

# Letter from the President of the Board



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

Dear Sirs and Madams,

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

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

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

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

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

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

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

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

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

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

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

## We diversify our offer and exceed Clients’ expectations

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

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

## Business must be socially responsible

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

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

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This approach is demonstrated, for instance, by the Enea Talent Academy scheme which was completed by Enea Foundation in January 2017. The purpose of the scheme is to provide scholarships to support the development of outstanding pupils and students as well as to award state primary and lower-secondary schools which develop their talents and passions. This is also how we try to contribute to supporting the regions of the country where Enea Group companies operate.

When doing our business, we strive to minimise its impact on the environment which surrounds us. Our new offer, Enea Eco, which is available from 31 January 2018 and supports fighting smog, is an example of the initiative reflecting this environment-friendly approach. This is the first stage of Enea's long-term activities aimed to increase Client awareness of natural environment and smog fighting issues.

## Stable financial situation supports the implementation of development plans

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

We have been consistently developing Enea Group, with capital expenditures in 2017 reaching the level of PLN 4 billion – over 53% higher than in the previous year, while keeping a safe 2.07 net debt/EBITDA ratio. We attempt to consistently increase the value of Enea to its Shareholders through a sustainable growth in all business areas, which is reflected in the improvement of financial results generated in subsequent reporting periods. The year 2017 was a record year in this respect.

In entire 2017, **EBITDA** (operating profit plus depreciation and amortisation) of our Group increased year-on-year by over 15% to PLN 2.684 billion, and the net profit attributable to shareholders of the parent company grew by 36.4% to PLN 1.07 billion. In 2017, the Enea Group generated 21 TWh of electricity, which is 54% more than in the previous year. Sales of distribution services to end customers rose to 19.3 TWh from 18.7 TWh in 2016 whereas the volume of electricity and gas sales to retail customers went up to 18.9 TWh. Enea's stable financial standing and perspectives enabled the Company to pay in 2017 a dividend from profit earned in 2016 in the amount of PLN 0.25 per share along with the realisation of key investment projects. When considering a dividend payment in the following years, Enea Management Board is responsibly guided by the need to ensure for the entire Group the financial liquidity and capital necessary for development of our activity with a view to increasing its value and building our competitive advantage. One of our priorities is to use synergies and further improve the operational efficiency in order to adapt best and quickly to dynamic market changes and technological trends both in Europe and in the world. We are responsible in our investment policy and commitment to innovative projects. Our partners include both the

leading groups of the energy industry in Poland, global entities, but also new start-ups initiated by Polish entrepreneurs seeking capital and competence support of our Group. These are the main foundations on which we want to base the activities of the Management Board of Enea S.A. and the cooperation with all stakeholders supporting development and building the value of Enea Group.

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

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

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

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

Yours faithfully,

Mirosław Kowalik  
President of the Management Board, Enea SA