the cash management efficiency in the Group and cost optimisation within financing. Due to the execution of a deadline amending annex the accounts dedicated to receiving payments from Customers will not change. The term of the annexed agreements expires on 31 December 2019.

Investment loan from the European Investment Bank (Agreement C) and Enea Operator's Bond Issue Programme

In January 2017 Enea SA made the third disbursement of the loan within Agreement C granted by the European Investment Bank in the amount of PLN 250,000 thou. The currency of the disbursed loan is Polish Zloty. The interest rate is floating based on WIBOR rate for 6-month deposits increased with the Bank's margin. The tranche will be paid in equal instalments, and the final repayment will be made in December 2031.

At the same time, in January 2017 Enea SA took up the 3rd series of bonds in the amount of PLN 250,000 thou. of the bonds issued by Enea Operator sp. z o.o. based on the Bond Issue Programme of 7 July 2015. The interest rate of bonds is floating and a margin is added. The bonds will be redeemed in equal instalments, and the final redemption date is in December 2031.

The programme agreement on the bond issue programme of LW Bogdanka SA

In March 2017 LW Bogdanka SA signed an annex to the Programme Agreement of 30 June 2014, as a part of which the Programme's Term for Tranche 1 was shortened from 31 December 2019 to 30 March 2017. In the light of the above all the bonds issued within Tranche 1 in the total amount of PLN 300,000 will be redeemed on 30 March 2017.





4. Shares and shareholding

Share capital structure

Enea SA's share capital as at the publication date of this report for 2016 amounts to PLN 441,442,578 and is divided into 441,442,578 ordinary bearer shares of the nominal value of PLN 1 each. A total number of votes resulting from all the issued shares of the Issuer corresponds to the number of shares and amounts to 441,442,578 votes.

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

Shareholding structure

Shareholding in Enea SA as at 31 December 2016

Shareholder	Number of shares / number of votes during GM	Share in the share capital / share in the total number of votes
State Treasury	227 364 428	51.5%
PZU TFI	22 788 363	5.2%
Others	191 289 787	43.3%
TOTAL	441 442 578	100.0%

The shareholding structure of Enea SA as at the date of publication of this report, i.e. 30 March 2017

Shareholder	Number of shares / number of votes during GM	Share in the share capital / share in the total number of votes
State Treasury	227 364 428	51.5%
PZU TFI	44 631 848	10.1%
Others	169 446 302	38.4%
TOTAL	441 442 578	100.0%

Changes in the shareholding structure until the publication date of the statement

Since the publication date of the periodic report for 2015 there have been changes in the shareholding structure which related to the exceeding by the funds managed by TFI PZU SA of a threshold of respectively 5% and 10% of the total number of votes in the Company. Detailed information within this scope was published in the current reports No. 31/2016 of 17 October 2016 and No. 6/2017 of 13 February 2017.

1) 30 December 2016 was the last quotation day on WSE in 2016.

Potential changes in the shareholding structure

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

Own shares

Enea SA or Enea Capital Group Companies did not purchase the Company's own shares in 2016.

Employee share control system

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

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

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

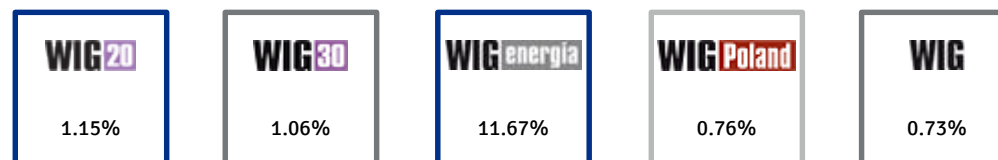
Pursuant to § 6 item 3 of the Statute of Enea SA registered shares of B series belonging to the State Treasury are designated for the purposes specified in the act on commercialisation and privatisation and act on the principles of purchasing shares from the State Treasury in the process of consolidation of energy sector companies, became bearer shares on the moment of expiry of the prohibition to sell or expiry of the right to acquire the shares free of charge.

To the Company's knowledge, the number of Enea SA's shares left for nil-paid acquisition amounted to 1,969,793 as at 31 December 2016.

In 2016 Enea SA did not launch any standard employee share programme control systems.

Prices of Enea SA's shares on the Warsaw Stock Exchange

Enea SA's shares have been listed on the Warsaw Stock Exchange (WSE) since 17 November 2008. The share of the Company's shares in indices as at 30 December 2016.¹⁾



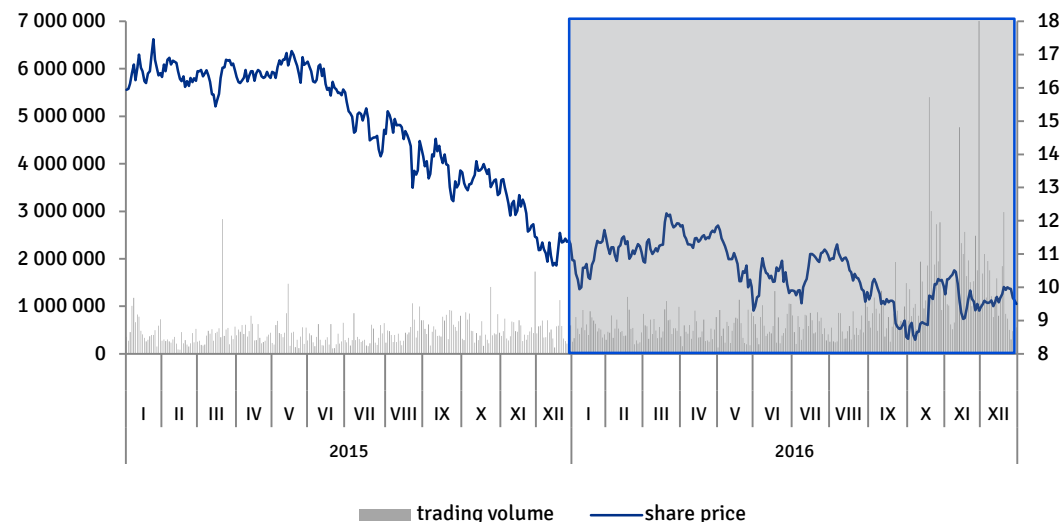
As a result of the annual index review Enea SA, after 17 March 2017 session, left WIG20 index, supplementing at the same time mWIG40 index portfolio.

Prices of Enea SA's shares on the Warsaw Stock Exchange

The table below demonstrates data relating to the Company's shares in 2016.

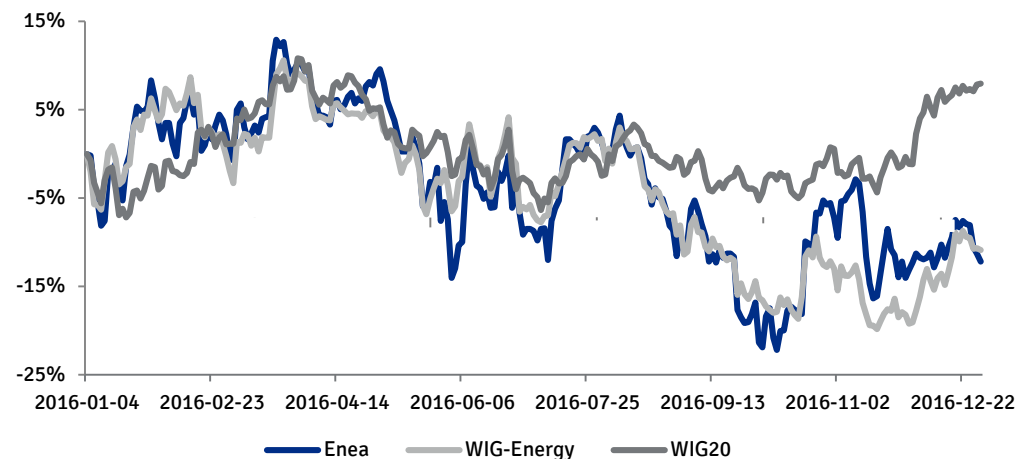
Key data concerning shares:	2015	2016
Maximum price [PLN]	17.48	12.22
Minimum price [PLN]	10.56	8.42
Last price [PLN]	11.30	9.50
Capitalisation at the end of period [PLN mln]	4 988.30	4 193.70
Capitalisation of Enea SA on the background of domestic companies listed on WSE at the end of period [%]	0.97	0.75
Book value [PLN mln]	12 647.12	11 999.47
P/E [exchange capitalisation/net profit]	5.5	-
P/BV [exchange capitalisation/book value]	0.39	0.35
Return rate at end of period	-23.23	-15.93
Dividend rate [%]	4.2	-
Value of turnover [PLN mln]	1 653.22	2 231.17
Share in turnover [%]	0.81	1.18
Turnover indicator [%]	25.50	50.00
Average volume per session	449 510	883 502
Average number of transactions per session	1 081	1 570
Average spread [pb]	20	22
Volume [pcs]	44 317 932	221 757 499

Prices of Enea's shares in 2015-2016



In the period from 1 January to 31 December 2016 the price of Enea's shares dropped from PLN 10.82 to PLN 9.50, i.e. by PLN 1.32 or 12.2%. The highest price in the period was achieved for Enea's shares on 18 March, and the lowest - on 7 October 2016.

Change in the price of Enea SA's shares in relation to the changes of WIG20 and WIG-Energy indices





5. Authorities

Personal composition of Enea SA's Management Board

As at the date of publication this report, i.e. 30 March 2017, the Company's Management Board operates in the following composition:



Mirosław Kowalik

President of the Management Board

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

Mirosław Kowalik is a graduate of the Faculty of Energy Engineering of the Gdynia Maritime University. He graduated from MBA (Rotterdam School of Management programme in cooperation with the University of Gdańsk and Gdańsk Foundation for Management Development) achieving the degree of Executive Master of Business Administration. He is also a graduate of postgraduate studies of Corporate Finance Management at the Warsaw School of Economics. Currently, he is undergoing a PhD study - Executive Doctor of Business Administration in the Polish Academy of Sciences, Institute of Economics.

Scope of competence: Coordination of tasks related to the overall operations of the Company and Enea Capital Group.

Wiesław Piosik

Vice-President of the Management Board for Corporate Affairs

Wiesław Piosik has been connected with the commercial power industry for over 30 years. Recently, he has managed private enterprises in the field of energy distribution, designing and execution of grid works and RES. During 1998-2005 he was the member of the board and president of Energetyka Poznańska SA (currently: Enea SA), during 2007-2009 he managed the works of the board of Polenergia Dystrybucja sp. z o.o. He holds a vast experience in supervising joint-stock companies in the sectors of fuel and energy, bank and IT - he was the member of the supervisory board of e.g. Kompania Węglowa, CIECH SA, Exatel SA and LG Petro Bank.

Wiesław Piosik is a graduate of Poznań University of Technology, completed studies at the Faculty of Electrical Engineering, majoring in electrical engineering with the speciality in: power engineering. He also graduated from the Postgraduate Study at Poznań University of Technology within power systems and grids under the conditions of changing into the market economy and Postgraduate Study of Marketing at Akademia Ekonomiczna in Poznań. He developed his competences at numerous trainings and courses within management.

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



Piotr Adamczak

Vice-President of the Management Board 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 SA, on the positions of the Office Manager, Division Manager and Department Director, he dealt with the centralisation and realisation of tasks within the wholesale trade in electricity, duties of a commercial and technical coordinator, commercial coordinator, and commercial cooperation with RES as well. From 2011 he worked on the position of the Office Manager and from 2013 Trading Department Director in Enea Trading where he dealt with commercial activities on electricity markets, proprietary interests to certificates of origin, emission allowances and commercial cooperation with RES for the account of Enea Group companies.

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

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



Mikołaj Franzkowiak

Vice-President of the Management Board for Financial Affairs

Mikołaj Franzkowiak has been connected with financial management for over 13 years. From 2011 he was employed in Bank Zachodni WBK SA, where he originally managed the Corporate Clients' Management Accounting Department and from 2015 he was managing the Treasury Finance Department, being responsible for the team running the accounting for the area of ALM and Treasury of the bank. He was a Member of the Supervisory Board of BZ WBK Faktor from 2013. He was a Member of the Management Board for Economic and Financial Affairs of Fugo SA. Previously, he was connected with Bank BPH SA (Bank Pekao SA after the merger). He commenced his professional career in Ernst & Young.

Mikołaj Franzkowiak is a graduate of the Faculty of Law and Administration of the Adam Mickiewicz University in Poznań. He studied law and economics as well at Erasmus University Rotterdam. He completed postgraduate studies in accounting at the Poznań University of Economics and Business. Currently, he is a student of doctoral studies at the Faculty of Management of the Poznań University of Economics and Business. He holds a Chartered Financial Analyst international certificate. He attended numerous trainings on finance and management.

Scope of competence: Supervision and coordination of economic, financial and accounting affairs related to risk management in the Company and Enea Capital Group, teleinformation and controlling.



Personal composition of Enea SA' Supervisory Board

As at the date of publication of this report, i.e. 30 March 2017, the Supervisory Board of the Company of the 9th term is composed of ten members and operates in the following composition:

Małgorzata Niezgoda, Chairman of the Supervisory Board

Date of appointment: 2 July 2015

Małgorzata Niezgoda currently works as the Director of the Supervision Department in the Ministry of Energy. She has held various positions since 2008 in the departments dealing with ownership supervision over the State Treasury owned enterprises in the Ministry of Treasury. In the period from November 2014 to February 2015 she was the Director of the Mining Department of the Ministry of Economy. In this period the bituminous coal mining restructuring process was prepared.

Małgorzata Niezgoda holds a higher qualification, she graduated from the Warsaw University of Life Sciences – SGGW on the faculty of Environmental Engineering

Piotr Kossak, Vice-Chairman of the Supervisory Board

Date of appointment: 15 January 2016

Piotr Kossak runs a legal practice in his own Law Firm of the Legal Counsel in Sandomierz specialising in reprivatization issues, foundation and association law and companies law. During 2010-2012 he was connected with the University of Human and Life Sciences in Sandomierz - as a research associate and dean on the Faculty of Law and Administration.

Piotr Kossak is a PhD of legal sciences within law. He received this degree at the Faculty of Law, Canon Law and Administration of John Paul II Catholic University of Lublin (KUL) in Lublin. He completed the legal training by the District Chamber of Legal Advisers in Kraków and barrister's training by the District Bar Council in Kielce. In 2006 he was entered into the list of legal counsels in the District Chamber of Legal Advisers in Kraków, and in 2009 he was entered into the list of barristers of the District Bar Council in Kielce. Piotr Kossak satisfies the independence criteria for members of the Supervisory Board.

Rafał Szymański, Secretary of the Supervisory Board

Date of appointment: 2 July 2015

Rafał Szymański is an employee of the Ministry of Energy in the Supervision Department. His professional duties include e.g. ownership supervision of State Treasury companies. So far, he has been employed in the Ministry of Treasury, where he held e.g. the position of the Head of the Department supervising the power sector companies owned by the State Treasury.

Rafał Szymański graduated from the University of Warmia and Mazury majoring in the Ecological Engineering and from Post-graduate Studies of Energy Market Operation at the Warsaw School of Economics.

Wojciech Klimowicz, Member of the Supervisory Board

Date of appointment: 2 July 2015

Wojciech Klimowicz has been connected with Enea SA since 2003 and currently works in the Sales Department.

Mr. Wojciech Klimowicz graduated from MA studies at Adam Mickiewicz University in Poznań, Faculty of Social Sciences, majoring in Politology (specialisation: local government administration). He also graduated from Postgraduate studies: Data statistical analysis in administration and business at the Faculty of Economics of the Poznań University of Economics and Business.

Tadeusz Mikłosz, Member of the Supervisory Board

Date of appointment: 2 July 2015

Tadeusz Mikłosz holds long professional experience in the area of power engineering and ownership supervision.

Since 1983 he has been connected with Enea SA and its predecessor entity, and currently he is an employee of the Operating Management Department. He has sat in various Supervisory Boards since 1997.

Tadeusz Mikłosz holds a higher qualification in team leadership and political science. He also graduated from Post-graduate Studies in commercial law at Poznań University of Economics.

Stawomir Brzeziński, Member of the Supervisory Board

Date of appointment: 2 July 2015

Stawomir Brzeziński has been connected with Enea SA since 2008. Currently, he is holding the position of the Organisation and Investor Relations Department Director. Previously he was related to the International Fair of Poznań.

Stawomir Brzeziński is a graduate of the Faculty of Mechanical Engineering and Management at Poznań University of Technology. He also graduated from post-graduate studies at Poznań University of Economics within logistics and supply chain management and Poznań University of Technology majoring in quality management. He is currently studying Law at the Faculty of Law, Administration and Economics of the University of Wrocław.

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 Organisation and Management Sciences Committee of the Polish Academy of Sciences Branch in Poznań.

Roman Stryjski is a habilitated doctor of technical sciences of Martin Luther University Halle-Wittenberg.

Piotr Mirkowski, Member of the Supervisory Board

Date of appointment: 15 January 2016

During 2009-2015, Piotr Mirkowski was a member of the Supervisory Board of the joint stock company Radpec SA. In 2007-2015 he was connected with RTBS "Administrator" sp. z o.o. From 1998 to 1999 he was employed in Zakład Usług Technicznych Energetyki Ciepłej in Radom on the position of an Operations Director. During 1989-1998 he worked as the Heat Networks Department Manager in Wojewódzkie Przedsiębiorstwo Energetyki Ciepłej in Radom.

Piotr Mirkowski is a graduate of the Radom School of Engineering, speciality: mechanical engineering. He also graduated from the postgraduate studies at the Warsaw University of Technology within heating and heating with energy auditing. He holds ISO auditor and ISO plenipotentiary certificates.

Rafał Bargiel, Member of the Supervisory Board

Date of appointment: 15 January 2016

Rafał Bargiel currently runs his own law office which renders comprehensive legal services for individual and corporate clients.

Rafał Bargiel obtained his Master's degree at the University of Silesia in Katowice at the Faculty of Law and Administration. He completed a barrister training by the District Bar Council of Bielsko-Biała.

Paweł Skopiński, Member of the Supervisory Board

Date of appointment: 5 September 2016

Paweł Skopiński is a legal counsel in the Ministry of Energy. Connected with the Legal Department in the Ministry of Treasury since 2004. During 2010 - 2016 he was a Legal Counsel in the Legal and Litigation Department of the Minister of Treasury. Previously, he cooperated with renowned law firms on preparation of legal opinions.

Paweł Skopiński graduated from the University of Warsaw, Faculty of Law and Administration in Warsaw. In 2009 he obtained the professional title of a Legal Counsel and was entered into the list of legal counsels of the District Chamber of Legal Advisers in Warsaw.

Changes in the composition of the Management Board of Enea SA

Date	Event
	The Supervisory Board of Enea SA adopted resolutions on recalling, as of 7 January 2016, the following people from the composition of the Management Board of Enea SA: <ul style="list-style-type: none"> • Dalida Gepfert - Vice-President of the Management Board for Financial Affairs • Grzegorz Kinelski - Vice-President of the Management Board for Commercial Affairs
	Enea SA's Supervisory Board adopted a resolution regarding cancellation of the delegation as of 7 January 2016 of the Member of the Supervisory Board, Wiesław Piosik, to temporarily act as the President of the Board of Enea SA
30 December 2015	Enea SA's Supervisory Board adopted a resolution regarding nomination as of 7 January 2016 Mirosław Kowalik to the position of the President of the Management Board of Enea SA for the subsequent term which commenced on 7 January 2016
	Enea SA's Supervisory Board adopted a resolution regarding nomination as of 7 January 2016 Wiesław Piosik to the position of the Vice-President of the Management Board of Enea SA for Corporate Affairs for the subsequent term which commenced on 7 January 2016
	Enea SA's Supervisory Board adopted a resolution regarding delegation as of 7 January 2016 the Member of the Supervisory Board, Sławomir Brzeziński, to temporarily act as the Vice-President of the Management Board of Enea SA for Commercial Affairs until a new Vice-President for Commercial Affairs is nominated
21 January 2016	The Company's Supervisory Board adopted a resolution regarding the nomination as of 15 February 2016 : <ul style="list-style-type: none"> • Piotr Adamczak to the position of the Vice-President of the Management Board for Commercial Affairs • Mikołaj Franzkowiak to the position of the Vice-President of the Management Board for Financial Affairs

Changes in the composition of the Supervisory Board of Enea SA

Date	Event
30 December 2015	Enea SA's Supervisory Board adopted a resolution regarding cancellation of the delegation as of 7 January 2016 of the Member of the Supervisory Board, Wiesław Piosik, to temporarily act as the President of the Board of Enea SA
30 December 2015	Enea SA's Supervisory Board adopted a resolution regarding delegation as of 7 January 2016 the Member of the Supervisory Board, Sławomir Brzeziński, to temporarily act as the Vice-President of the Management Board of Enea SA for Commercial Affairs until a new Vice-President for Commercial Affairs is nominated
7 January 2016	The Company received the resignation of Wiesław Piosik from the position of a Member of Enea SA's Supervisory Board effective as of 7 January 2016 - the resignation was filed in connection with the nomination of the above mentioned person into the composition of the Company's Management Board as of 7 January 2016
15 January 2016	Enea SA's EGM recalled Sandra Malinowska, Radostaw Winiarski and Tomasz Gołębowski - independent member - from the composition of Enea SA's Supervisory Board
15 January 2016	Enea SA's EGM nominated into the composition of the Supervisory Board 4 new members: Piotr Kossak as an independent member, Rafat Bargiel, Roman Stryjski and Piotr Mirkowski
5 September 2016	On 5 September 2016, the Company received the statement of the Minister of Energy of the same date on exercising by the Minister of Energy the right to appoint, pursuant to § 24 item 1 of the Company's Statute, a Member of the Supervisory Board of Enea SA, namely Paweł Skopiński

In 2016 there was no formalised diversification policy implemented in Enea SA in respect of the Company's authorities and its key managers. The Company makes effort so that each and every appointment of its authorities and the key managers takes place in accordance with the common provisions of law and is preceded with an accurate analysis of the experience, competence, skills and technical preparation of each candidate, notwithstanding the other non-technical criteria such and sex or age, in particular. In the Company's opinion, the above mentioned criteria of assessing candidates for the aforementioned positions, allow for electing candidates who guarantee the possibility of the Company's strategy implementation and development of its operations.



Principles of appointment and description of powers delegated to authorities of the parent company

Detailed information in Section 6. Corporate Governance on pages 100-106.

Remuneration policy for Members of the Management Board in Enea SA

The principles of remunerating Members of the Management Board of Enea SA in force in 2016 were introduced pursuant to the resolutions of Enea SA's Supervisory Board dated 7 January 2016 and 18 February 2016. All the Members of the Management Board concluded Service Agreements - managerial contracts - with the Company, pursuant to the provisions the act of the 3 March 2000 on remuneration of people managing certain legal entities (J. L. No. 26, item 306, as amended). Service agreements concluded by the Company and non-competition agreements enclosed to them provided as follows:

- a) during the term of the Service agreement Members of the Board were authorised to receive a fixed monthly remuneration and a performance-related annual bonus in the amount of 40% of the total annual remuneration, calculated based on the principles specified in detail in the Service agreement
- b) in return for complying by Members of the Board with the obligations resulting from the non-competition clause during its validity, Members of the Board might receive a compensation in the total amount equal to the product of: 1/12 of the total remuneration and number of months of validity of non-competition clause
- c) if the Service agreement expires as a result of the expiry of the Member of the Board's term, the Company reserved the right to, for a period of one month of the agreement expiry, demand that Members of the Board render services relating to the transfer of issues connected with the business operations to a person indicated by the Chairman of the Supervisory Board. By this title Members of the Board were authorised to receive remuneration in the amount equal to the fixed remuneration
- d) Members of the Board were entitled to receive a severance payment in the amount equal to the triple 1/12s of the total remunerations except for the following situations:
 - termination of the Service agreement by the Company or its expiry as a result of recalling from the position of a Member of the Board for a culpable material breach of the provisions of the Statute or the above mentioned Agreement to a detriment to the Company,
 - termination of the Service agreement by the Company or its expiry as a result of loss of the right to be a Member of the Board in the case specified in Article 18 of the Commercial Companies Code,
 - termination of the Service agreement by the Member of the Board or its expiry as a result of resignation from that position, if the termination of the said Agreement or resignation was not a result of reasons attributable to the Company.

The severance payment mentioned above was subject to an increase - if the Service agreement expires as a result of the Member of the Board's term expiry and was not prolonged as a result of a renomination of the same person to be a Member of the Board - by the value of the triple 1/12s of the total remunerations as an equivalent in lieu of notice.

In the event of default by Members of the Board of the prohibition to conduct competitive operations Members of the Board would lose their right to receive further instalments of the damages and were obliged to pay a contractual penalty for the account of the Company. The Company had the right to terminate the non-competition agreement if the non-competition clause grounds ceased to be valid.

Members of the Board at own expense got insured against third party liability that may occur as a result of a failure to perform or improper performance of the management agreement.

Pursuant to the resolution of the Extraordinary General Meeting of Shareholders of Enea SA of 15 December 2016 regarding the amount of remuneration of members of the Management Board, adopted in relation to the entry into force of the act of 9 June 2016 on the principles of determining the remuneration of people managing some companies, the Supervisory Board with the Resolution of 17 January 2017 specified the remuneration policy for the existing Members of the Management Board in Enea SA.

Since 1 January 2017 all the Members of the Management Board conclude Agreements on Provision of Management Services (Agreement) with the Company, which foresee that:

- a) during the term of the Agreement Members of the Management Board are entitled to receive a fixed monthly remuneration and variable remuneration depending on the level of achievement of the management objectives which may not exceed the amount of the annual fixed remuneration
- b) in return for complying by Members of the Board with the obligations resulting from the non-competition clause during its validity, Members of the Board may receive a compensation in the total amount equal to the product of 0.5x of the monthly fixed remuneration and number 6
- c) if the Management service agreement expires as a result of the expiry of the Member of the Board's term, the Company reserves the right to, for a period of one month of the agreement expiry, demand that Members of the Board render services relating to the transfer of issues connected with the business operations to a person indicated by the Supervisory Board, subject to the terms specified in the Agreement. By this title Members of the Board are authorised to receive remuneration in the amount equal to the monthly fixed remuneration
- d) Members of the Board are entitled to receive a severance payment in the amount equal to the 3x the fixed remuneration except for the following situations:
 - termination, withdrawal from or amendment to the Contract as a result of a change to the position held by the Member of the Management Board in the composition of the Management Board
 - termination, withdrawal from or amendment to the Contract as a result of appointing the Managing person for the next term of the Management Board,
 - taking up the position of the Member of the Management Board within the capital group under Article 4 item 14 of the act of 16 February 2007 on protection of competition and consumers
 - resignation from holding the position.

In the event of a breach by Members of the Management Board of the non-competition clause after expiry of their functions, Members of the Management Board lose their right to compensation which expires as of the date of delivery of a termination notice to the Member of the Management Board. Additionally, the Company has the right to claim payment of the contractual penalty by the Member of the Management Board. The agreement includes a commitment of a managing person to hold third party liability insurance, at their own expense, which may occur in relation to the provision of management services.

Remuneration policy for Members of the Supervisory Board in Enea SA

In 2016 the remuneration of Members of the Supervisory Board changed.

In the period from 1 January 2016 to 15 December 2015 the remuneration of Members of the Supervisory Board was set on the basis of the Minister of Treasury's statement of 20 June 2000 on establishing the remuneration of members of Supervisory Boards in companies wholly owned by the State Treasury and was set at the level of the average monthly remuneration in the enterprise sector net of payments of bonuses from profits in Q4 of the previous year as published by the President of the Central Statistical Office.

Pursuant to the resolution of the Extraordinary General Meeting of Shareholders of the Company dated 15 December 2016 there was an amendment to the remuneration policy applicable to the existing Members of the Supervisory Board. Pursuant to the provisions of this resolution of EGM the monthly remuneration of members of the Supervisory Board is defined as the product of the average monthly remuneration in the enterprise sector net of profit-related payments in the fourth quarter of the preceding year as published by the President of the Central Statistical Office and the following multiple:

- for the Chairman of the Supervisory Board - 1.7
- for the other members of the Supervisory Board - 1.5

The resolution of the Extraordinary General Meeting of Shareholders foresees also that:

- Members of the Supervisory Board are paid the remuneration mentioned above, notwithstanding the number of meetings convened
- the remuneration is not payable for the month in which the Member of the Supervisory Board was not present on any duly convened meeting, and the absence was not authorised

Level of remuneration

The remuneration of persons composing the Management Board of Enea SA collected in the period from 1 January 2016 to 31 December 2016 with whom the Company concluded an agreement on provision of services within management is presented in the table below:

Name	Position	Net remuneration in PLN [excluding VAT] ⁴⁾	Fringe benefits
Krzysztof Zamasz	President of the Management Board ²⁾	2 042 924.72	-
Paweł Orlof	Member of the Management Board ²⁾	1 720 357.75	-
Dalida Gepfert	Member of the Management Board ³⁾	2 528 989.26	-
Grzegorz Kinelski	Member of the Management Board ³⁾	2 536 504.86	-
Mirostaw Kowalik	President of the Management Board ⁴⁾	1 121 610.00	-
Wiestaw Piosik	Vice-President of the Management Board ⁴⁾	944 516.00 ⁵⁾	-
Piotr Adamczak	Vice-President of the Management Board ⁶⁾	841 379.31	-
Mikołaj Franzkowiak	Vice-President of the Management Board ⁶⁾	841 379.31	-

During the term of holding managerial positions 2016 Members of the Board of Enea SA did not collect any remuneration for holding their positions in Enea SA's subsidiaries during that period. The remuneration received by managing persons did not include non-financial constituents.

- The remuneration includes any titles resulting from concluded contracts and it is included in the Company's costs, including also remuneration for non-competition clause and bonus for 2015
- The position held since 7 December 2015
- The position held since 7 January 2016
- The position held since 7 January 2016

Remuneration for members of the Supervisory Board of Enea SA in the financial year 2016 is presented in the following table:

Name	Net remuneration [PLN]
Sławomir Brzeziński	82 081.14 ⁷⁾
Tadeusz Mikłosz	52 538.34
Małgorzata Niezgoda	53 007.80
Wojciech Klimowicz	52 538.34
Rafał Szymański	52 538.34
Radosław Winiarski ⁸⁾	2 071.19
Sandra Malinowska ⁸⁾	2 071.19
Tomasz Gołębiowski ⁸⁾	2 071.19
Piotr Mirkowski ⁹⁾	50 605.29
Roman Stryjski ⁹⁾	50 605.29
Piotr Kossak ⁹⁾	50 605.29
Rafał Bargiel ⁹⁾	50 605.29
Paweł Skopiński ¹⁰⁾	17 724.51

Members of the Supervisory Board of Enea SA during the financial year of 2016 collected remuneration for holding offices in the Supervisory Board in the amount compliant with the legal regulations being in force.

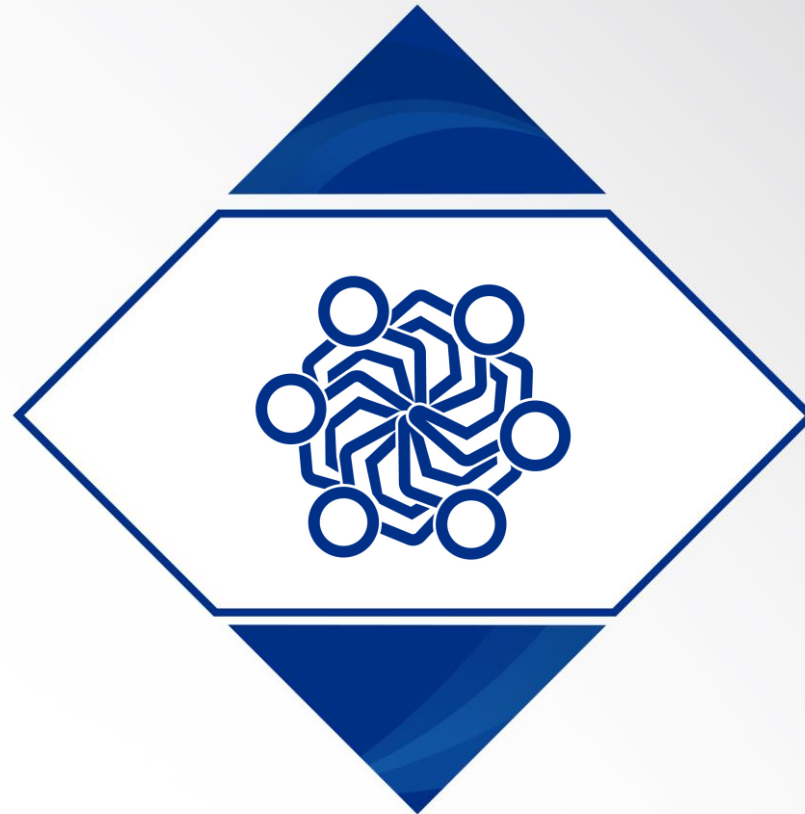
List of shares and allotment certificates to shares of Enea SA held by members of the Management and Supervisory Boards

Name	Position	Number of shares in Enea SA as at 31 December 2016	Number of shares in Enea SA as at 30 March 2017	Nominal value [PLN]
Wiestaw Piosik	Vice-President of the Management Board	4 140	4 140	4 140
Tadeusz Mikłosz	Member of the Supervisory Board	4 140	4 140	4 140

As at the date of publication of this periodic report the other persons from the Management and Supervisory Boards do not hold Enea SA's shares.

As at the day of publication of this periodic report, persons managing or supervising do not hold shares or stock in subsidiaries of Enea SA.

- Taking into account the remuneration of a Member of the Supervisory Board delegated to perform the function of the President of the Management Board
- The position held since 15 February 2016
- Including remuneration for delegation to hold the position of the Member of the Management Board
- The position held since 15 January 2016
- The position held since 15 January 2016
- The position held since 5 September 2016



6. Corporate governance

The set of principles applied

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

Principles and recommendations of corporate governance the application of which was waived

Enea SA's Management Board's intention is to apply all the principles of the corporate governance. Due to the fact however, that some principles may pose the necessity to incur excessive burdens by the Company which could exceed potential benefits resulting from market needs, in 2016 the Company waived the application of some principles and recommendations of the corporate governance indicated below.

I. Management Board and the Supervisory Board

II.Z.3. At least two members of the supervisory board should meet the criteria of being independent referred to in principle II.Z.4.

Company's comment: The Company explains that pursuant to the Statute of Enea SA the independence criteria should be satisfied by at least one member of the Supervisory Board. The Company's Statute does not secure the observance of the said principle. However, the Board declares that the circumstances mentioned in the content of this principle are deemed best corporate practice. Therefore, the Management Board declares the possibility of applying to relevant authorities of the Company with a motion to consider the introduction of adequate amendments to the Company's by-laws with a relevant recommendation.

II.Z.5. Each supervisory board member should provide the other members of the supervisory board as well as the company's management board with a statement of meeting the independence criteria referred to in principle II.Z.4.

Company's comment: The Company explains that according to the Company's Statute, an independent member of the Supervisory Board is obliged to submit a written statement to the Company relating to the satisfaction of all the independence criteria - along with the obligation to immediately notify the Company on cessation to meet the said criteria. Enea SA's Statute does not however foresee any obligation to submit such statements to the other members of the Supervisory Board. However, the Board declares that the circumstances mentioned in the content of this principle are deemed best corporate practice. Therefore, the Management Board declares the possibility of applying to relevant authorities of the Company with a motion to consider the introduction of adequate amendments to the Company's by-laws with a relevant recommendation.

II.Z.7. Annex I to the Commission Recommendation referred to in principle II.Z.4 applies to the tasks and the operation of the committees of the Supervisory Board. Where the functions of the audit committee are performed by the supervisory board, the foregoing should apply accordingly.

Company's comment: The Company explains that in relation to the tasks and the operation of the committees of the Supervisory Board the provisions of the Annex I to the Commission Recommendation referred to in the analysed principle apply, provided that the Company's by-laws do not require the majority of the members of these committees to meet the independence criteria. The Board declares at the same time that the circumstances mentioned in the content of this principle are deemed best corporate practice. Therefore, the Management Board declares the possibility of applying to relevant authorities of the Company with a motion to consider the introduction of adequate amendments to the Company's by-laws with a relevant recommendation.

II.Z.8. The chair of the audit committee should meet the independence criteria referred to in principle II.Z.4.

Company's comment: The Company explains that according to the Rules of the Supervisory Board in force in the Company, at least one member of the Audit Committee should be an independent member. The Company's by-laws do not however foresee that this requirement must be met by the chair of that committee.

Pursuant to the said Rules, committee members elect the chair from among their number. The Board declares at the same time that the circumstances mentioned in the content of this principle are deemed best corporate practice. Therefore, the Management Board declares the possibility of applying to relevant authorities of the Company with a motion to consider the introduction of adequate amendments to the Company's by-laws with a relevant recommendation.

IV. General meetings and relations with shareholders

IV.R.2. If justified by the structure of shareholders or expectations of shareholders notified to the company, and if the company is in a position to provide the technical infrastructure necessary for a general meeting to proceed efficiently using electronic communication means, the company should enable its shareholders to participate in a general meeting using such means, in particular through: 1) real-life broadcast of the general meeting; 2) real-time bilateral communication where shareholders may take the floor during a general meeting from a location other than the general meeting; 3) exercise of the right to vote during a general meeting either in person or through a plenipotentiary.

Company's comment: The Company explains that the Company's Statute does not allow for the participation in General Meetings by means of electronic communication. Notwithstanding the foregoing, as a rule, the Company's Management Board is positive about making it possible, in the future, for the Company's shareholders to participate in a General Meeting by means enabling a real-time transmission of data, when relevant legal regulations are introduced.

IV.Z.2. If justified by the structure of shareholders, companies should ensure publicly available real-time broadcasts of general meetings.

Company's comment: The Company explains that presently it does not enable real-time broadcasts of General Meetings. However, the proceedings of General Meetings are recorded, in the form of sound and image, and next such a record is subject to publication on the Company's corporate website.

V. Conflict of Interest, Related Party Transactions

V.Z.5. Before the company concludes a significant agreement with a shareholder who holds at least 5% of the total vote in the company or with a related party, the management board should request the supervisory board's approval of the transaction. Before giving its approval, the supervisory board should evaluate the impact of the transaction on the interest of the company. The foregoing does not apply to typical transactions and transactions at arm's-length made as part of the company's operations between the company and members of its group.

If the decision concerning the company's significant agreement with a related party is made by the general meeting, the company should give all shareholders access to information necessary to assess the impact of the transaction on the interest of the company before the decision is made.

Company's comment: The Company explains that according to Enea SA's Statute the competence of the Supervisory Board includes e.g. approving the conclusion of a significant agreement with a related party, provided that in order to adopt a valid resolution in this field a voting must be conducted for the adoption of such a resolution by the majority of members of the Supervisory Board meeting the independence criteria. "Related party" and "significant agreement" are defined in accordance with the provisions of the Regulation of the Minister of Finance relating to current and periodic information. The Board declares, however, that the circumstances mentioned in the content of the principle are deemed best corporate practice. Therefore, the Management Board declares the possibility of applying to relevant authorities of the Company with a motion to consider the introduction of adequate amendments to the Company's by-laws with a relevant recommendation.

VI. Remuneration

VI.R.1. The remuneration of members of the company's governing bodies and key managers should follow the approved remuneration policy.

Company's comment: The Company explains that no remuneration policy is adopted in Enea SA.

VI.R.2. The remuneration policy should be closely tied to the company's strategy, its short- and long-term goals, long-term interests and results, taking into account solutions necessary to avoid discrimination on whatever grounds.

Company's comment: The Company explains that no remuneration policy is adopted in Enea SA. The Management Board declares the intention for the remuneration policy implemented in the Company to include, in a far-reaching scope, the circumstances mentioned in the content of the recommendation.

VI.R.3. If the supervisory board has a remuneration committee, principle II.Z.7 applies to its operations.

Company's comment: The Company explains that in relation to the tasks and the operation of the committees of the Supervisory Board the provisions of the Annex I to the Commission Recommendation referred in the analysed principle apply, provided that the Company's by-laws do not require the majority of the members of these committees to meet the independence criteria. The Board declares at the same time that the circumstances mentioned in the content of this principle are deemed best corporate practice. Therefore, the Management Board declares the possibility of applying to relevant authorities of the Company with a motion to consider the introduction of adequate amendments to the Company's by-laws with a relevant recommendation.

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

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

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

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

Financial statements and periodic reports and monthly management and operating reporting applied by Enea SA are based on data derived from the financial and bookkeeping system of the Company. After all the predetermined processes of closing the books of account at the end of each month have been carried out, detailed management reports on financial and operational matters are drawn up. Those reports are drawn up by the Control Department, with the participation of middle and senior managers from individual organisational units. In relation 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 Capital Group's operations. The Company's Board adopts the material and financial plan prepared by the Controlling Department, and the Supervisory Board approves that plan. During the year, the Company's Board supervises the realisation of goals specified in the approved material and financial plan. The management cockpit developed by the Controlling Department constitutes a valuable source of information for the Supervisory Board on the current financial situation, environment and the level of realisation of goals in the critical areas.

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

Enea Capital Group regularly assesses the quality of its internal control and risk management systems with regard to the process of drawing up financial statements. On the basis of an assessment, the Management Board of Enea SA confirms that as at 31 December 2016 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 books of account, 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 Capital Group is independent, and accountable to the Audit Committee acting as part of the Supervisory Board. The basic tasks of the internal audit include e.g. the audit and assessment of the control mechanism processes in Enea Capital Group, supporting the internal control system effectiveness, risk management and Compliance system, through their independent and objective assessment and recommendation of improvements within the corporate governance and monitoring.

Information on shares and shareholding

The detailed description of the structure of the share capital, shareholding structure, changes in its structure in 2016 and potential changes within its structure is to be found in Chapter 4 - Shares and shareholding on page 91.

Securities with special control authorisation

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

Restrictions on exercising voting rights

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

Restrictions on transferability of securities

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



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

General Meetings of Enea SA are held based on the Commercial Companies Code and Enea SA's Statute and the Rules of the General Meeting, including the principles resulting from "Best Practices of WSE listed Companies" adopted by the Company for application.

Pursuant to the Statute of Enea SA the Company's Board convenes General Meetings in cases specified in the legal regulations and the Statute, and also if it is request in writing by the key shareholder, i.e. the State Treasury which, as long as it is the Company's shareholder and irrespective of its share in the Company's share capital, may, pursuant to Article 400 item 1 of the Commercial Companies Code, request that an Extraordinary General Meeting of Shareholders be convened or that certain matters be included in the agenda of the next General Meeting.

The State Treasury must submit such a demand in writing to the Management Board not later than one month before the proposed date of the General Meeting. If the request is submitted after a General Meeting is convened, it will be deemed a request for convening a subsequent Extraordinary General Meeting of Shareholders.

As provided for in § 29 item 3 of the Company's Statute, if the General Meeting is not convened within two weeks of the request, the State Treasury shareholder is entitled to convene the General Meeting pursuant to Article 354 item 1 of the Commercial Companies Code.

The duties of the General Meeting, in addition to matters stipulated in mandatory provisions of the law and other provisions of this Statutes, include in particular:

- appointing and recalling members of the Supervisory Board, subject to the provisions of the Company's Statute authorising the shareholder being the State Treasury to appoint and recall one member of the Supervisory Board (under Article 354 § 1 of the Commercial Companies Code) in a situation when the State Treasury ceases to be the only shareholder of the Company
- adopting the Regulations of the General Meeting laying down the detailed principles for conducting meetings and adopting resolutions
- issuing convertible or exchangeable bonds and other instruments enabling the purchase or subscription of the Company's shares

The purchase and disposal of real property, perpetual usufruct or real property interest, i.e. activities as set out in Article 393 item 4 of the Commercial Companies Code, do not require the approval of the General Meeting

Right to participate in GM

Pursuant to Article 406¹ §1 of the Commercial Companies Code, persons who are shareholders of the Company sixteen days before the date of the General Meeting (the day of registration of participation in the General Meeting), have the right to participate in the General Meeting of the Company. Additionally, members of the Board and members of the Supervisory Board in the number enabling giving a factual answer to questions asked during GM, have the right to participate in General Meeting of Enea SA with the right to vote.

Right to participate in GM by a proxy

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

Shareholders' rights

A shareholder or shareholders of the Company who represent at least one twentieth of the share capital are entitled to request that specific items be placed on the agenda of the General Meeting of Shareholders of Enea SA. Such a request, containing a justification or draft resolution concerning a proposed item of the agenda, should be submitted to the Management Board of Enea SA not later than 21 days before the date of the Meeting.

Before the date of the General Meeting of Shareholders of Enea SA, a shareholder or shareholders of the Company representing not less than one-twentieth of the share capital may submit draft resolutions regarding matters placed on the agenda of the General Meeting of Shareholders or matters to be placed on the agenda.

During the General Meeting of Shareholders, each shareholder may submit draft resolutions regarding matters placed on the agenda. These drafts should be submitted in Polish.

Rules on amendments to the Company's Statute

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

The Company's Statute contains no provisions that differ from the provisions of the Commercial Companies Code regulating the Statute amendment.



Enea SA's Management Board

Personal composition

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

Currently, the Management Board of Enea SA is composed of four people. The composition of the Company's Management Board as at the publication date of this report, i.e. as at 30 March 2017, with information on the changes in the authorities in 2016 and until the date of publication of the statements is presented in Chapter 5 - Authorities of Capital Group on page 95.

Principles relating to appointing and recalling management personnel

Pursuant to the Company's Statute members of the Board or the whole Board are nominated and dismissed by the Supervisory Board, subject to a possibility of electing one member by the Company's employees complaint with the provisions of § 14 of the Company's Statute.

§ 14 of the Company's Statute provides that when the annual average employee count in the Company exceeds 500 employees, the Supervisory Board will appoint one person elected by the employees to the Management Board for the term of the Management Board.

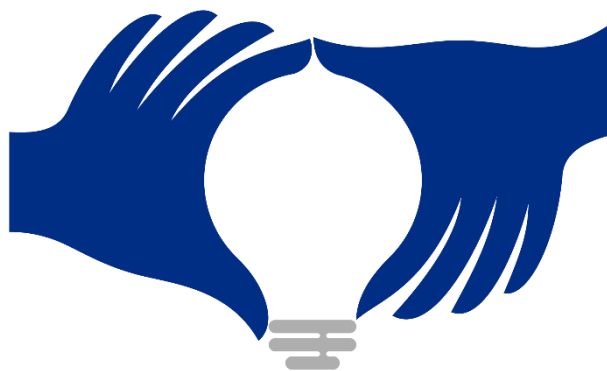
In appointing management and supervisory board members application is made of the principles contained in the regulation of the Council of Ministers of 18 March 2003 concerning qualification proceedings for management board members of certain commercial companies (Journal of Laws No. 55, item 476 as amended).

Competences and powers of the Management Board

The Management Board transacts business of the Company and represents it. Entitlements, organisation and principles of operations of the Management Board are specified by the Commercial Companies Code, Company's Statute and the Rules of the Management Board. Any matters that exceed the scope of the Company's normal business require a resolution of the Management Board, in particular:

- adopting the Company's organisational regulations, subject to approval by the Supervisory Board
- creating and liquidating branches
- appointing an authorised signatory or an authorised representative, except for an attorney ad litem; appointing an authorised signatory requires the consent of all the members of the Management Board
- taking out loans or credit facilities
- adopting annual material and financial plans, including investment plans, and long-term strategic plans, subject to approval by the Supervisory Board
- contracting contingent obligations, including the Company granting guarantees and sureties and issuing promissory notes

- acquiring, disposing of or encumbering real property, rights of perpetual usufruct or shares in real property, on the basis of one or more legal acts in a period of 12 consecutive months, with a value greater than or equal to the equivalent of EUR 50,000
- giving over the Company's real property under a leasing, tenancy, lease, lending or usufruct agreement or for any other use
- taking over real property under a leasing, tenancy, lease or usufruct agreement or for any other use, on the basis of one or more legal acts in a period of 12 consecutive months, where the value of the rent for 12 consecutive months is greater than or equal to the equivalent of EUR 50,000
- acquiring, disposing of or encumbering a fixed asset, except for real property, rights of perpetual usufruct or shares in real property, on the basis of one or more legal acts in a period of 12 consecutive months, with a value greater than or equal to the equivalent of EUR 50,000
- any instance of offering fixed assets, except for real property, for leasing, lease, rent, borrowing, usufruct or any other use
- taking over a fixed asset, except for real property, under a leasing, tenancy, lease or any other use, on the basis of one or more legal acts in a period of 12 months, where the value of the rent for 12 consecutive months is greater than or equal to the equivalent of EUR 50,000
- matters that the Management Board requests that the Supervisory Board or General Meeting of Shareholders consider
- determining the manner in which the Company exercises its voting rights at the General Meeting of Shareholders or at shareholders meetings of Significant Subsidiaries, subject to § 20 item 6(5) of the Statute



Management Board's principles of operation

The Management Board represents the Company in any court and out-of-court actions, transacts business of the Company.

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

Two Management Board members acting jointly or one Management Board member and an authorised signatory acting jointly are authorised to make declarations of will on behalf of the Company.

Pursuant to the Rules of the Management Board, meetings of the Management Board take place at the registered office of the Company on Tuesdays, unless the President of the Board or a Member of the Board assigned by him decides otherwise.

Meetings of the Management Board of the Company are convened by the President of the Board or a Member of the Board designated by him, at the President's own initiative or upon a motion by two Members of the Board. Participation in meetings of the Management Board is compulsory. A Member of the Board substantiates their absence during the Board's meeting in writing or using means of remote communication. Absence during the Board meeting is substantiated by the meeting Chairman. Employees of the Company, experts and external advisers may be invited to attend Management Board meetings. The agenda and the necessary documents for a Management Board meeting are provided by the Company's Governing Bodies Office at least two business days before the meeting. For valid reasons, a meeting can be convened immediately and without materials being provided. For a meeting to be held, all the members of the Management Board must be effectively notified of the meeting.

Decisions of the Management Board associated with transaction the Company's business, as referred to in § 11 item 2 of the Statute, require a resolution of Management Board. The Management Board can adopt resolutions if at least half of its members are present at the meeting and all of the members have been correctly notified of the meeting. In the event of an equal number of votes in adopting a Management Board resolution, the casting vote is held by the President of the Management Board.

The Management Board can adopt resolutions in writing or remotely using means of direct remote communication. Adopting resolutions in this manner requires a justification and that the draft resolution be presented in advance to all the members of the Management Board. Resolutions adopted in writing or remotely using means of direct remote communication are presented at the next meeting of the Management Board with the outcome of the vote.

The complete text of the Statute and Rules of the Management Board of Enea SA with the description of the operations of the Management Board is published on www.enea.pl under "Investor Relations" -> "Corporate governance".

Enea SA's Supervisory Board

Personal composition

Pursuant to the Company's Statute, the Supervisory Board is composed of 6 to 15 members appointed by: (i) General Meeting, (ii) Company's employees and (iii) the State Treasury. The Supervisory Board should be as a minimum composed of one person nominated by the General Meeting from among the persons satisfying the independence criterion specified in the corporate governance rules adopted by the Supervisory Board of WSE.

Presently, the Supervisory Board of Enea SA is composed of ten members and operates in the 9th term. The composition of the Company's Supervisory Board as at the publication date of this report with information on the changes in the authorities in 2016 and until the date of publication of the statements is presented in Chapter 5 - Authorities of Capital Group on page 96.

Operations

The Supervisory Board operates based on the provisions of the Commercial Companies Code, Company's Statute and Rules of the Supervisory Board of Enea SA adopted with the resolution of the Supervisory Board of 15 December 2009, as amended.

The Supervisory Board supervises all the operations of the Company on an ongoing basis. Special duties of the Supervisory Board include the assessment of the Management Board's report on the Company's operations and financial statements for the previous financial year as regards their compliance with the accounts and documents, and with the current situation.

Additionally, the Supervisory Board's competences include the assessment of the Management Board's motions relating to the distribution of profit or coverage of a loss, and also presenting an annual written statement of such an assessment to the General Meeting.

The Supervisory Board convenes at least once every two months. Meetings of the Supervisory Board are convened by the Chairman or Vice-Chairman of the Board, who will also present a detailed agenda. A Supervisory Board's meeting should be convened at the request of any Supervisory Board member or at the request of the Management Board.

Participation in Supervisory Board meetings is obligatory for Board members. Supervisory Board members are required to justify their absence from a Meeting in writing. The Supervisory Board Member absence reconciliation requires a resolution of the Supervisory Board.

A meeting of the Board will be convened within two weeks from the date when a request is received. For a meeting of the Supervisory Board to be convened, all the members of the Board must be invited in writing at least seven days before the meeting. For valid reasons, the Chairman of the Supervisory Board can reduce that period to two days, specifying the manner of delivering the invitations. In an invitation to a meeting of the Supervisory Board, the Chairman will specify the time and venue of the meeting and include a detailed draft agenda. He/she will also enclose materials with the invitation relating to the matters included on the agenda.

In cases indicated in the Rules of the Supervisory Board meetings of the Supervisory Board may also be held with no formal convening.

Supervisory Board meetings are chaired by its Chairman, or, in his/her absence, by the Vice-Chairman or other Supervisory Board member appointed at the meeting. The Chairman of the Supervisory Board, and in his/her absence, a Vice-Chairman or another Supervisory Board member chairing the meeting, ensures an efficient and proper course of the Supervisory Board's meetings, in accordance with the adopted agenda, legal regulations, the Statute and the *Rules of the Supervisory Board of Enea SA*, and in particular he/she has an exclusive right to:

- open, proceed and close meetings of the Supervisory Board,
- give and take back the floor to members of the Supervisory Board,
- issue standing orders
- order a voting, supervise its proper progress and announce results
- settle order issues
- order breaks in meetings of the Supervisory Board
- issue instructions to a keeper of the minutes of the meeting of the Supervisory Board
- distribute written resolutions of the Supervisory Board
- undertake other actions necessary for an efficient operation of the Supervisory Board

On recognition of each submitted matter members of the Supervisory Board are entitled to assess draft resolutions in a discussion and submit amendments to them, however the discussion should proceed in accordance with the following principles:

- a Member of the Supervisory Board may speak exclusively on matters included in the agenda within the scope of the item of the agenda under discussion
- on considering each business from the agenda, depending on its nature, the Chairman may set a time limit for its discussion by each speaker
- the Chairman shall have the right to instruct the speaker who diverges from the topic, exceeds permitted time limits, or makes prohibited utterances
- the Chairman shall have the right to take the floor back from speakers who do not adhere to the Chairman's remarks or to the provisions of the Regulations
- the Chairman shall decide on termination of the discussion

The proposed agenda can be changed if all the members of the Supervisory Board are present at the meeting and no one objects to the agenda. Any matters that are not included on the agenda will be included on the agenda of the next meeting.

The Supervisory Board can adopt resolutions if at least half of its members are present at the meeting and all of the members have been correctly notified of the meeting. The Supervisory Board shall adopt resolutions by an absolute majority of votes cast. In the event of an equal number of votes in adopting a Supervisory Board resolution, the casting vote is held by the Chairman of the Supervisory Board.

Subject to the cases described in the Commercial Companies Code the Supervisory Board can also adopt resolutions without holding a meeting, by signing the same copy (or copies) or the draft resolution or separate documents with the same content, or by telephone or by other means of remote communication, in a manner that allows all the Members participating in the meeting to directly communicate with each other.

Adopting a resolution by this procedure requires that a justification for the resolution be drawn up in advance and that a draft resolution be presented to all the members of the Supervisory Board together with the justification. Resolutions adopted in writing or remotely using means of direct communication are presented at the next meeting of the Supervisory Board with the outcome of the voting. Supervisory Board members may participate in adopting resolutions by casting votes in writing through another Supervisory Board Member, subject to Article 388 § 2 and 4 of the Commercial Companies Code.

Full text of the Statute and Rules of the Supervisory Board of Enea SA covering the detailed description of the operations of the Supervisory Board is published on www.enea.pl under "Investor Relations" -> "Corporate governance".

Supervisory Board's Committees

Pursuant to the provisions of the Rules of the Supervisory Board, the following permanent 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 length of the Board's term. The members of the committee elect a chairman of the committee from among their number. The chairman of the committee directs and supervises the committee's work, particularly the organisation and procedure of committee meetings.

Committees' personal composition

As at the date of publication of this Report, i.e. 30 March 2017, the Audit Committee and Nominations and Remuneration Committee operate in the following composition:

Audit Committee	
Name	Position
Małgorzata Niezgoda	Chairman
Stawomir Brzeziński	Member
Wojciech Klimowicz	Member
Piotr Kossak ¹⁾	Member
Paweł Skopiński	Member
Roman Stryjski	Member

Audit Committee operations

The detailed description of the Audit Committee's competences is contained in the act of 7 May 2009 on certified auditors and their self-governing body, entities authorised to audit financial statements and on the public supervision (J.L. No. 77, item 649 as amended), and the Rules of the Supervisory Board of Enea SA.

The Audit Committee should be composed of at least one independent member in the meaning of the European Commission's recommendation holding qualifications in the field of financial revision and accounting, but in the case of nomination to the Board of more than one person fulfilling the above independence criteria, the committee should be composed of possibly the largest number of independent members.

The task of the Audit Committee is to advise the Board regarding the internal policy and budget procedures adopted by the Company and inspect them and advise on the Company's contacts with the certified auditor.

Particular aspects of operations of the Audit Committee include, e.g.:

- monitoring the accuracy of the financial information presented by the Company, particularly by reviewing the appropriateness and consistency of the application of the accounting methods adopted by the Company and its Group (including the criteria for consolidating the financial statements of the Companies in the Group)
- monitoring the process of financial reporting
- monitoring the effectiveness of internal control systems, internal audits and risk management

¹⁾ Piotr Kossak satisfies the independence criteria for members of the Supervisory Board

- monitoring the financial audit and presenting recommendations to the Board regarding the selection, appointment, re-appointment and dismissal of the external auditor by the authorised body and regarding the terms and conditions of his engagement
- evaluating and submitting an annual internal audit plan to the Supervisory Board for approval
- evaluating and submitting an annual internal audit unit budget to the Supervisory Board for approval
- review at least annually the internal control and risk management systems, with a view to ensuring that the main risks (including those related to compliance with existing legislation and regulations) are properly identified, managed and disclosed
- reviewing the effectiveness of the external auditing process and monitoring the response of the Management Board to written recommendations presented to it by external auditors

Nominations and Remuneration Committee	
Name	Position
Rafał Szymański	Chairman
Rafał Bargiel	Member
Piotr Kossak ¹⁾	Member
Tadeusz Mikłosz	Member
Piotr Mirkowski	Member

Nominations and Remuneration Committee operations

The Nominations and Remuneration Committee should be composed of at least one independent member in the meaning of the European Commission's recommendation, but in the case of nomination to the Board of more than one person fulfilling the above independence criteria, the committee should be composed of possibly the largest number of independent members.

The task 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 tasks was specified in the Rules of the Supervisory Board of Enea SA.

Particular aspects of operations of the Nominations and Remuneration Committee include:

- analysing Management Board's policy concerning the nomination, election and appointment of senior managerial personnel
- presenting proposals to the Board relating to the remuneration and forms of employment of members of the Management Board, taking into account their previous achievements

- 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

Audit Committee

The Audit Committee held 7 meetings and adopted 11 Resolutions regarding e.g.:

- positive evaluation of the methods of auditing financial statements of Enea SA and Enea Capital Group for the financial year ended on 31 December 2015 and methods of reviewing Interim financial statements of Enea SA and Enea Capital Group for the period of 1 January 2016 to 30 June 2016
- approval of the report on the performed audit of the assessment report of the internal control system in Enea SA and its submission to the Supervisory Board
- approval of Enea SA's Supervisory Board's Audit Committee's Report on operations in 2015 and its submission to the Supervisory Board
- approval of Enea SA's Supervisory Board's Audit Committee's Report on operations in H1 2016 and its submission to the Supervisory Board
- positive assessment of the Annual Audit Plan for 2017 for Enea Group and Budget of the Audit Management Department for 2017
- election of the Chairman of the Audit Committee of the Supervisory Board of Enea SA

Nominations and Remuneration Committee

The Nominations and Remuneration Committee held 8 meetings and adopted 17 Resolutions. The subject matter of the meetings of the Committee was e.g. development of a recommendation for the Supervisory Board regarding:

- conclusion with Members of the Management Board of service agreements - managerial contracts and non-competition agreements, determination of the remuneration policy and amount of remuneration for Members of the Management Board
- confirmation of the realisation of Enea SA's Members of the Board KPI ratios for 2015 financial year
- granting consent to the Members of Enea SA's Management Board to hold the position of a Member of the Supervisory Board in Enea Group Companies

Additionally, the Committee elected the Chair of the Nominations and Remuneration Committee of Enea SA's Supervisory Board.



7. Corporate social responsibility

Enea Group's Corporate social responsibility in 2016 was concentrated on the implementation of the following actions:

"Energy market modelling" competition

In 2016 an Enea Group company, Enea Trading, prepared two editions of the "Energy Market Modelling" competition for students of economic, econometric and energy-related majors.

The awards in the completion included cash and a chance of being employed in Enea Trading.

The goal of the competition, sponsored by the Ministry of Energy, was:

- building the Polish intellectual potential
- popularisation of the energy market operation issues
- obtaining well-prepared personnel with the ability of facing the challenges of a trading company
- promoting knowledge on the energy market
- developing the cooperation between higher education and business

During the competition consultations were opened for students enabling getting familiar with the nature of the energy sector in Poland and the work of an analyst in this field. Participants could attend meetings, tele- and video-conferences with Enea Group's employees.



Educational campaign: "We care for your safety. You take care too!"

In 2016, an Enea Group company, Enea Operator, implemented an educational campaign "We care for your safety. You take care too!" with the aim to pay attention to the fact that even though power grid is safe, since the care for it is Enea's priority, everyone, including children as well, must take care themselves for their own safety.

The most frequent cause for accidents, deaths or electric shocks, is carelessness, lack of imagination, irresponsible behaviours close to the energy infrastructure or simply ignorance.

The goal of the campaign is promoting safe behaviours close to the elements of the power grid. The campaign is addressed to everybody: children, adolescents and adults, since everyone passes by poles every day, or energy stations or power cabinets. The Partners of the campaign include the Police, Fire Brigade or Polish Power Transmission and Distribution Association.

Enea Operator owns over 121 thou. km distribution lines with connections, 38 thou. transformer and switching stations and other power equipment in the region of north-western Poland which are being successively modernised. However, even the safest equipment will not eliminate various types of accidents if people close to them do not behave responsibly.

Four animated educational spots were developed for the needs of the campaign, along with competitions for students, demonstrations and classes devoted to safety which were conducted by firemen, rescuers and Enea's volunteers.



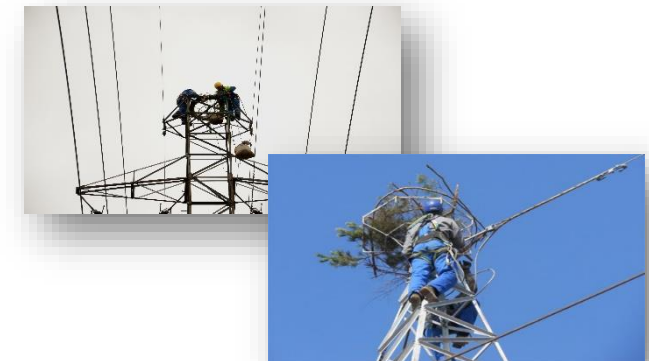
Osprey protection

An osprey is currently one of the most endangered species of accipitriformes in Poland which is under a strict protection. It is estimated that barely 30 pairs are nesting in Poland, and in Lubuskie province their number in 2016 reached the level of only 3 nesting pairs.

In their natural habitat ospreys prefer nests e.g. on various types of energy pole structures. In order to create a greater number of habitats for them a decision was made to use the electricity infrastructure installing artificial platforms on the poles.

In 2016 an agreement was concluded between Enea Operator and the Regional Environmental Protection Directorate in Gorzów Wielkopolski in order to undertake joint actions relating to the active protection of an osprey and enable the restoration of its stable population.

Cumulatively, within the cooperation six nesting platforms of that type were installed on high-voltage poles in specially selected locations, on a collaborative borders of the Lubuskie province.



Enea Group's Corporate social responsibility in 2016 was concentrated on the implementation of the following actions:

Enea Group's Corporate Social Responsibility Report for 2015

The development of the already fifth "Enea Group's sustainable development report for 2015", and the fourth in the on-line version, is a consequence of the undertaken commitment, and also a sign of transparency in communicating non-financial data, strategic goals and their translation into the actions undertaken by the Group companies and initiatives and their economic, social and environmental impacts.

CSR coordinators in the Group companies and numerous employees responsible for core areas took part in works over the CSR report for 2015 which lasted until June 2016. CSR report was prepared, similarly as the previous ones, in the on-line version pursuant to the international reporting standard, GRI G4, on the level of "Core" application.

The process of reporting was conducted in accordance with the four GRI G4 standard principles: taking into consideration stakeholders, materiality, sustainability context and completeness.

The goal of reporting corporate social responsibility is increasing the transparency of communicating non-financial data (ESG) and their economic, social and environmental results.



For several years now, Enea Sports Academy project has been conducted in Enea Group with the aim of promoting a healthy and active lifestyle among children and young people. Enea Group focuses on the development of projects from within the area of corporate social responsibility, with the task of financially supporting the training for children and young people.



Enea Sports Academy project actively supports the development of disciplines on the amateur and school level. The project includes schools and sport clubs from the area of distribution - Wielkopolskie, Lubuskie and Zachodniopomorskie provinces. In 2016 over 2,500 children availed themselves of out-of-school sports classes and took part in the competitions organised as part of the project.

Enea Sports Academy

Gifts and gratuities policy in Enea Group

Enea Group wishes to take a particular care for the transparency and for an optimum, responsible management of financial resources and elimination of the occurrence of a potential conflict of interests and situations where the award and acceptance of gifts may have an improper impact on the cooperation or may undermine the trust in business decisions. Gifts, although are a sign of hospitality in business and a customary courteous gesture aiming at building relations between partners, they may hinder keeping an objective attitude towards the person, company or institution handing a gift.

Thus, a new regulation was introduced in Enea Group "Gifts and gratuities policy in Enea Group", which:

- is binding for all Enea Group employees, including people employed under managerial contracts and Enea's partners establishing indirect sales network and joint-venture companies in situations in which they represent Enea Group
- specifies the principles should direct Enea Group employees when handing or accepting gifts
- resulted in the necessity of maintaining a Gift Register being the list of accepted and handed gifts above the predefined amount
- standardised and normalised sensitive issue on Enea Group's level

The development and reporting requirement on potential gifts handed and accepted by the Group's employees above the specified amount resulted in the fact that a wider context of courteous gestures and the market price of gifts began to be analysed.

Enea Group's Corporate social responsibility in 2016 was concentrated on the implementation of the following actions:



Education, health protection and cultural support are the core areas which in 2016 were supported by Enea Foundation.

In 2016 251 motions were considered. 41 donation agreements were concluded, of which:

- 41% of the concluded agreements related to educational projects support
- 24% of the concluded agreements related to health projects support
- 21% of the concluded agreements related to cultural projects support

The beneficiaries included the entities performing socially useful activities and Enea Group's employees who found themselves in a life or health-threatening situations.

The corporate volunteering programme has been operated in the Group since 2011. In 2016 the Group's employees conducted educational activities in the areas of first aid - "First aid - pre-medical rescue" and a lesson for the youngest - "Power-not so scary".

As part of campaign volunteering the volunteers implemented the following projects:

- "Great Power Parcel for Easter" - sweets, stationery and toys for children from educational care facilities located on the area of our Group's operations were collected in all the Group's companies. Gifts were given to children's homes, environmental day rooms, single mother's homes. Around 300 children in 11 facilities received the gifts.

- "A School Bag Full of Smiles" - a campaign organised by Caritas, during which school supplies were collected which at the beginning of September went to children from poor families. Employees of the whole Group joined the action. The collected supplies filled in 70 school bags.
- "Twist, bring, help" - the Group's employees collect plastic caps from packaging to hand them over for a good cause. Volunteers collect caps for the whole year. The gathered kilograms are regularly handed over to Stowarzyszenie Pomocy Osobom Niepełnosprawnym "Wspólna Droga" (Association for Helping Disabled People) in Luboń near Poznań. Thanks to the volunteers' help the renovation of the Occupational Therapy Workshops centre was co-funded.
- "Poland Business Run" - is the biggest charity run in Poland which helps fulfil dreams of people after amputations. In 2016 Enea guaranteed a start to eager employees in our organisation. 13 five-person teams took part in the run. All the means obtained due to starting fees were allocated to the charges of Jasiiek Mela's Horyzonty Association.

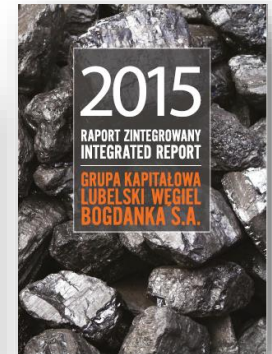
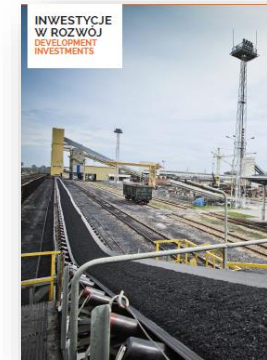
In 2016 Enea Group volunteers worked socially **361 hours** for the account of almost **8,114 beneficiaries**



LW Bogdanka's corporate social responsibility in 2016 was concentrated on the implementation of the below actions:

Corporate responsibility report of LW Bogdanka CG for 2015

The Integrated Report of LW Bogdanka CG published in June for 2015 was given the Main Award in the jubilee, 10th competition of Social Reports, organised by Responsible Business Forum and Deloitte and Minister's of Development Award handed within the same competition. The report joins both financial results and non-financial data.



Supply chain audit

In February 2016 LW Bogdanka successfully underwent an audit of the supplier's chain performed by one of the recipients. At the same time, continuously working on the improvement of knowledge propagating methods among employees, the following guidelines were enforced in the Company:

- mode and method of organising trainings
- surveys and propagating knowledge on the observance and spreading of the rules of the code of conduct and preventing malpractice

Social responsibility, good employment conditions, caring for the development of managerial staff's competences or Ethical Code in force in the Company are one of the factors due to which LW Bogdanka received the title of "TOP Employer in Eastern Europe".

Corporate volunteering in LW Bogdanka

As corporate volunteering LW Bogdanka realised the following initiatives in 2016:

- **Great Power of Helping** - collection of Easter gifts for the needs of the Juvenile Shelter (SDN) in Dominów near Lublin
- **School bag full of smiles** - preparation of several dozen school starter kits with school accessories for pupils deriving from the poorest families in the Lubelskie province
- **Charitable waste paper collection** - funds coming from the sale of the waste paper collected by the employees went to "Vault of Good Education" (scholarship fund for talented youth from Lublin)
- **Noble Box** - one internal and several division collections were conducted within the project. We helped families from the Lubuskie province.

The regular fund-raising actions were also continued:

- **"Positively stoked" campaign** - collection of caps for children and young people of Lublin Hospice under the name of Small Prince
- **Gold Rush** - collection of low-denomination coins lingering in the wallet - 1, 2 or 5 grosz, which are transferred to the Lublin branch of Polish Red Cross

Relations with local community

Local community support

LW Bogdanka supports local social initiatives with the goal of developing the areas of culture, science, education, health, developing the municipal infrastructure and securing other needs of the local community. The Company took care for the enhancement of security for employees and all the citizens in the region, e.g. via the co-funding of the acquisition of rescue and fire vehicle for the OTS unit neighbouring with LW Bogdanka and a specialist device for testing hearing for a hospital in Łęczna. These was e.g. for such actions in June 2016 that the Company was honoured with the Angel of Goodness by WTZ centre supported by it within PSOUU Łęczna.

Intersectoral Agreement for life and health

In March 2016, LW Bogdanka, Fundacja Solidarni Górniczy and Regional Center of Blood Donation and Treatment in Lublin agreed upon the scope of joint actions for 2016, including blood donation campaigns and meetings propagating knowledge in this area among employees. In order to widen the knowledge on blood and bone marrow donation meetings were held of representatives of the Regional Center of Blood Donation and Treatment in Lublin with LW Bogdanka's managerial staff and also blood donation campaigns organised in the partnership.

Other initiatives

Mine close to the nature

As the founder and co-organiser (with OTOP) of Nadrybie Educational Path, LW Bogdanka is planning to continue the extension of this infrastructure. In January 2016, a meeting was held with representatives of Parczew Forest District who shared their knowledge on the preparation and use of educational paths on naturally valuable areas.

The previous efforts and works over the Educational Path were appreciated in the 19th edition of the contest for the title of the Benefactor of the year in which LW Bogdanka won.

Education in C-Zone (multimedia exhibition presenting the history of Bogdanka and Lublin Coal Basin) - LW Bogdanka willingly shares its history, tradition and achievements with children and young people, via organisation of meetings with employees, who in specially designed multimedia rooms, familiarise them with the mining issues.



Attachments

Profit and loss statement of Enea Operator sp. z o.o. – 2016

[PLN '000]	2015	2016	Change	Change %
Revenue from sales of distribution services to end users	2 826 357	2 882 157	55 800	2.0%
Revenue from additional fees	4 883	5 485	602	12.3%
Revenue from non-invoiced sales of distribution services	-1 870	5 815	7 685	-
Clearing of the Balancing Market	9 168	9 334	166	1.8%
Fees for customer grid connection	98 092	67 564	-30 528	-31.1%
Revenue from the illegal collection of electricity	5 967	5 741	-226	-3.8%
Revenue from services	43 520	31 154	-12 366	-28.4%
Sales of distribution services to other entities	21 872	24 936	3 064	14.0%
Sales of goods and services and other revenue	3 907	2 777	-1 130	-28.9%
Sales revenue	3 011 896	3 034 963	23 067	0.8%
Depreciation and amortisation of fixed and intangible assets	431 025	473 120	42 095	9.8%
Employee benefit costs	392 113	400 741	8 628	2.2%
Consumption of materials and raw materials and value of goods sold	33 920	31 803	-2 117	-6.2%
Purchase of energy for own needs and grid losses	253 136	242 181	-10 955	-4.3%
Costs of transmission services	770 277	819 144	48 867	6.3%
Other outsourced services	265 819	247 536	-18 283	-6.9%
Taxes and charges	161 588	174 208	12 620	7.8%
Cost of sales	2 307 878	2 388 733	80 855	3.5%
Other operating revenue	28 003	50 080	22 077	78.8%
Other operating expenses	58 523	66 622	8 099	13.8%
Profit / loss on sales and liquidation of tangible fixed assets	-7 760	-16 538	-8 778	-113.1%
Operating profit / loss	665 738	613 150	-52 588	-7.9%
Financial revenue	4 191	4 997	806	19.2%
Financial costs	31 105	41 304	10 199	32.8%
Gross profit / loss	638 824	576 843	-61 981	-9.7%
Income tax	125 497	109 453	-16 044	-12.8%
Net profit / loss	513 327	467 390	-45 937	-8.9%
EBITDA	1 096 763	1 086 270	-10 493	-1.0%

2016:**Enea Operator sp. z o.o.'s EBITDA change drivers (drop by PLN 10 mln):**

- (+) higher volume of sales of distribution services to end users by PLN 805.7 GWh with higher rates (PLN 63 mln)
- (-) lower revenue from grid connection fees resulting from lower revenue from RES connection, despite greater revenue from connecting consumers in 3-6 connection groups, which stems from legislative changes on RES (PLN 31 mln)
- (-) lower revenue from services as a result of shifting the operations related to the maintenance of street lighting to Enea Oświeetlenie (PLN 12 mln)
- (+) higher revenue from sale of distribution services to other entities – greater volume of electricity exported to neighbouring ODSs by 74.8 GWh (PLN 3 mln)
- (-) higher costs of employee benefits mainly as a result of higher remunerations and derivatives and changes in the balance of employee provisions (PLN 9 mln)
- (+) lower costs of materials as a result of lower prices of purchasing fuel and lower costs of purchasing power tools (PLN 2 mln)
- (+) lower costs of purchasing energy for coverage of book-tax difference, mainly lower volume of purchased electricity by PLN 61.6 GWh (PLN 11 mln)
- (-) higher costs of purchase of transmission services - higher PSE fees (PLN 49 mln)
- (+) reducing costs of the other outsourced services - lower costs of software and IT systems operation and lower costs of exploitation and repairs of the grid assets (PLN 18 mln)
- (-) higher property tax in relation to new investments commissioning and fees for using the roads (PLN 13 mln)
- (+) growth in the other operating revenue mainly as a result of higher revenue from removal of collisions (PLN 22 mln)
- (-) higher operating expenses mainly as a result of costs of legal provisions relating to grid assets (PLN 8 mln)
- (-) growth in tangible assets liquidation costs - balance (PLN 9 mln)

Profit and loss statement of Enea Operator sp. z o.o. – Q4 2016

[PLN '000]	Q4 2015	Q4 2016	Change	Change %
Revenue from sales of distribution services to end users	716 044	741 224	25 180	3.5%
Revenue from additional fees	1 281	1 276	-5	-0.4%
Revenue from non-invoiced sales of distribution services	5 886	5 658	-228	-3.9%
Clearing of the Balancing Market	6 433	7 626	1 193	18.5%
Fees for customer grid connection	43 616	19 845	-23 771	-54.5%
Revenue from the illegal collection of electricity	1 330	1 724	394	29.6%
Revenue from services	10 909	8 500	-2 409	-22.1%
Sales of distribution services to other entities	6 651	6 400	-251	-3.8%
Sales of goods and services and other revenue	1 891	812	-1 079	-57.1%
Sales revenue	794 041	793 065	-976	-0.1%
Depreciation and amortisation of fixed and intangible assets	106 805	116 621	9 816	9.2%
Employee benefit costs	108 826	126 980	18 154	16.7%
Consumption of materials and raw materials and value of goods sold	10 773	9 496	-1 277	-11.9%
Purchase of energy for own needs and grid losses	68 538	60 592	-7 946	-11.6%
Costs of transmission services	194 765	215 134	20 369	10.5%
Other outsourced services	83 427	73 301	-10 126	-12.1%
Taxes and charges	38 131	41 152	3 021	7.9%
Cost of sales	611 265	643 276	32 011	5.2%
Other operating revenue	15 430	11 592	-3 838	-24.9%
Other operating expenses	8 946	20 383	11 437	127.8%
Profit / loss on sales and liquidation of tangible fixed assets	-4 441	-10 453	-6 012	-135.4%
Operating profit / loss	184 819	130 545	-54 274	-29.4%
Financial revenue	542	2371	1 829	337.5%
Financial costs	9 375	11 494	2 119	22.6%
Gross profit / loss	175 986	121 422	-54 564	-31.0%
Income tax	33 218	24 232	-8 986	-27.1%
Net profit / loss	142 768	97 190	-45 578	-31.9%
EBITDA	291 624	247 166	-44 458	-15.2%

Q4 2016:**Enea Operator sp. z o.o.'s EBITDA change drivers (drop by PLN 44 mln):**

- (+) higher volume of sales of distribution services to end users by PLN 271 GWh with higher rates (PLN 25 mln)
- (-) lower revenue from grid connection fees resulting from lower revenue from RES connection, despite greater revenue from connecting consumers in 3-6 connection groups, which stems from legislative changes on RES (PLN 24 mln)
- (-) lower revenue in relation to the resignation from rendering the street lighting maintenance services (PLN 2 mln)
- (-) higher costs of employee benefits mainly as a result of changes in the balance of employee provisions (PLN 18 mln)
- (+) lower costs of purchasing energy for coverage of book-tax difference, mainly lower volume of purchased electricity by PLN 56.5 GWh (PLN 9 mln)
- (-) higher costs of purchase of transmission services resulting mainly from higher PSE fees (PLN 20 mln)
- (+) reducing costs of the other outsourced services mainly lower costs of software and IT systems operation and lower costs of exploitation and repairs of the grid assets (PLN 10 mln)
- (-) higher property tax in relation to new investments commissioning (PLN 3 mln)
- (-) higher operating expenses mainly as a result of higher costs of legal provisions relating to grid assets (PLN 11 mln)
- (-) growth in tangible assets liquidation costs - balance (PLN 6 mln)

Profit and loss statement of Enea Wytwarzanie sp. z o.o. – 2016

[PLN '000]	2015	2016	Change	Change %
Revenue from sale of electricity	2 811 597	2 899 395	87 798	3.1%
<i>generating licence</i>	2 463 716	2 548 594	84 878	3.4%
<i>trade licence</i>	347 882	350 801	2 919	0.8%
Revenue from certificates of origin	114 049	37 493	-76 556	-67.1%
Revenue from sales of CO ₂ emission allowances	-	32 713	32 713	100.0%
Revenue from sale of heat	160 379	169 227	8 848	5.5%
Recovery of stranded costs	293 147	-	-293 147	-100.0%
Revenue from services	13 832	12 138	-1 694	-12.2%
Sales of goods and services and other revenue	11 084	11 680	596	5.4%
Excise tax	233	206	-27	-11.6%
Sales revenue	3 403 855	3 162 440	-241 415	-7.1%
Depreciation and amortisation of fixed and intangible assets	274 832	222 557	-52 275	-19.0%
Employee benefit costs	236 268	262 817	26 549	11.2%
Consumption of materials and raw materials and value of goods sold	1 672 137	1 690 178	18 041	1.1%
Purchase of energy for own needs and grid losses	425 589	414 606	-10 983	-2.6%
Costs of transmission services	2 664	2 273	-391	-14.7%
Other outsourced services	134 930	138 851	3 921	2.9%
Taxes and charges	92 747	77 113	-15 634	-16.9%
Cost of sales	2 839 167	2 808 395	-30 772	-1.1%
Other operating revenue	32 707	26 389	-6 318	-19.3%
Other operating expenses	27 812	142 933	115 121	413.9%
Profit / loss on sales and liquidation of tangible fixed assets	76	1 448	1 372	1 805.3%
Non-financial fixed assets impairment write-down	1 501 621	90 808	-1 410 813	-94.0%
Operating profit / loss	-931 962	148 141	1 080 103	-
Financial revenue	12 685	7 383	-5 302	-41.8%
Financial costs	21 848	18 359	-3 489	-16.0%
Share value impairment write-down	79 414	-	-79 414	-100.0%
Dividend revenue	3 890	2 740	-1 150	-29.6%
Write off of goodwill	121 788	-	-121 788	-100.0%
Gross profit / loss	-1 138 437	139 905	1 278 342	-
Income tax	-183 369	53 727	237 096	-
Net profit / loss	-955 068	86 178	1 041 246	-
EBITDA	844 491	461 506	-382 985	-45.4%

2016:**Enea Wytwarzanie sp. z o.o.'s EBITDA change drivers:****Segment of System Power Plants - drop in EBITDA by PLN 257.4 mln:**

- (-) revenue from LTPPA lower by PLN 293.1 mln - completion of the programme of Enea Wytwarzanie
- (-) higher fixed costs by PLN 40 mln - higher provisions for employee benefits by PLN 32.8 mln
- (-) lower margin on trade and the Balancing Market by PLN 6.2 mln
- (+) higher margin on generation by PLN 71.8 mln
- (+) higher result on other activity by PLN 8.5 mln
- (+) higher revenue from Regulatory System Services by PLN 2 mln

Segment of Heat - growth in EBITDA by PLN 19.1 mln:

- (+) lower variable costs by PLN 33.6 mln including lower costs of biomass by PLN 33.0
- (+) higher revenue from sales of heat by PLN 10.4 mln
- (+) lower fixed costs by PLN 2.8 mln
- (-) lower revenue from certificates of origin by PLN 25.7 mln
- (-) lower result on the other operating activity by PLN 2.3 mln

Segment of RES - drop in EBITDA by PLN 144.7 mln:

- (-) establishment of the provision related to the estimation of the value of shares in Eco-Power sp. z o.o. in the amount of PLN 129 mln
- (-) area of Wind (PLN -14.4 mln): lower revenue from sales of certificates of origin by PLN 12.5 mln and lower result on the other operating activities by PLN 1.4 mln
- (-) area of Water (PLN -8.0 mln): lower revenue from certificates of origin by PLN 9.1 mln, lower result on the other operating activity by PLN 2.0 mln and higher revenue from electricity by PLN 2.6 mln
- (+) area of Biogas (PLN +6.7 mln): in 2015 establishment of provisions for future liabilities in the amount of PLN 6.2 mln

Profit and loss statement of Enea Wytwarzanie sp. z o.o. – Q4 2016

[PLN '000]	Q4 2015	Q4 2016	Change	Change %
Revenue from sale of electricity	742 076	724 916	-17 160	-2.3%
<i>generating licence</i>	632 056	642 718	10 662	1.7%
<i>trade licence</i>	110 021	82 198	-27 823	-25.3%
Revenue from certificates of origin	34 304	7 589	-26 715	-77.9%
Revenue from sales of CO ₂ emission allowances	-	10 642	10 642	100.0%
Revenue from sale of heat	46 732	53 442	6 710	14.4%
Recovery of stranded costs	-	-	-	-
Revenue from services	3 632	2 961	-671	-18.5%
Sales of goods and services and other revenue	2 145	3 038	893	41.6%
Excise tax	56	51	-5	-8.9%
Sales revenue	828 833	802 537	-26 296	-3.2%
Depreciation and amortisation of fixed and intangible assets	70 863	57 117	-13 746	-19.4%
Employee benefit costs	51 271	72 832	21 561	42.1%
Consumption of materials and raw materials and value of goods sold	431 925	414 689	-17 236	-4.0%
Purchase of energy for own needs and grid losses	115 768	100 827	-14 941	-12.9%
Costs of transmission services	723	577	-146	-20.2%
Other outsourced services	37 660	42 667	5 007	13.3%
Taxes and charges	23 758	20 106	-3 652	-15.4%
Cost of sales	731 968	708 815	-23 153	-3.2%
Other operating revenue	12 561	12 422	-139	-1.1%
Other operating expenses	18 852	133 449	114 597	607.9%
Profit / loss on sales and liquidation of tangible fixed assets	-44	909	953	-
Non-financial fixed assets impairment write-down	1 501 621	48 808	-1 452 813	-96.7%
Operating profit / loss	-1 411 091	-75 204	1 335 887	94.7%
Financial revenue	4 448	4 467	19	0.4%
Financial costs	7 420	3 839	-3 581	-48.3%
Share value impairment write-down	79 414	-	-79 414	-100.0%
Write off of goodwill	121 788	-	-121 788	-100.0%
Gross profit / loss	-1 615 265	-74 576	1 540 689	95.4%
Income tax	-268 404	10 109	278 513	-
Net profit / loss	-1 346 861	-84 685	1 262 176	93.7%
EBITDA	161 393	30 721	-130 672	-81.0%

Q4 2016:**Enea Wytwarzanie sp. z o.o.'s EBITDA change drivers:****Segment of System Power Plants - drop in EBITDA by PLN 8.8 mln:**

- (-) higher fixed costs by PLN 27.0 mln
- (+) higher margin on trade and the Balancing Market by PLN 0.9 mln
- (+) higher revenue from Regulatory System Services by PLN 1.0 mln
- (+) higher margin on generation by PLN 5.1 mln
- (+) higher result on the other operating activity by PLN 11.4 mln

Segment of Heat - growth in EBITDA by PLN 1.5 mln:

- (+) lower costs of consumption of materials by PLN 13.6 mln (reduced costs of biomass consumption by PLN 11.0 mln and coal by PLN 2.2 mln)
- (+) higher revenue from heat by PLN 7.0 mln
- (-) lower revenue from sales of electricity by PLN 0.8 mln
- (-) higher costs of energy purchased for resale by PLN 1.4 mln
- (-) higher costs of salaries by PLN 1.4 mln
- (-) higher costs of outsourced services by PLN 3.3 mln
- (-) lower revenue from certificates of origin by PLN 12.4 mln

Segment of RES - drop in EBITDA by PLN 123.4 mln:

- (-) establishment of the provision related to the estimation of the value of shares in Eco-Power sp. z o.o. in the amount of PLN 129 mln
- (+) area of Biogas (PLN +7.1 mln): in 2015 establishment of provisions for future liabilities in the amount of PLN 5.8 mln, lower costs of substrates by PLN 0.9 mln, higher revenue from certification of origin by PLN 0.5 mln
- (+) area of Water (PLN +1.4 mln): lower costs of salaries by PLN 1.4 mln
- (-) area of Wind (PLN -2.9 mln): lower result on the other operating activity by PLN 2.0 mln, lower revenue from certificates of origin by PLN 5.1 mln, lower costs of outsourced services by PLN 3.8 mln, higher revenue from sales of electricity by PLN 0.8 mln

Profit and loss statement of LW Bogdanka CG - 2016

[PLN '000]	2015 ¹⁾	2016	Change	Change %
Net sales revenue	1 885 371	1 785 981	-99 390	-5.3%
Depreciation and amortisation of fixed and intangible assets	387 747	363 238	-24 509	-6.3%
Employee benefit costs ¹⁾	556 618	540 254	-16 364	-2.9%
Consumption of materials and raw materials and value of goods sold ¹⁾	303 578	296 583	-6 995	-2.3%
Other outsourced services ¹⁾	286 429	294 160	7 731	2.7%
Taxes and levies ¹⁾	48 197	45 437	-2 760	-5.7%
Cost of sales	1 582 569	1 539 672	-42 897	-2.7%
Other operating revenue	2 831	21 865	19 034	672.3%
Other operating expenses	2 017	6 579	4 562	226.2%
Profit / loss on sales and liquidation of tangible fixed assets	-5 065	-16 271	-11 206	-221.2%
Non-financial fixed assets impairment write-down	624 772	7 352	-617 420	-98.8%
Operating profit / loss	-326 221	237 972	564 193	-
Financial revenue	6 110	15 637	9 527	155.9%
Financial costs	22 938	31 105	8 167	35.6%
Gross profit / loss	-343 049	222 504	565 553	-
Income tax	-63 423	41 275	104 698	-
Net profit / loss	-279 626	181 229	460 855	-
EBITDA	686 298	608 562	-77 736	-11.3%

2016:**LW Bogdanka CG's EBITDA drivers:**

- (+) production of commercial coal +6.9% with concurrent reduction in cost of revenue by 2.7%
- (+) sales of coal +6.8% - growth in sale to core customers, launching sales for export
- (-) drop in the price of sold coal by 10%
- (+) significant one-offs: release of the provisions for latent claims of Budimex, revaluation of managerial options, higher compensation received
- (+) growth in EBITDA in the Parent's subsidiaries PLN 9 mln

1) 2015 - statistical data based on the report of LW Bogdanka CG's Management Board

Profit and loss statement of LW Bogdanka CG - Q4 2016

[PLN '000]	Q4 2015 ¹⁾	Q4 2016	Change	Change %
Net sales revenue	558 387	471 878	-86 509	-15.5%
Depreciation and amortisation of fixed and intangible assets	104 171	92 472	-11 699	-11.2%
Employee benefit costs ¹⁾	154 156	134 951	-19 205	-12.5%
Consumption of materials and raw materials and value of goods sold ¹⁾	81 553	72 885	-8 668	-10.6%
Other outsourced services ¹⁾	76 758	81 961	5 203	6.8%
Taxes and levies ¹⁾	13 625	10 841	-2 784	-20.4%
Cost of sales	430 263	393 110	-37 153	-8.6%
Other operating revenue	401	8 165	7 764	1 936.2%
Other operating expenses	1 418	3 100	1 682	118.6%
Profit / loss on sales and liquidation of tangible fixed assets	-3 101	-1 583	1 518	49.0%
Non-financial fixed assets impairment write-down	624 772	-	-624 772	-100.0%
Operating profit / loss	-500 766	82 250	583 016	-
Financial revenue	1 475	2 697	1 222	82.8%
Financial costs	7 945	7 367	-578	-7.3%
Gross profit / loss	-507 236	77 580	584 816	-
Income tax	-95 473	15 887	111 360	-
Net profit / loss	-411 763	61 693	473 456	-
EBITDA	228 177	174 722	-53 455	-23.4%

Q4 2016:

LW Bogdanka CG's EBITDA drivers:

- (-) reduced production and sales of coal
- (-) drop in the price of sold coal by 8%
- (+) significant one-offs: higher damages received, release of special purpose provisions

1) 2015 - statistical data based on the report of LW Bogdanka CG's Management Board

Financial ratios

Below please find a glossary of terms and a list of acronyms used in this Report of the Management Board on the Operations of Enea SA and Enea Capital Group:

Ratio	Description
EBITDA	= Operating profit (loss) + Amortisation and depreciation + Non-financial fixed assets impairment write-down
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	= $\frac{\text{Current assets}}{\text{Current liabilities}}$
Equity-to-fixed assets ratio	= $\frac{\text{Equity}}{\text{Fixed assets}}$
Total debt ratio	= $\frac{\text{Total liabilities}}{\text{Total assets}}$
Net debt / EBITDA	= $\frac{\text{Interest-bearing liabilities - cash and cash equivalents}}{\text{EBITDA}}$
Current receivables turnover in days	= $\frac{\text{Average trade and other receivables} \times \text{number of days}}{\text{Net sales revenue}}$
Turnover of trade and other payables in days	= $\frac{\text{Average trade and other liabilities} \times \text{number of days}}{\text{Cost of products, goods and materials sold}}$
Inventory turnover in days	= $\frac{\text{Average inventory} \times \text{number of days}}{\text{Cost of products, goods and materials sold}}$
Cost of products, goods and materials sold	= Use of materials and value of goods sold; Purchases of energy for resale; Transmission services; other outsourced services; taxes and charges; excise tax

Sectoral terms/abbreviations

Abbreviation/term	Full name/explanation
ACER	European Agency for the Cooperation of Energy Regulators - EU agency established pursuant to the third energy package. The objective of the Agency is coordination and supporting 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
CAPEX	Capital expenditures
CO₂	Carbon dioxide
Price of baseload (BASE)	Price of contract with delivery of the same volume of energy on each day hour
Price of euro-peak (PEAK)	Price of contract with delivery of the same volume of energy in euro-peak (i.e. from 7:00 to 22:00 on business days)
CER	Certified Emission Reduction
EUA	EU Emission Allowance - allowances for emissions within the European Emissions Trading System
European Emissions Trading System EU ETS	European system supporting reduction of greenhouse gases emissions
GPZ	Transformer/Switching Station - transformer station, responsible for amending of high or medium voltage into low voltage for end users on a specific area
Tariff Group A	Energy sold and delivered to customers connected to a high-voltage grid
Tariff Group B	Energy sold and delivered to customers connected to a medium-voltage grid
Tariff Group C	Energy sold and delivered to customers connected to a low-voltage grid, with the exception of end users using electricity for household purposes
Tariff Group G	Energy sold and delivered to end users using electricity for household purposes, regardless of voltage of the grid to which they are connected
ICE	Trading platform enabling trade in allowances for emissions of CO ₂ (EUA) and units of certified reduction of emissions (CER) on futures market

Abbreviation/term	Full name/explanation
IOS installation	Fue gas desulphurisation plant
SCR installation	Installation of the catalytic denitrogenation of flue gases
IRS (interest rate swap)	Interest rate swap - an agreement between two counterparties in which they commit to exchange the series of interest payments in the same currency, calculated from the specified nominal amount and for the specified period, however one party pays the interest based on the fixed interest rate and the other on a floating interest rate. The IRS buyer secures the maximum interest rate (financing cost), while the IRS seller secures itself a minimum interest rate (return on investment).
Cogeneration	A technological process of a combined generation of electricity and usable heat energy in combined heat and power plants
KPRU III/3rd settlement period	National Allocation Plan of CO ₂ emission allowances for 2013-2020
NFOŚiGW	National Fund for Environmental Protection and Water Management
MW_e	Megawatt of electrical power
MWh	Megawatthour (1 GWh = 1,000 MWh)
MW_t	Megawatt of heating power
NO_x	Nitric oxides
One-off	One-off event
ODS	Operator of the Distribution System
OTS	Operator of the Transmission System
RES	Energy renewable sources
PMOZE	Proprietary interests from certificates of origin for energy from renewable sources of energy
"Green" proprietary interests	Same as PMOZE
OZEX_A	Index for session transactions the subject of which are contracts for proprietary interests resulting from certificates of origin for energy generated in energy renewable sources whose production period (indicated in the certificate of origin) commenced on 1 March 2009 inclusive.

Abbreviation/term	Full name/explanation
"Yellow" proprietary interests	Proprietary Interests in certificates of origin being the confirmation of electricity generation in a gas cogeneration unit or in a unit of the total installed capacity of up to 1 MW
KGMX	Index for session transactions the subject of which are contracts for proprietary interests resulting from certificates of origin for electricity generated in a gas cogeneration unit or in a unit of the total installed capacity of up to 1 MW
"Red" proprietary interests	Proprietary Interests in certificates of origin being the confirmation of electricity generation in other cogeneration sources
KECX	Index for session transactions the subject of which are contracts for proprietary interests resulting from certificates of origin for electricity generated in other cogeneration sources
"Purple" proprietary interests	Proprietary Interests in certificates of origin being the confirmation of electricity generation in a cogeneration unit fired with methane released and abstracted on pit mining works or with gas obtained from biomass processing in the meaning of Article 2 item 1(2) of the Act on biocomponents and liquid biofuels
KMETX	Index for session transactions the subject of which are contracts for proprietary interests resulting from certificates of origin for electricity generated in a cogeneration unit fired with methane released and abstracted on pit mining works or with gas obtained from biomass processing in the meaning of Article 2 item 1(2) of the Act on biocomponents and liquid biofuels
"White" proprietary interests	Proprietary interests in certificates of origin resulting from energy efficiency certificates, the so called "white" certificates
EFX	Index for session transactions the subject of which are contracts for proprietary interests resulting from energy efficiency certificates, the so called "white" certificates
REMIT Regulation	Regulation on integrity and transparency of wholesale energy market, specifies the framework of monitoring wholesale energy markets, in order to detect and prevent unfair practice on EU level

Abbreviation/term	Full name/explanation
Forward market	Electricity market on which forward products are listed
SPOT market	Cash market (spot)
Balancing market	Technical market by an Operator of the transmission system Its objective is balancing, in real time, the demand for electricity with its production in the public power system (PPS, Polish "KSE")
SAIDI	System Average Interruption Duration Index - for long and very long interruptions (expressed in minutes/Customer)
SAIFI	System Average Interruption Frequency Index - for long interruptions in energy supply (expressed in number of interruptions/Customer)
SO₂	Sulphur dioxide
SNCR	Selective Non-Catalytic Reduction - method of denitrifying of flue gases using a reagent instead of catalyzer
TFS	Tradition Financial Services, electricity trading platform designated for concluding various types of transactions, purchase and sale of conventional energy, proprietary interests, renewable energy and allowances for emissions of CO ₂
TJ	Terajoule
TGE (PPE)	Towarowa Giełda Energii (Polish Power Exchange)
TPA	Third Party Access – the principle of third party access to the power grid which enables the purchase of electricity and services of its distribution based on separate agreements
Energy Law	The Act of 10 April 1997 - Energy Law (Journal of Laws 1997 No. 54 item 348, as amended)
WIBOR	Warsaw Interbank Offered Rate - interest rate for loans on the Polish interbank market

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