

# Financial data – additional information

## Financial results forecast

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

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

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

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

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

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

## Financial instruments used

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

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

During the reporting period, Enea Trading sp. z o.o. concluded FX risk hedging transactions (term

transactions for EUR purchase) in order to hedge payments resulting from the purchase of CO<sub>2</sub> emissions allowances under term contracts. As at 31 December 2017, the volume of active forward contracts for the purchase of EUR amounted to 81 623 kEUR.

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

## Manging financial resources

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

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

## Entity authorised to audit financial statements

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

Figures in kPLN	2016	2017
The fee for the audit of the annual consolidated and stand-alone financial statements of Enea SA	118	196
The fee for the audit of the annual financial statements of subsidiaries	429	622
The fee for the review of the mid-year stand-alone financial statement and mid-year consolidated financial statement of Enea SA and for the review of mid-year financial statements of subsidiaries	127	152

	Figures in kPLN	2016	2017
The fee for other services		40	40
<b>TOTAL</b>		<b>714</b>	<b>1 010</b>

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

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

## Expected financial situation

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

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

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

In the area of Trading, operational activities invariably concentrate on increasing revenue from the sales of

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

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

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

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

## Significant events after the balance sheet date

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