

# Risk management

Enea Group is exposed to risks in each segment of its activity. The risk materialisation could have a significant adverse effect on the continuity of business of individual member companies of the Group, their financial standing, and ability to achieve their strategic goals. The awareness of these risks requires maintaining, using, and constantly improving a formalised and integrated enterprise risk management (ERM) system. Its framework is determined by the single Enterprise Risk Management Policy binding in Enea Group.

## Risk management

ERM system in Enea Group is based on the comprehensive approach to the risk management issue and determination of detailed rules for risk identification and assessment. This is the basis for identification of the key corporate risks and for monitoring of exposure to these risks as well as preparing and monitoring mitigation plans. In the case of some corporate risks, such as credit, liquidity loss, FX, interest rate, and commodity risks, the formalised approach to risk management takes the form of dedicated Policies and Procedures.

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

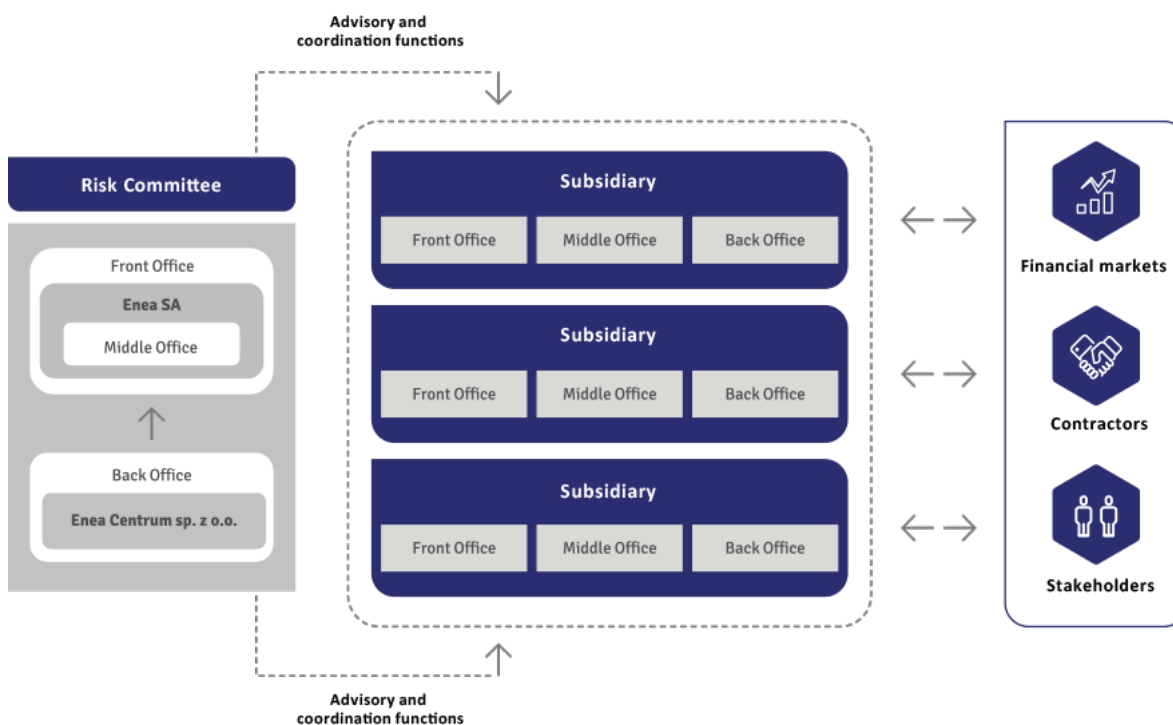
In 2017, the risk management system was undergoing further development and process optimisation, e.g., as a result of the works related to integration with LW Bogdanka and Enea Elektrownia Połaniec and the implementation of IT systems in the scope of corporate and credit risks.

## Management model

The risk management organisation at Enea Group is based on a coordinated model. The key assumption of the model operation is the coordination of risk management processes within the Group by Enea SA.

### Key features of the coordinated model:

- Member companies of the Group manage risks on the basis of uniform standards set out in the Policies and Procedures.
- The companies ensure operating management of risks within allocated limits and pursuant to the rules approved by Enea Group Risk Committee.
- Individual companies report to the parent company on the measures implemented in the area of risk management.
- Enea SA acts in its capacity as the process coordinator in the Group.



## Risk Assessment

Each risk included in the Risk Register is assessed in terms of probability and potential financial, reputational and health and safety impacts in line with the Corporate Risk Assessment Scale.

|            |   |   |   |    |    |
|------------|---|---|---|----|----|
| Likelihood | 4 | 4 | 8 | 12 | 16 |
|            | 3 | 3 | 6 | 9  | 12 |
|            | 2 | 2 | 4 | 6  | 8  |
|            | 1 | 1 | 2 | 3  | 4  |
| Outcome    |   | 1 | 2 | 3  | 4  |

**Key risk**
 **Material risk**
 **Immaterial risk**

## 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.

## Identification and assessment of new risks

Identification of potential risks related to the ongoing operations of the Companies and achievement of strategic objectives of the Enea Group and objectives resulting from the area strategies, and their subsequent assessment in accordance with the ERM methodology.

## Monitoring existing risks

Periodic monitoring of existing risks and the status of implementation of the Risk Management Plan and ongoing monitoring of existing risks as part of which operational events are reported.

## Reporting risks

At the Company level the Risk Manager periodically reports to the Management Board, while at the Group level, the Enea Risk Manager reports to the Enea Risk Management Department, which develops and provides dedicated reports to the Risk Committee.

The identification process also includes non-financial risks that may have a significant negative impact on social, employee, environmental, human rights and anti-corruption issues. Their detailed description can be found in "The Non-Financial Statement" on slide 119 of this Report.

## Documentation governing the risk management process in Enea Group

The overall system of rules for the risk management system operation at Enea Group is described by a concise list of documents constituting internal law and including relevant Policies and Procedures.

The Policies play the role of constitutive documents setting the framework for the operations performed, specifying the scopes of responsibility of participants, and providing the fundamental guidelines for the management model. The Procedures, in turn, describe the course of process of such operations and the methods employed to conduct any audits, measurements, etc.

## INTEGRATED RISK MANAGEMENT SYSTEM



## Risk Committee

### Enea Group Risk Committee

The key authority in the risk management process at Enea Group is the Risk Committee. The Committee is an interdisciplinary body composed of the representatives of key business areas at Enea Group who represent all key companies of the Group.

### Members of Enea Group Risk Committee

The Risk Committee is composed of dedicated members of the management board of Enea SA and its Subsidiaries within the Group as well as Enea SA department directors in charge of risk management, audit and Compliance.

### Powers of the Risk Committee

- Giving recommendations to Enea Management Board on approving the policies governing the process of managing risks, business continuity, insurances, and compliance with approval of any relevant updates
- Accepting and analysing information received from Content Management Units in the area of managing risks, business continuity, and insurances
- Providing opinion on annual reports on the Compliance Policy implementation which are submitted to Enea Management Board for approval
- Accepting semi-annual reports on the Compliance Policy ongoing implementation and preparing

- recommendations as to the Compliance Policy implementation
- Issuing of binding interpretation (construction) of the Compliance Policy provisions
- Approving the operating documentation governing the process of managing risks, insurances, and business continuity with approval of any relevant updates (strategies, procedures, methodologies, tools, instructions, guidelines, etc.)
- Making decisions on the issues which include, without limitation:
  - Issues resulting from the documentation governing the area of managing risks, business continuity, and insurances
  - Giving a consent to the deviations from the rules set out in the documentation governing the areas listed in item a)
  - Giving a consent for the member companies of Enea Group to sign contracts based on foreign law or on the settlement currency other than the Polish zloty (save for EFET framework contracts and related suretyships agreements in the case where they meet all the following conditions at the same time: the governing law is the German law, the prevailing language is English, the disputes are settled before the arbitration court, and the settlement currency is EUR or PLN)

## Enea Group's Risk Model

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### RISK MODEL

#### STRATEGIC

##### CORE RISKS TO WHICH ENEA GROUP IS EXPOSED IN SPECIFIC CATEGORIES

- The risk of breaching legal and internal regulations on the protection of personal data
- The risk of delays in the implementation / failure to implement measurement of the MV / LV station by the specified statutory deadlines
- The risk of an unforeseen increase in the cost of acquiring electricity or gaseous fuel
- The risk of adopting erroneous assumptions for long-term financial projections
- The risk of improper management of information in a crisis situation
- The risk of fewer free CO<sub>2</sub> allowances granted due to non-implementation of investments reported to KPI.
- The risk of non-compliance with the restrictive objectives of the EU climate policy
- The risk of a generation gap
- The risk of failure to meet the economic objectives of the planned construction of the Ostrołęka C power plant

##### EXAMPLES OF RISK MITIGATING ACTIONS TAKEN IN SPECIFIC CATEGORIES

- Conducting induction and periodic training for employees and co-workers
- Participation in the work of thematic teams and the bodies of the Association of Energy Trading and other industry associations
- Securing systems that process personal data by ensuring system security measures
- Monitoring and verification of forecasts of exchange rates, interest rates and other macroeconomic assumptions
- Maintaining efficient communication channels with key business units
- Participation in work on regulations for the energy and coal industry

- Implementation of solutions aimed at supplementing, enhancing and strengthening the competences and knowledge of the organization, e.g. through paid internships and apprenticeships
- Ensuring a transparent, competitive and motivational remuneration system
- Monitoring of legislative activities
- Updating the financial model in line with planned legislative changes

## FINANCIAL

### CORE RISKS TO WHICH ENEA GROUP IS EXPOSED IN SPECIFIC CATEGORIES

- The risk of breach of financing agreements
- The risk of rating loss
- The risk of losses due to contractors' failure to meet their contractual obligations (including the credit risk)

### EXAMPLES OF RISK MITIGATING ACTIONS TAKEN IN SPECIFIC CATEGORIES

- Monitoring of banking covenants at Enea Group
- Ongoing consultations with the credit rating agency
- Conducting structured activities in the area of credit risk management and debt collection, formally defined by means of implemented documentation

## OPERATING

### CORE RISKS TO WHICH ENEA GROUP IS EXPOSED IN SPECIFIC CATEGORIES

- The risk of non-compliance with BAT conclusion requirements
- The risk of excessive consumption of some elements of generation assets.
- The risk of delayed tender processes.
- The risk of non-compliance with laws and internal regulations regarding information processing and IT security in the ENEA Group.
- The risk of lowering the Vistula water level due to long-term drought or ice jam and the incidence of high water temperatures in the Vistula River resulting in under-performance of units

### EXAMPLES OF RISK MITIGATING ACTIONS TAKEN IN SPECIFIC CATEGORIES

- Projects related to compliance with the requirements of the BAT conclusions
- Analyses and research on the state of production assets. Initiating renovation projects as needed
- Regular periodic employee training
- Regular periodic reviews of systems processing personal data and their assessment in terms of ensuring security

## MARKET

### CORE RISKS TO WHICH ENEA GROUP IS EXPOSED IN SPECIFIC CATEGORIES

- The risk of price volatility on the futures market
- The risk of non-continuity of fuel supplies
- The volumetric risk of fuel and transport
- The risk involved in the sales of the assumed volume of coal to major customers

### EXAMPLES OF RISK MITIGATING ACTIONS TAKEN IN SPECIFIC CATEGORIES

- Improving methods and tools to optimize commodity portfolios
- Maintaining and developing competences within the Company to manage the commodity risk
- Diversifying sources of supply and service provision
- Continuous analysis of the fuel and energy market
- Optimization of coal supplies within the Group to the generation entities of the Group taking into account the limited capacity of the by-pass routes and the increase of transport costs on the LWB coal by-pass routes