

# Events that may affect future results

## Significant trends in the Distribution Area

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

Key trends are related to:

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

## Tariff for electricity distribution services

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

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

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

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

## Increasing number of energy sellers

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

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

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

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

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

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

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

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

## Building the generation portfolio

Notwithstanding the take-over of 1 075 MW power plant at Koźlenice Power Plant, Enea intends to engage in the construction of new sources or acquisition of the existing ones. Some of these operations will be

implemented through partnerships with other energy groups. Implementation of this strategy will mean a significant increase in Enea's importance in electricity production for purposes of the National Power System. The aggregate installed power capacity of conventional sources of power generation is to rise to the level of 5.8-6.3 GW in 2025. This will allow the Group to produce from its own sources 20.7-22.8 TWh of electricity, which will mean the balancing of electricity production and sales.

## Rating

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

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

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

## Demand for electricity

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

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

2) [bip.me.gov.pl/files/upload/21394/Wnioski%20z%20analiz%20prognostycznych\\_2014-08-11.pdf](http://bip.me.gov.pl/files/upload/21394/Wnioski%20z%20analiz%20prognostycznych_2014-08-11.pdf)

## Collective disputes

There is no collective dispute in any of the key companies being members of Enea Group. In order to eliminate the risk and occurrence of potential collective dispute, the management boards of the companies remain in constant dialogue with the community.

The trade unions of Lubelski Węgiel Bogdanka protest against implementing the Corporate Governance of Enea Group. However, this may not be the reason for any collective dispute as this issues is not mentioned in the detailed list of the issues which may be used as the grounds for starting a collective dispute as include in the Act on collective dispute settlement.

## Court and administrative proceedings

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

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

## Long-term power market development

On 16 February 2016, the Government of the Republic of Poland adopted the “Plan for the Responsible Development of Poland”<sup>31</sup>. The document sets the main directions of the State operation and the new impulses ensuring its stable development in the future.

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

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

<sup>31</sup> [www.mr.gov.pl/media/14840/Plan\\_na\\_rzecz\\_Odpowiedzialnego\\_Rozwoju\\_prezentacja.pdf](http://www.mr.gov.pl/media/14840/Plan_na_rzecz_Odpowiedzialnego_Rozwoju_prezentacja.pdf)

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

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

## New projections for energy price curves

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

## Variability and liquidity on the wholesale market

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

## Limits on Property Rights

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

PLN/MWh.

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

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

The current system of property rights for [cogeneration](#) will remain in effect until the end of 2018.

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

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

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

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

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

## Situation in the domestic bituminous coal mining sector

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

## Establishing ElectroMobility Poland SA

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

The company has the share capital of PLN 10m. Each of the companies establishing ElectroMobility Poland SA took up 25% of the share capital, thus achieving 25% of votes at the general meeting of shareholders.

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

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

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

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

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

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

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

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

## Amendment to RES Act

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

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

## Act on electromobility and alternative fuels

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

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

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

## Act of 20 July 2017 – Water Law

On 2 August 2017, the President of the Republic of Poland signed the Water Law Act. The Act replaces the 2001 Act governing water management, including the planning, development, and protection of water resources, using the waters and water resource management, water and underwater land ownership issues,

as well as the rules for managing such assets as the State Treasury property. The amendment to the Act is related to the implementation of the requirements of the Directive of the European Parliament establishing a framework for Community action in the field of water policy. The Act cancels any exemptions from fees for economic use of water for power purposes and introduces additional fees on this account to be charged from 2018.

## Draft Power Market Act

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

## REMIT

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

## Licences

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

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

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

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

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

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

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

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

| <b>Auction date</b> | <b>Volume</b> | <b>Auction price [EUR]</b> | <b>Volume, cummulative</b> | <b>% volume, cummulative</b> |
|---------------------|---------------|----------------------------|----------------------------|------------------------------|
| 29 March 2017       | 5 738 500     | 4.71                       | 5 738 500                  | 7%                           |
| 12 April 2017       | 4 857 000     | 4.84                       | 10 595 500                 | 12%                          |
| 26 April 2017       | 4 857 000     | 4.49                       | 15 452 500                 | 18%                          |
| 10 May 2017         | 4 857 000     | 4.49                       | 20 309 500                 | 24%                          |
| 24 May 2017         | 4 857 000     | 4.81                       | 25 166 500                 | 29%                          |
| 7 June 2017         | 4 857 000     | 4.97                       | 30 023 500                 | 35%                          |
| 21 June 2017        | 4 857 000     | 4.95                       | 34 880 500                 | 41%                          |
| 5 July 2017         | 4 857 000     | 5.1                        | 39 737 500                 | 46%                          |
| 19 July 2017        | 4 857 000     | 5.39                       | 44 594 500                 | 52%                          |
| 2 August 2017       | 2 428 500     | 5.29                       | 47 023 000                 | 55%                          |
| 16 August 2017      | 2 428 500     | 5.62                       | 49 451 500                 | 58%                          |
| 30 August 2017      | 2 428 500     | 6.02                       | 51 880 000                 | 60%                          |
| 13 September 2017   | 4 857 000     | 6.95                       | 56 737 000                 | 66%                          |

| Auction date      | Volume    | Auction price [EUR] | Volume, cummulative | % volume, cummulative |
|-------------------|-----------|---------------------|---------------------|-----------------------|
| 27 September 2017 | 4 857 000 | 6.75                | 61 594 000          | 72%                   |
| 11 October 2017   | 4 857 000 | 7.4                 | 66 451 000          | 77%                   |
| 25 October 2017   | 4 857 000 | 7.41                | 71 308 000          | 83%                   |
| 8 November 2017   | 4 857 000 | 7.62                | 76 165 000          | 89%                   |
| 22 November 2017  | 4 857 000 | 7.46                | 81 022 000          | 94%                   |
| 6 December 2017   | 4 855 000 | 7.38                | 85 877 000          | 100%                  |

## Reduction of pollutant emissions

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

### Kozienice Power Plant

| 2017/2016 | SO <sub>2</sub>                |  |  | NO <sub>x</sub>                |  |  | Dust                |                               |                                   | Gross production of electricity [MWh] |
|-----------|--------------------------------|--|--|--------------------------------|--|--|---------------------|-------------------------------|-----------------------------------|---------------------------------------|
|           | SO <sub>2</sub> emissions [Mg] | SO <sub>2</sub> emissions ratio [kg/MWh] | Fee for SO <sub>2</sub> emissions ['000 PLN] | NO <sub>x</sub> emissions [Mg] | NO <sub>x</sub> emissions ratio [kg/MWh] | Fee for NO <sub>x</sub> emissions ['000 PLN] | Dust emissions [Mg] | Dust emissions ratio [kg/MWh] | Fee for dust emissions ['000 PLN] |                                       |
| 2017      | 9 601.85                       | 0.747                                    | 5 089.00                                     | 11 876.85                      | 0.924                                    | 6 294.70                                     | 281.64              | 0.022                         | 98.6                              | 12 853 580.92                         |
| 2016      | 9 657.04                       | 0.701                                    | 5 118.20                                     | 14 308.16                      | 1.039                                    | 7 583.30                                     | 402                 | 0.029                         | 140.7                             | 13 770 054.66                         |
| Zmiana %  | -0.57                          | 6.56                                     | -0.57  | -16.99                         | -11.07                                   | -16.99                                       | -29.94              | -24.14                        | -29.91                            | -6.66                                 |

### Elektrownia Połaniec

| 2017/2016 | SO <sub>2</sub>                |  |  | NO <sub>x</sub>                |  |  | Dust                |                               |                                   | Gross production of electricity [MWh] |
|-----------|--------------------------------|--|--|--------------------------------|--|--|---------------------|-------------------------------|-----------------------------------|---------------------------------------|
|           | SO <sub>2</sub> emissions [Mg] | SO <sub>2</sub> emissions ratio [kg/MWh] | Fee for SO <sub>2</sub> emissions ['000 PLN] | NO <sub>x</sub> emissions [Mg] | NO <sub>x</sub> emissions ratio [kg/MWh] | Fee for NO <sub>x</sub> emissions ['000 PLN] | Dust emissions [Mg] | Dust emissions ratio [kg/MWh] | Fee for dust emissions ['000 PLN] |                                       |

| 2017/2016 | SO <sub>2</sub>                |  |  | NO <sub>x</sub>                |  |  | Dust                |                               |                                   | Gross production of electricity [MWh] |
|-----------|--------------------------------|--|--|--------------------------------|--|--|---------------------|-------------------------------|-----------------------------------|---------------------------------------|
|           | SO <sub>2</sub> emissions [Mg] | SO <sub>2</sub> emissions ratio [kg/MWh] | Fee for SO <sub>2</sub> emissions ['000 PLN] | NO <sub>x</sub> emissions [Mg] | NO <sub>x</sub> emissions ratio [kg/MWh] | Fee for NO <sub>x</sub> emissions ['000 PLN] | Dust emissions [Mg] | Dust emissions ratio [kg/MWh] | Fee for dust emissions ['000 PLN] |                                       |
| 2017      | 7 112.70                       | 0.71                                     | 3 769.73                                     | 11 901.09                      | 1.19                                     | 6 307.58                                     | 555.82              | 0.06                          | 194.54                            | 9 974 193.20                          |
| 2016      | 7 692.76                       | 0.69                                     | 4 077.17                                     | 15 637.47                      | 1.4                                      | 8 287.86                                     | 600.15              | 0.05                          | 210.05                            | 11 164 530.00                         |
| Zmiana %  | -7.54                          | 2.9                                      | -7.54  | -23.89                         | -15                                      | -23.89                                       | -7.39               | 20                            | -7.38                             | -10.66                                |

## Compliance with formal and legal requirements

### Enea Wytwarzanie

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

| Plant                       |                   | SO <sub>2</sub> |               | Dust        |               | NO <sub>x</sub> |               |
|-----------------------------|-------------------|-----------------|---------------|-------------|---------------|-----------------|---------------|
|                             |                   | [Mg]            | Utilisation % | [Mg]        | Utilisation % | [Mg]            | Utilisation % |
| Kozienice Power Plant       | emissions         | 8<br>583,89     |               | 211.26      |               |                 |               |
|                             | annual max. limit | 12<br>522.50    | 68.5          | 1<br>502.70 | 14.1          | -               | -             |
| Elektrociepłownia Białystok | emissions         | 1<br>525.20     |               | 58.72       |               | 297.04          |               |
|                             | annual max. limit | 2<br>666.56     | 57.2          | 215.69      | 27.2          | 1<br>347.75     | 22            |
| Razem                       | emissions         | 10<br>109.09    |               | 262.98      |               | 297.04          |               |
|                             | annual max. limit | 15<br>189.06    | 66.6          | 1<br>718.39 | 15.7          | 1<br>347.75     | 22            |

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

## Enea Elektrownia Połaniec

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

## 2018 Tariff – distribution of electricity

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

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

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

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

## Operating Capacity Reserve (OCR)

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

Parameters of the OCR settlement model in 2016-2017:

| <b>Parameter</b>                    | <b>2016</b> | <b>2017</b> |
|-------------------------------------|-------------|-------------|
| Hourly budget [PLN]                 | 128 758.72  | 144 070.61  |
| Reference price [PLN/MWh]           | 41.20       | 41.79       |
| Hourly volume of required OCR [MWh] | 3 451.09    | 3 447.49    |
| Number of demand peak hours         | 3 780       | 3 765       |
| OCR annual budget [mPLN]            | 486.70      | 542.40      |

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

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