# Report of the Management Board on the operations of Enea Capital Group in H1 2016

Poznań, 26 August 2016

# 1. Operating Summary

A detailed index of issues included in this document is to be found on page 78

In H1 2016 Enea Capital Group generated:

- **PLN 5,599 mln** net sales revenue - growth by 21.4% yoy
- **PLN 1,207 mln** EBITDA - growth by 34.9% yoy
- **PLN 471 mln** net profit - growth by 12.7% yoy

In the reporting period, the highest EBITDA, PLN 571 mln (growth by 5.0% yoy), was realised in the area of Distribution. The greatest EBITDA growth - by PLN 42 mln - was reported in the area of Generation (growth by 14.7% yoy). Adverse conditions on the electricity market affected the result of the area of Trade which in H1 2016 generated EBITDA totalling to PLN 51 mln. In relation to the acquisition of LW Bogdanka, Enea CG's operations in Q4 2015 were extended with the area of Mining, which in January - June 2016 generated PLN 283 mln EBITDA.

| + | − |
|---|---|
| • Higher volumes of electricity sales in wholesale trading with higher average selling price<br>• Higher sale volumes of electricity in retail trading<br>• Dynamic growth in gaseous fuel sales<br>• Higher sales of distribution services<br>• Higher sales of heat energy<br>• Higher sale volumes of proprietary interests<br>• Sales of coal as a result of the takeover of LW Bogdanka<br>• Implementation of the Fixed Costs Optimisation Programme | • Lower average electricity selling price in retail trading<br>• Lower average price of proprietary interests<br>• Higher costs of purchasing transmission services<br>• Higher costs of ecological, cogeneration and efficiency obligations |

In Q2 2016 alone the Group generated:

- **PLN 2,663 mln** net sales revenue - growth by 22.9% yoy
- **PLN 538 mln** EBITDA - growth by 39.8% yoy
- **PLN 181 mln** net profit - growth by 18.2% yoy

In H1 2016 Enea CG spent PLN 1.2 billion on investments, which is by 4.3% more than in the same period of the previous year.

Net debt/EBITDA as at the end of June 2016 was on a safe level of 1.7.

During the first six months of 2016, the Group generated 6.8 TWh of electricity - growth by 8.2% yoy. Sales of distribution services to end users amounted to 9.3 TWh i.e. increased by 3.8% in relation to the same period of the previous year. In H1 2016 Enea SA increased the sales volumes of electricity and gaseous fuel to retail users by 820 GWh, which is 10.0% yoy. The sale of gaseous fuel to business customers increased significantly - a growth by 421 GWh (149.8% yoy) from 283 GWh in H1 2015.

# WE ARE BUILDING STRONG FOUNDATIONS FOR FURTHER DEVELOPMENT OF AN INNOVATIVE RAW MATERIALS AND ENERGY GROUP

## Enea is an innovative and flexible processing organisation

Our main goal is to build solid foundations for a long-term Group's development. The changes observed in the national and global economy force adaptation of market behaviour to them. External and internal conditions are subject to a considerable transformation. Enea Group must act well in advance and have solutions prepared to what will occur in 5, 10 or even 15 years. Concurrently, I wish to underline that we are not able to fully project the future in long time limits. We can, however, establish a company which will faster and more effectively than the competition, use the chances occurring in its environment. Therefore, we have decided to update our corporate strategy.

## We are part of the new energetic security policy of the state.

Currently, generation of electricity based on coal covers 85% of Polish demand and in the case of heat the share ranges around 70%. Energy and heat generation using the national raw material makes Poland one of the most stable states in the European Union as regards energy security. The power industry must however undergo a transformation process. It is necessary to undertake required actions for the account of the modernisation and sector development. In order to avoid, in the future, a blackout and make Poland independent from energy imports it is necessary to invest in innovations and development of modern, low-emission technologies. In Poland, ca. 55% of conventional generating units is over 35 years old. Application of clear coal-based technologies will increase the sector's efficiency and reduce burdens for the environment. Coal still is and will be the basis of energy mix in Poland and in our company. In order to use it more effectively, we are verifying various possible methods of obtaining energy from this raw material. Enea identified challenges and chances faced by the national energy and raw materials sector. It is aware of the need of deep changes. In the currently updated strategy various scenarios are being verified which will allow to build long-lasting competitive advantages, contributing thus to the development of the whole national economy.

## Strength is in location and cultural diversity

A key to success of the new strategy is the innovative way in which it is being created. We relied on a decisively more engagement of our Employees who were joined within competence groups selected from among particular business areas. There is no doubt that Enea Group's strength is Employees. People performing their duties in various parts of Poland, having various professional experience, competences are a guiding star for the Group. We wish the Group to become an outstandingly modern and dynamic organisation, building its future based on the knowledge and operating efficiency. This goal is possible to attain only through noticing individuals.

## Not only energy supplier and distributor

We want to strengthen the market position of the Group in which added services will generate revenue comparable with the traditional trade in energy. We want Enea to be not only a core player supplying energy but also selling advanced technical and business know-how in Poland and not only. One of the activities which constitutes a significant step towards the realisation of this goal is e.g. Enea's supporting the establishment of the Electromobility Centre which is being launched on the initiative of the Ministry of Energy and Ministry of Development. Customers will play an important role in shaping their energetic possibilities and needs and this undertaking is just facing their expectations.

## We are maintaining long-lasting relations with Customers

Customers are always in the centre of our attention. Our priority is simple offers and attractive services integrated at reasonable price so that everyone can find something of value. We care for long-term relations with Customers. We try to foresee their expectations much in advance and deliver services in accordance with current needs. In H1 2016 we may boast with e.g. the implementation of an electronic Customer Service Centre for all Customers and Connection Portal for Customers from our distribution area. We want our Customers to be able to manage as many matters as possible on-line, sitting comfortably at home. Our ambition is to successively increase the level of Customer satisfaction. Nothing has changed in this field and such an approach will be maintained in the Group's currently updated strategy.

## We are competing with efficiency based on economic calculation

I wish to emphasise that the new strategy will not be revolutionary. These will be rather evolutionary changes adapting the Group's operations to the demanding conditions, both on the energy and fuel market. Our goal was, is and will be an optimum use of each business area's potential. We will not resign from already commenced investment and optimisation actions. We are continuing the process of Bogdanka's full integration with Enea Group commenced last year. The investments adjusting the generating assets of Enea CG to the stricter EU standards of harmful substances are on the schedule. The construction of a new unit in Kozienice Power Plant, being one of the most efficient units of this type in the world, is in progress. We are enhancing the safety of electricity supplies in north-western Poland delivering energy and services of a constantly better quality to our Customers. We are consistently working over the efficiency improvement. This year, we are panning savings on the level of PLN 362 mln - as at the end of June we reduced costs by PLN 202 mln. Our priority is competitiveness and development in all the links of the chain of values, exactly controlling each coin spent on investment or costs.

Sincerely,

Mirosław Kowalik

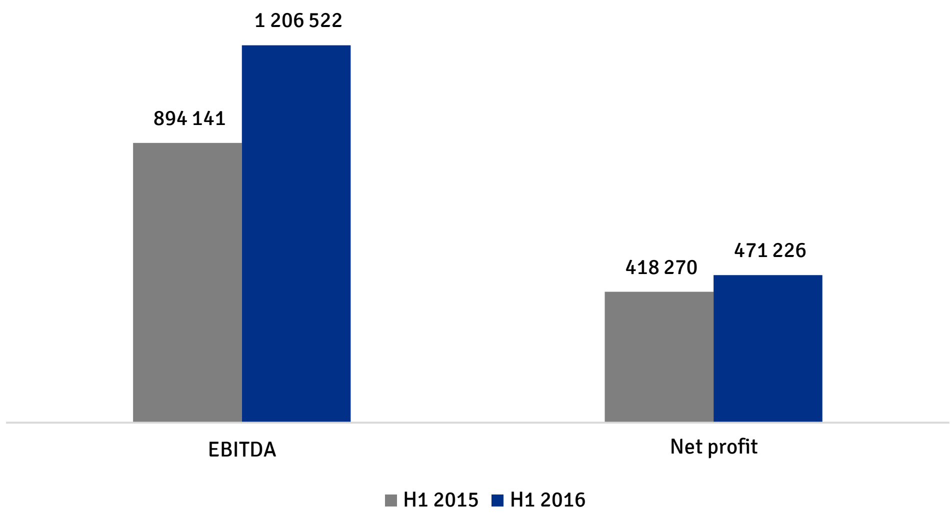
President of the Management Board of Enea SA

| [PLN '000] | H1 2015 | H1 2016 | Change | Change % |
|---|---|---|---|---|
| Net sales revenue | 4 612 247 | 5 599 432 | 987 185 | 21.4% |
| Operating profit / (loss) | 524 207 | 610 571 | 86 364 | 16.5% |
| Profit / (loss) before tax | 522 848 | 587 833 | 64 985 | 12.4% |
| Net profit / (loss) for the reporting period | 418 270 | 471 226 | 52 956 | 12.7% |
| **EBITDA:** | **894 141** | **1 206 522** | **312 381** | **34.9%** |
| Net cash flows from: | | | | |
| operating activities | 782 925 | 1 162 073 | 379 148 | 48.4% |
| investing activities | -1 192 169 | -1 392 491 | -200 322 | -16.8% |
| financing activities | 1 029 811 | 511 574 | -518 237 | -50.3% |
| Balance of cash | 1 307 883 | 2 103 250 | 795 367 | 60.8% |
| Weighted average number of shares [pcs.] | 441 442 578 | 441 442 578 | - | - |
| Net profit per share [PLN] | 0.94 | 1.00 | 0.06 | 6.4% |
| Diluted profit per share [PLN] | 0.94 | 1.00 | 0.06 | 6.4% |

| [PLN '000] | Q2 2015 | Q2 2016 | Change | Change % |
|---|---|---|---|---|
| Net sales revenue | 2 165 833 | 2 662 681 | 496 848 | 22.9% |
| Operating profit / (loss) | 196 887 | 221,934 | 25 047 | 12.7% |
| Profit / (loss) before tax | 193 596 | 220 868 | 27 272 | 14.1% |
| Net profit / (loss) for the reporting period | 152 935 | 180 821 | 27 886 | 18.2% |
| **EBITDA** | **385 085** | **538 177** | **153 092** | **39.8%** |
| Weighted average number of shares [pcs.] | 441 442 578 | 441 442 578 | - | - |
| Net profit per share [PLN] | 0.35 | 0.38 | 0.03 | 8.6% |
| Diluted profit per share [PLN] | 0.35 | 0.38 | 0.03 | 8.6% |

| [PLN '000] | 31 June 2015 | 30 June 2016 | Change | Change % |
|---|---|---|---|---|
| Total assets | 22 988 996 | 23 375 703 | 386 707 | 1.7% |
| Total liabilities | 10 866 393 | 10 812 337 | -54 056 | -0.5% |
| Non-current liabilities | 8 457 838 | 8 577 474 | 119 636 | 1.4% |
| Current liabilities | 2 408 555 | 2 234 863 | -173 692 | -7.2% |
| Equity | 12 122 603 | 12 563 366 | 440 763 | 3.6% |
| Share capital | 588 018 | 588 018 | - | - |
| Book value per share [PLN] | 27.46 | 28.46 | 1.00 | 3.6% |
| Diluted book value per share [PLN] | 27.46 | 28.46 | 1.00 | 3.6% |

PLN thou.



## KEY OPERATING FIGURES AND RATIOS

| | unit | H1 2015 | H1 2016 | Change | Change % | Q2 2015 | Q2 2016 | Change | Change % |
|---|---|---|---|---|---|---|---|---|---|
| Net sales revenue | PLN thou. | 4 612 247 | 5 599 432 | 987 185 | 21.4% | 2 165 833 | 2 662 681 | 496 848 | 22.9% |
| EBITDA | PLN thou. | 894 141 | 1 206 522 | 312 381 | 34.9% | 385 085 | 538 177 | 153 092 | 39.8% |
| EBIT | PLN thou. | 524 207 | 610 571 | 86 364 | 16.5% | 196 887 | 221 934 | 25 047 | 12.7% |
| Net profit | PLN thou. | 418 270 | 471 226 | 52 956 | 12.7% | 152 935 | 180 821 | 27 886 | 18.2% |
| Net cash flows from operating activities | PLN thou. | 782 925 | 1 162 073 | 379 148 | 48.4% | 594 201 | 766 841 | 172 640 | 29.1% |
| CAPEX | PLN thou. | 1 122 734 | 1 171 046 | 48 312 | 4.3% | 526 224 | 790 239 | 264 015 | 50.2% |
| Net debt / EBITDA [1] | - | 0.8 | 1.7 | 0.9 | 116.3% | 0.8 | 1.7 | 0.9 | 116.3% |
| Return on assets (ROA) [1] | % | 4.3% | 4.0% | -0.3 p.p. | - | 3.1% | 3.1% | - | - |
| Return on equity (ROE) [1] | % | 6.8% | 7.5% | 0.7 p.p. | - | 5.0% | 5.8% | 0.8 p.p. | - |
| **Trade** | | | | | | | | | |
| Sales of electricity and gaseous fuel to end customers | GWh | 8 186 | 9 006 | 820 | 10.0% | 3 845 | 4 103 | 258 | 6.7% |
| Number of recipients (Power Delivery Points) | thou. | 2 380 | 2 394 | 14 | 0.6% | 2 380 | 2 394 | 14 | 0.6% |
| **Distribution** | | | | | | | | | |
| Sales of distribution services to end users | GWh | 8 992 | 9 332 | 340 | 3.8% | 4 346 | 4 605 | 259 | 6.0% |
| Number of customers (closing balance) | thou. | 2 472 | 2 503 | 31 | 1.3% | 2 472 | 2 503 | 31 | 1.3% |
| **Generation** | | | | | | | | | |
| Total generation of electricity (net), including: | GWh | 6 293 | 6 807 | 514 | 8.2% | 3 330 | 3 456 | 126 | 3.8% |
| *from conventional sources* | GWh | 5 795 | 6 529 | 734 | 12.7% | 3 103 | 3 331 | 228 | 7.3% |
| *from renewable sources of energy* | GWh | 498 | 278 | -220 | -44.2% | 227 | 125 | -102 | -44.9% |
| Gross generation of heat | TJ | 3 147 | 3 035 | -112 | -3.6% | 933 | 755 | -178 | -19.1% |
| Sale of electricity, including: | GWh | 7 995 | 8 520 | 525 | 6.6% | 4 085 | 4 245 | 160 | 3.9% |
| *from conventional sources* | GWh | 7 497 | 8 242 | 745 | 9.9% | 3 858 | 4 120 | 262 | 6.8% |
| *from renewable sources of energy* | GWh | 498 | 278 | -220 | -44.2% | 227 | 125 | -102 | -44.9% |
| Sales of heat | TJ | 2 504 | 2 584 | 80 | 3.2% | 691 | 614 | -77 | -11.1% |
| **Mining** [2] | | | | | | | | | |
| Gross output | thou. of tonnes | 5 758 | 6 920 | 1 162 | 20.2% | 2 784 | 3 187 | 403 | 14.5% |
| Net production | thou. of tonnes | 3 891 | 4 285 | 394 | 10.1% | 1 901 | 1 950 | 49 | 2.6% |
| Preparatory works | m | 10 155 | 12 078 | 1 923 | 18.9% | 4 943 | 5 637 | 694 | 14.0% |

**H1 2015 / H1 2016:**

**EBITDA higher by PLN 312 mln**

**Growth in sales of electricity and gaseous fuel to end customers by 820 GWh**

**Q2 2016 / Q2 2015:**

**EBITDA higher by PLN 153 mln**

**Growth in sales of electricity and gaseous fuel to end customers by 258 GWh**

**H1 2016:**

- EBITDA higher by 35% (by PLN 312 mln) - the greatest in the area of Generation
- consistent development of Enea CG: CAPEX totalling to PLN 1,171 mln with a safe value of net debt/EBITDA ratio (on the level of 1.7)
- higher sales of electricity and gaseous fuel to end users by 10% (by 820 GWh)
- greater total generation of electricity by 514 GWh

**Q2 2016:**

- growth in EBITDA by 40% (by PLN 153 mln)
- consistent development of Enea CG: CAPEX totalling to PLN 790 mln with a safe value of net debt/EBITDA ratio (on the level of 1.7)
- higher sales of electricity and gaseous fuel to end users by 6.7% (by 258 GWh)
- greater total generation of electricity by 126 GWh

1) Ratio definitions are to be found on page 75
2) The data for H1 2015 is only informative. Enea took over LW Bogdanka in Q4 2015 and has consolidated its results since 1 November 2015.

## I quarter

### Changes in Enea's authorities

On 7 January Mr. Wiesław Kowalik became the President of the Management Board of Enea, and Mr. 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, Mr. Mikołaj Franzkowiak to the position of the Vice-President of the Management Board for Financial Affairs and Mr. 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, however, 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 room 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

### Changes in the authorities of Enea's key subsidiaries

- **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 work 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 a 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 holds the position of a Vice-President elected by Employees, who 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.

- **Enea Wytwarzanie**

Wacław Bilnicki became a new President of the company which is responsible for the production 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 Affairs, Grzegorz Mierzejewski. The new Management Board commenced their work 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 12 August Enea Wytwarzanie's Supervisory Board suspended Wacław Bilnicki holding the position of the President of the Management Board and Elżbieta Piwoński holding the position of a Member of the Management Board of this Company. At the same time, the Board delegated Dawid Klimczak, out of its composition, to temporarily act as the President of the Management Board of Enea Wytwarzanie.

## II quarter

### Bogdanka further integrates with Enea Group

Enea continues the process of integration of LW Bogdanka with the Group 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 consisted in adaptation of the Statute of LW Bogdanka, to a maximum possible extent, to Enea Group's standard, adoption of Enea Group's Code and finally joining the Group by LW Bogdanka. Due to the integration the whole chain of values will be utilised completely, and it will be possible to mutually exchange experiences and competences and develop the whole Group.

### EuroRating maintained the credit rating of Enea

On 26 April EuroRating affirmed the credit rating of Enea on the level of BBB with a stable outlook. The rating was awarded by the agency on its own initiative, in reply to the information needs of market participants, and the credit risk assessment process was based on the publicly known information.

### 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 in 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 woks 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 2016 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

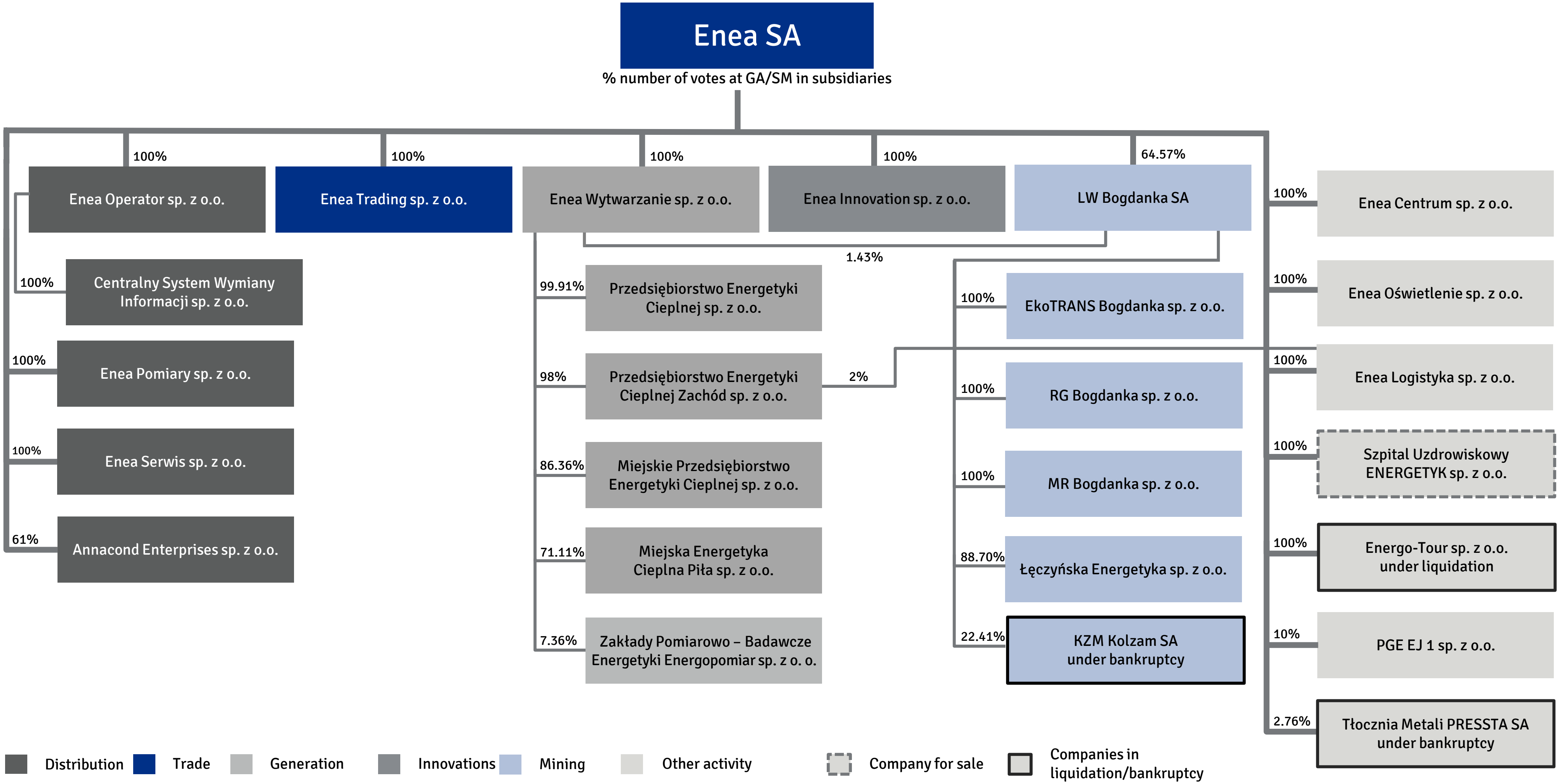
Enea Operator is consistently strengthening the security of electricity supplies in north-western Poland.

In Q2 2016, an innovative technology was introduced allowing for an automatic detection of damages (short circuits) and limitation of their reach 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 functions enabling Customers to obtain information on failures on the area interested for them or on cancellation of planned power switch-offs.

# 2. Enea Group's organisation and operations




As at 30 June 2016 the Capital Group comprised the parent company, Enea SA, and 13 direct subsidiaries. All the direct subsidiaries are subject to consolidation.

5 leading entities operate within Enea Group, i.e. Enea SA (trade in electricity and gaseous fuel), Enea Operator sp. z o.o. (distribution of electricity) and 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.

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. oraz LW Bogdanka SA.

## Asset restructuring

After performing, in previous years, key organisational changes in H1 2016 Enea Capital Group, apart from the initiatives related to the planned changes, did not conduct any significant activities within assets restructuring. Pursuant to Enea Group's Corporate Strategy for 2014-2020 in force in H1 2016 which foresaw concentration on the core operations, the conducted activities aimed at guaranteeing the functioning of relevant organisational structures and processes enabling the further development of Enea Group.

## Equity investments

| Area | Date | Company | Event |
|---|---|---|---|
| Other activity | 11 March 2016 | Enea Centrum | Raising the share capital of the Company 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 registered the raised share capital (based on the Resolution No. 1 of the Extraordinary General Meeting of Shareholders of Enea Centrum sp. z o.o. of 29 June 2016 on increasing the share capital of the Company). |
| Generation | 13 July 2016 | Przedsiębiorstwo Energetyki Cieplnej Zachód | Enea Wytwarzanie in order to arrange the capital structure purchased 1 share from Enea Logistyka in PEC Zachód and thus became a sole shareholder in this Company. |

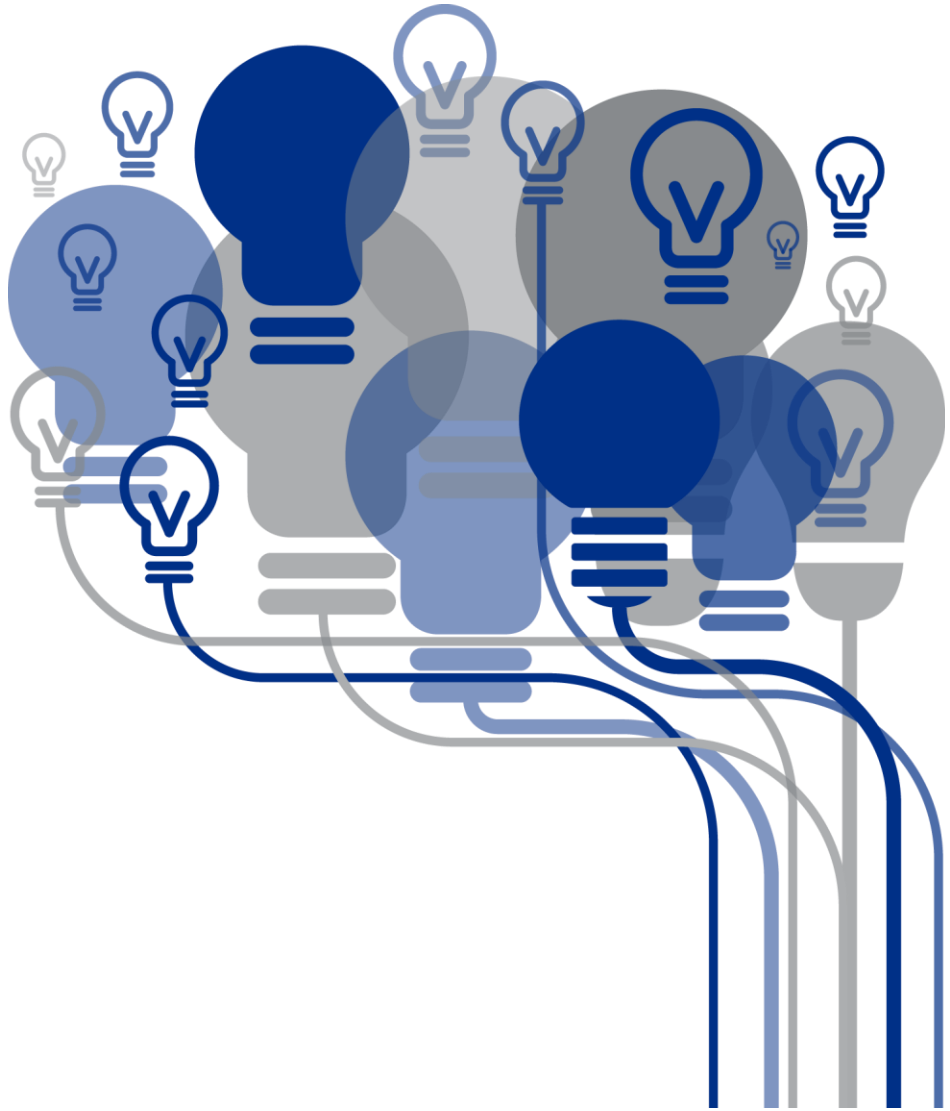
## Equity disinvestments

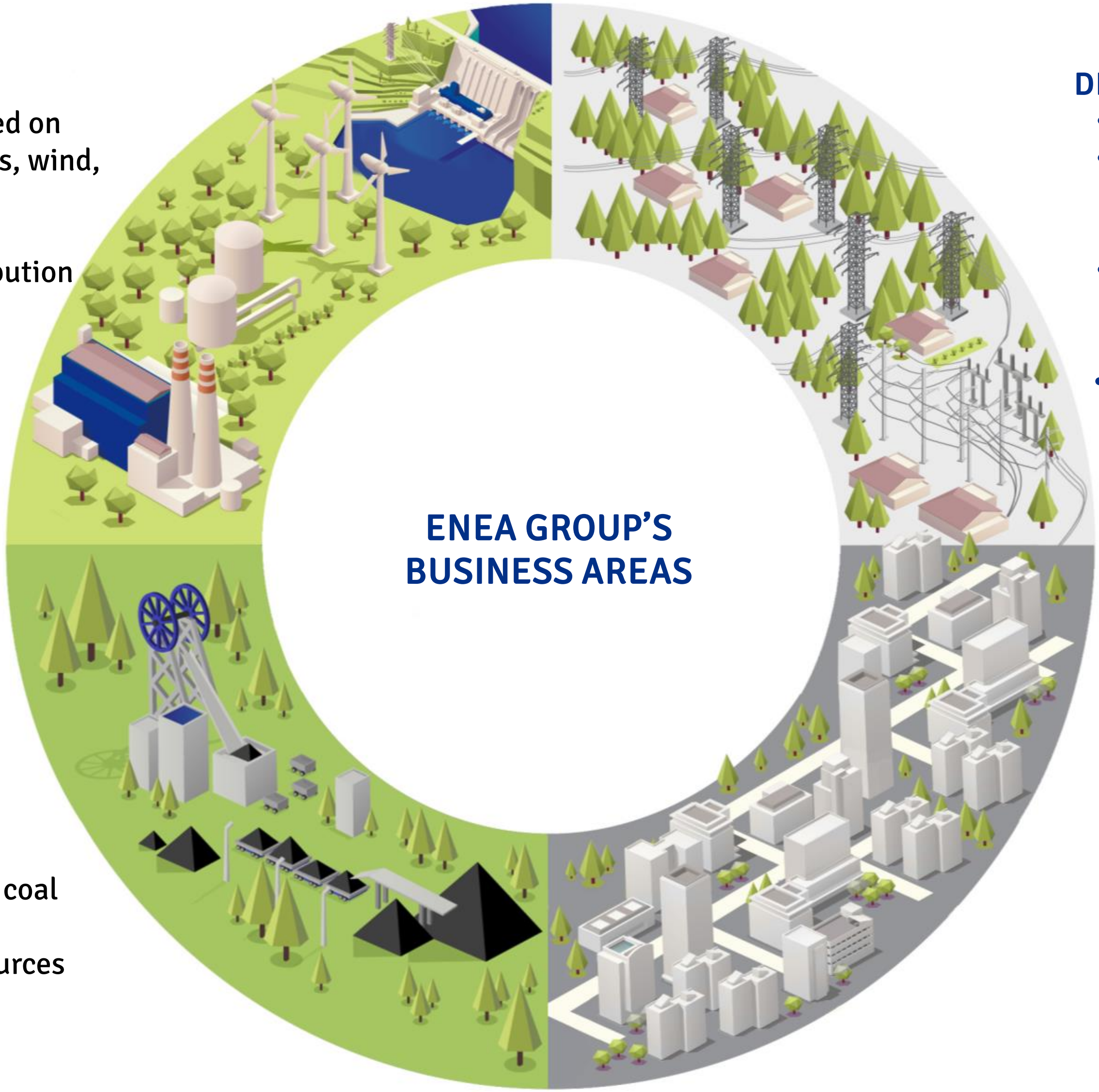
In 2016 no significant activities were performed as regards equity disinvestments.

## Changes in the Group's organisation

In H1 2016 Enea Group continued activities focused on the implementation of the Group's Corporate Strategy.

| Area | Company | Event |
|---|---|---|
| Other activity | Szpital Uzdrowiskowy ENERGETYK | Sales process |






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

## DISTRIBUTION
- Supplies of electricity
- 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 gaseous fuel on the retail market
- Range of products and services adjusted to Customer needs
- Comprehensive Customer Service

Wholesale trading:
- Electricity and gaseous fuel wholesale contract portfolio optimisation
- Operations on product markets
- Guaranteeing access to wholesale markets

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

## Mining



Distribution network of Enea Operator

Lublin Coal Basin

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 category C1)

Deposits being currently used by LW Bogdanka

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 hard fuel coal sold by the Company is used mainly for the generation of electricity, heat energy and cement production. The Company's customers in 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 area of Mining in H1 and Q2 2015 and 2016.

| Description | H1 2015 | H1 2016 | Change | Q2 2015 | Q2 2016 | Change |
|---|---|---|---|---|---|---|
| **Gross output ['000 tonnes]** | **5 758** | **6 920** | **20.2%** | **2 784** | **3 187** | **14.5%** |
| Net production ['000 tonnes] | 3 891 | 4 285 | 10.1% | 1 901 | 1 950 | 2.6% |
| **Sale of coal ['000 tonnes]** | **3 821** | **4 379** | **14.6%** | **1 876** | **2 195** | **17.0%** |
| Closing stocks ['000 tonnes] | 376 [1)] | 134 | -64.4% | 376 [1)] | 134 | -64.4% |
| **Length of performed excavations [km]** | **10.2** | **12.1** | **18.6%** | **4.9** | **5.6** | **14.3%** |
| Yield [%] | 67.6% | 61.9% | -5.7 p.p. | 68.3% | 61.2% | -7.1 p.p. |

1) The level of stock presented as at 30 June 2015 includes the coal deposit (33 thou. tonnes) realised for one of coal recipients. The deposit was fully accounted for by the Parent (supplied to recipients) until the end of 2015.

## Generation


Kozienice Power Plant

Bialystok Heat and Power Plant, MEC Piła, PEC Oborniki, PEC Zachód, MPEC Białystok

Wind farms: Bardy, Darżyno, Baczyna

21 hydroelectric power plants

Biogas power plants: Gorzesław, Liszkowo

Distribution network of Enea Operator

**Enea Group's generating assets**

| Description | Installed electrical capacity [MW$_e$] | Attainable electrical capacity [MW$_e$] | Installed heating capacity [MW$_t$] |
|---|---|---|---|
| Kozienice Power Plant [1)] | 2 960.0 | 2 925.0 | 105.0 |
| Bialystok Heat and Power Plant | 203.5 | 156.6 | 383.7 |
| Wind Farms: Bardy, Darżyno and Baczyna | 70.1 | 70.1 | - |
| Liszkowo and Gorzesław Biogas Power Plants | 3.8 | 3.8 | 3.1 |
| Hydroelectric Power Plants | 60.4 | 57.6 | - |
| MEC Piła | 10.0 | 10.0 | 151.3 |
| PEC Oborniki | - | - | 30.5 |
| MPEC Białystok | - | - | 185.0 |
| **TOTAL** | **3 307.8** | **3 223.1** | **858.6** |

1) Change in the attainable capacity in Kozienice Power Plant as of 11 June 2016 as a result of the conducted modernisation in generating units No. 2 and 7.

| Description | H1 2015 | H1 2016 | Change | Q2 2015 | Q2 2016 | Change |
|---|---|---|---|---|---|---|
| **Total generation of electricity (net) [GWh], including:** | **6 293** | **6 807** | **8.2%** | **3 330** | **3 456** | **3.8%** |
| **Net production from conventional sources [GWh], including:** | **5 795** | **6 529** | **12.7%** | **3 103** | **3 331** | **7.3%** |
| Enea Wytwarzanie – segment of System Power Plants (excluding biomass co-combustion) | 5 646 | 6 346 | 12.4% | 3 062 | 3 301 | 7.8% |
| Enea Wytwarzanie - segment of Heat (Białystok Heat and Power Plant - excluding biomass co-combustion) | 122 | 148 | 21.3% | 29 | 12 | -58.6% |
| MEC Piła | 27 | 35 | 29.6% | 12 | 18 | 50.0% |
| **Production from renewable energy sources [GWh], including:** | **498** | **278** | **-44.2%** | **227** | **125** | **-44.9%** |
| Co-combustion of biomass | 186 | 0 | -100.0% | 83 | 0 | -100.0% |
| Combustion of biomass | 160 | 141 | -11.9% | 78 | 68 | -12.8% |
| Enea Wytwarzanie - segment of RES (hydroelectric plants) | 66 | 55 | -16.7% | 29 | 23 | -20.7% |
| Enea Wytwarzanie - segment of RES (wind farms) | 78 | 78 | 0.0% | 33 | 33 | 0.0% |
| Enea Wytwarzanie - segment of RES (biogas plants) | 8 | 4 | -50.0% | 4 | 1 | -75.0% |
| **Heat production [TJ]** | **3 147** | **3 035** | **-3.6%** | **933** | **755** | **-19.1%** |

### Purchase of energy by Enea Wytwarzanie on the wholesale market

In H1 2016 the volume-related electricity purchases in the segment of System Power Plants amounted to 1,113 GWh. The purchases were made for the needs of energy trading activities. Additionally, 493 GWh of energy was purchased within the Balancing Market.

In the segment of Heat the purchase volume in H1 2016 amounted to 17.42 GWh - acquisition on the Balancing Market is 9.39 GWh, purchase in the trade of 8.03 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 as part of H1 2016 trade related mainly to the segment of System Power Plants and constituted 70% of the whole energy purchases. Purchase of electricity within the Balancing Market accounted for 30%. 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 volumes of electricity in Enea Wytwarzanie in H1 2016 amounted to 8,520.7 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 H1 2016 amounted to 8,042.3 GWh. In that period, Enea Wytwarzanie had a statutory duty to sell 15% of generated electricity on the commodity exchange. The other sales is sales within Enea CG 83% 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 H1 2016 amounted to 306.8 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 H1 2016 amounted to 136.6 GWh (beyond Enea CG - 48%, and within Enea CG - 52%).

**Sales of electricity within Subsidiaries**

Sales of electricity within the Subsidiaries in H1 2016 amounted to 35 GWh.

## Supply of coal

| Fuel type | H1 2015 Volume ['000 tonnes] | H1 2015 Costs [1] [PLN mln] | H1 2016 Volume ['000 tonnes] | H1 2016 Costs [1] [PLN mln] | Change Volume | Change Costs [1] |
|---|---|---|---|---|---|---|
| Bituminous coal | 3 212 | 713 | 2 924 | 605 | -9.0% | -15.1% |
| Biomass | 366 | 103 | 233 | 44 | -36.3% | -57.3% |
| Fuel oil (heavy) [2] | 4 | 5 | 4 | 3 | 0.0% | -40.0% |
| Gas ['000 m³] [3] | 7 552 | 11 | 9 052 | 13 | 19.9% | 18.2% |
| **TOTAL** | | **832** | | **665** | | |

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 (fuel dust). In H1 2016, the main supplier of coal to Enea Wytwarzanie was LW Bogdanka SA (around 75% of coal supplies). Additionally, supplies were performed by Katowicki Holding Węglowy SA (ca. 9% of supplies), Jastrzębska Spółka Węglowa SA (ca. 10%) and Kompania Węglowa SA (ca. 6%).

Enea Wytwarzanie - segment of System Power Plants did not perform biomass co-firing in H1 2016.

**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 H1 2016, the volume of supplied biomass amounted to 233,504.7 tonnes, and the deliveries were performed by 12 entities. Around 33% of biomass was delivered to the area of Enea Wytwarzanie - segment of Heat, using a rail transport.

In H1 2016, supplies of coal to Enea Wytwarzanie - segment of Heat were performed by: Kompania Węglowa SA (ca. 8%), Katowicki Holding Węglowy SA (ca. 48% dostaw), Jastrzębska Spółka Węglowa SA (ca. 44%).

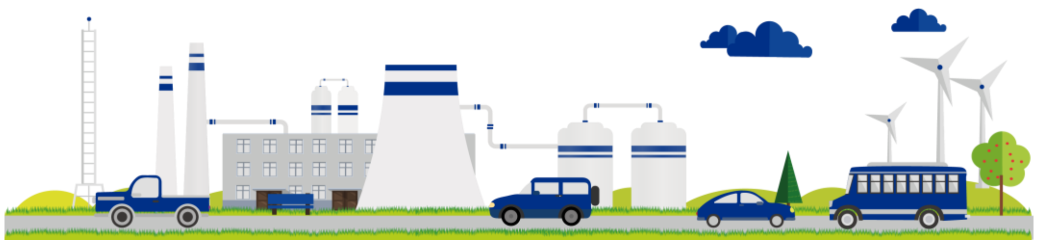
## Coal Transport

**Enea Wytwarzanie – segment of System Power Plants:**

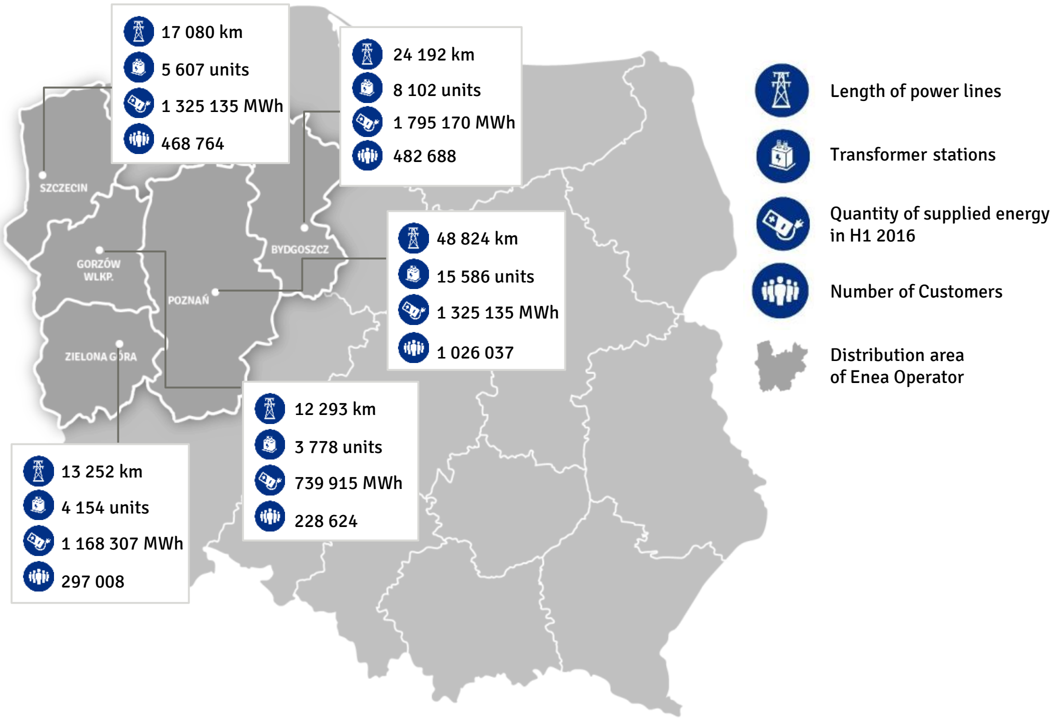
The only means of transport used to deliver bituminous coal to the segment of System Power Plants in H1 2016 was a rail transport. PKP Cargo forwarder realised 100% of supplies.

**Enea Wytwarzanie - segment of Heat:**

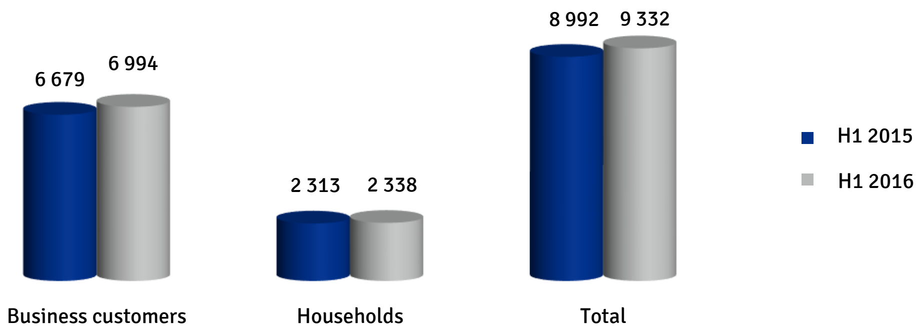
Supplies of coal to Enea Wytwarzanie - segment of Heat in H1 2016 were realised by rail transport by PKP Cargo SA (ca. 73%) and Freightliner PL sp. z o.o. (ca. 27%).



## Distribution




### Sales of distribution services [GWh]




### Technical indicators:

Energy supply reliability indices – SAIDI (interruption duration) and SAIFI (interruption frequency)

Pursuant to the Regulation of the Minister of Economy dated 4 May 2007 regarding detailed conditions of power system operation (the index includes interruptions in energy supplies on high, medium and low voltage)

| Description: | Q2 2015 | Q2 2016 | Change | H1 2015 | H1 2016 | Change |
|---|---|---|---|---|---|---|
| SAIDI unplanned interruptions including catastrophic ones | 78.54 | 88.37 | 12.5% | 202.29 | 135.32 | -33.1% |
| SAIFI unplanned interruptions including catastrophic ones | 0.96 | 1.08 | 12.5% | 2.48 | 1.85 | -25.4% |

Pursuant to the methodology adopted by the President of ERO for the needs of the quality tariff (the index includes interruptions in energy supplies on high and medium voltage)

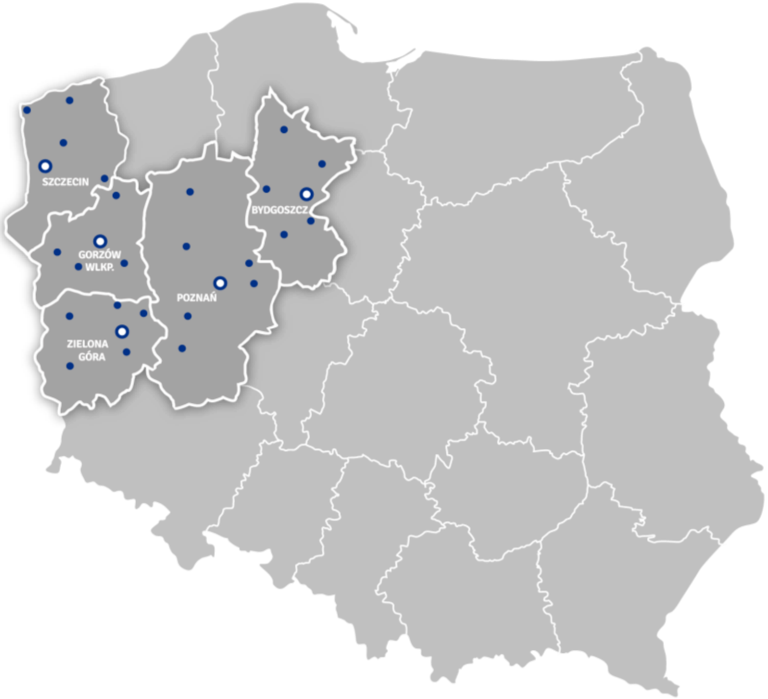
| Description: | Q2 2015 | Q2 2016 | Change | H1 2015 | H1 2016 | Change |
|---|---|---|---|---|---|---|
| SAIDI unplanned interruptions including catastrophic ones | 63.41 | 71.80 | 13.2% | 170.83 | 110.59 | -35.3% |
| SAIFI unplanned interruptions including catastrophic ones | 0.88 | 1.00 | 13.6% | 2.31 | 1.71 | -26.0% |
| Grid losses index | 4.54% | 2.88% | -1.66 p.p. | 5.85% | 5.70% | -0.15 p.p. |

### Technical data:

| Description: | H1 2015 | H1 2016 | Change |
|---|---|---|---|
| Length of lines [thou. km] | 114.64 | 115.64 | 0.9% |
| Number of transformer stations [thou. of pieces] | 36.88 | 37.28 | 1.1% |
| Number of connections [thou. of pieces] | 837.24 | 850.33 | 1.6% |
| Length of connections [thou. km] | 18.97 | 19.21 | 1.3% |

Regulatory asset base (RAB) for 2015 is PLN 6,910,924 thou. and for 2016 PLN 7,252,486 thou.

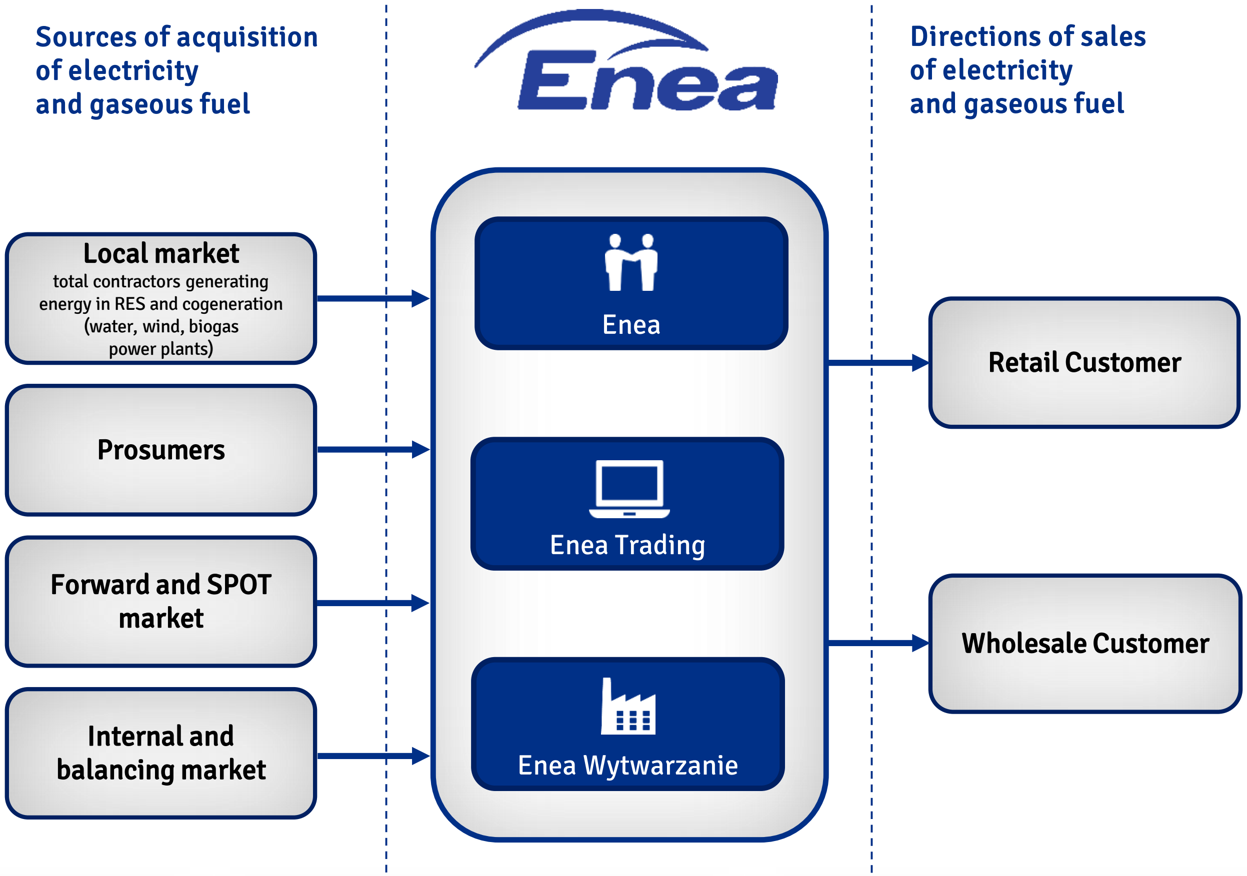
## Trade




**30** modern Customer Service Centres

- Customer Service Centre
- Distribution network of Enea Operator

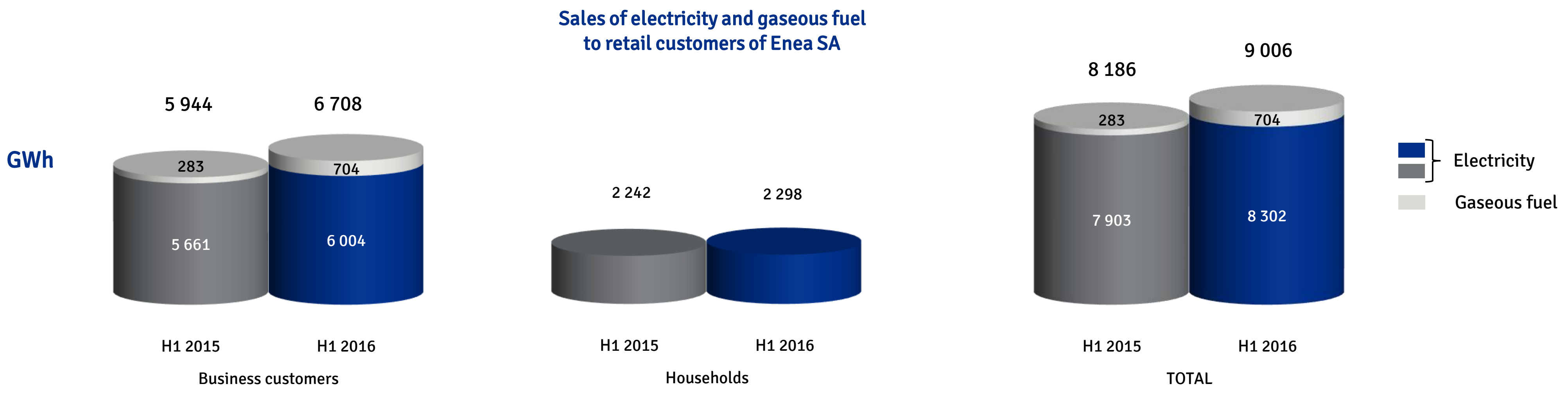
The diagram below presents the operating dependencies between Enea Group companies and business partners and Customers in the area of Trade:

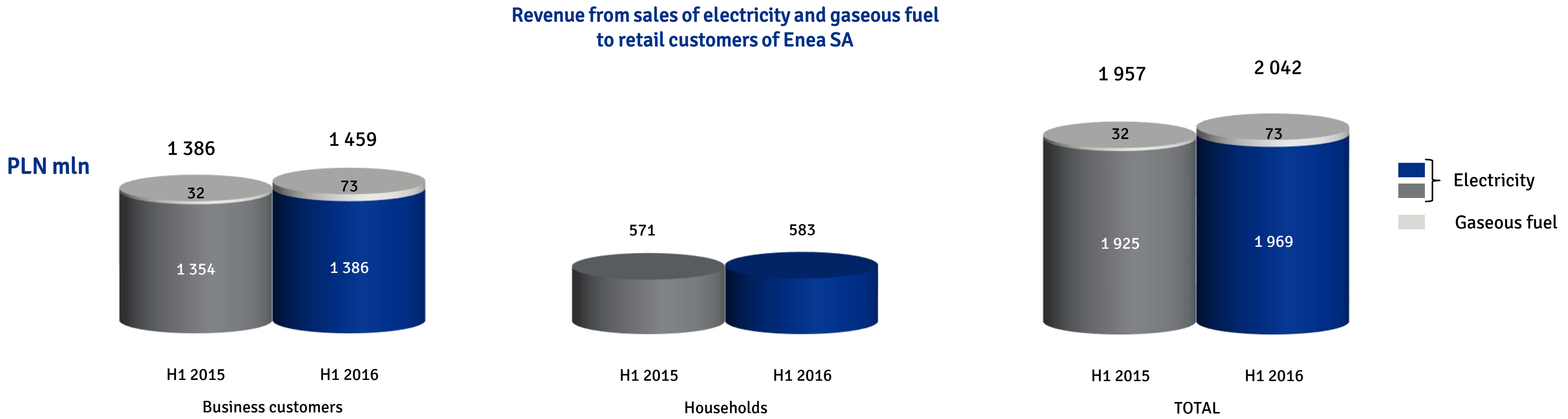




## Trade

Sales of electricity and gaseous fuel to retail users are performed mainly by Enea SA. In H1 2016, as compared to H1 2015, there was a growth in the volumes of electricity and gaseous fuel sold to retail users by 820 GWh in total, i.e. by ca. 10%. The growth occurred both in the segment of business recipients (by ca. 13%) and in the segment of households (by ca. 2%). Greater sales volume in the segment of business customers resulted in particular from the significant growth in sales of gaseous fuel (by ca. 149%). Greater volumes translated into a growth in sales revenue by PLN 85 mln, i.e. by ca. 4%, including revenue from sales of gaseous fuel by PLN 41 mln, i.e. by ca. 128%.



## Corporate Strategy of Enea Group for 2014-2020

**Mission**

Enhancing the Group's value through building Customer confidence

**Vision**

Fully integrated energy group building its competitive advantage through flexible responding to market needs and efficient resources management

Taking into account the key results of the strategic analyses the final scenario of Enea CG's development was defined. Enea CG's superior idea of operations is building value for shareholders and guaranteeing the reliability of energy supplies to customers:

- Concentration of operations on the power market
- Growth in all the links of the energy chain of values in order to build a strong long-term position of Enea CG on the market
- Group's development supported by acquisitions within the emerging market opportunities
- Guaranteeing the Group's full operating integration and continuous undertaking of activities for the enhancement of the efficiency of its functioning and ensuring an optimum level of competence
- Group's further development in particular links of the chain of value supported by implementing new solutions

In H1 2016 Enea CG operated based on the Corporate Strategy of Enea Capital Group for 2014-2020 approved by the supervisory Board in October 2013 and updated in August 2015.

**Finance perspective**

**Higher value for shareholders**

**Customer perspective**

**Building long-lasting relations with Customers**

- Efficient offering of products / services and handling matched to Customer expectations

**Internal processes perspective**

**Growth in profitable areas**

- Building a competitive generating portfolio
- Allocation of funds in the distribution supporting an optimum use of resources
- Growth in the margin on product sales

**Better efficiency**

- Efficient internal and external customer service
- Cost optimisation
- Concentration on core operations
- Elimination of "white spots" in the Group's management

**Intellectual capital perspective**

**Optimum use of the organisation's potential**

- Group's integration
- Building the organisational culture concentrated on the needs of internal and external Customers and development of necessary competences
- Management and remunerating by objectives

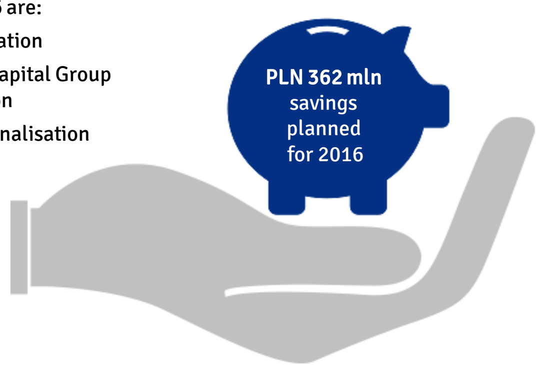
# EFFICIENCY IMPROVEMENT PROGRAMME AND GROWTH PERSPECTIVES IN 2016

## Efficiency improvement programme

| Segment savings [PLN mln] | H1 2016 | 2016 |
|---|---|---|
| Generation | 75 | 154 |
| Distribution | 111 | 175 |
| Mining | 12 | 29 |
| Other | 4 | 4 |
| **TOTAL** | **202** | **362** |

Initiatives realised in H1 2016 are:

- Business process optimisation
- Use of resources within Capital Group and fixed cost optimisation
- Outsourced services rationalisation
- Non-core liquidation




Initiatives planned for 2016:

- Better efficiency
- Greater use of resources within the Group for cost optimisation
- Non-core liquidation
- Competence synergy

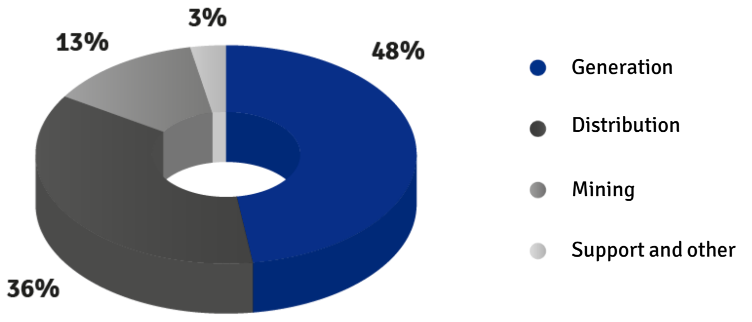
## Growth perspectives in 2016

| Area | 2015 vs. 2016 perspective | Perspective | Key factors | Implementation |
|---|---|---|---|---|
| Mining | Drop | Drop | (-) Lower price of coal<br>(+) Construction of new roadways<br>(+) Assets modernisation<br>(+) Constant enhancement of efficiency | (-) Upholding the perspective<br>(+) Upholding the perspective<br>(+) Upholding the perspective<br>(+) Upholding the perspective |
| Conventional power engineering | Neutral | Neutral | (-) Lower price of energy<br>(-) Lower limit of free $CO_2$<br>(+) Lower price of coal<br>(+) Greater generation of electricity<br>(+) Internal processes optimization | (-) Upholding the perspective<br>(-) Upholding the perspective<br>(+) Upholding the perspective<br>(+) Upholding the perspective<br>(+) Upholding the perspective |
| Renewable energy sources | Growth | Drop | (-) Drop in price and volume of RES Proprietary Interests<br>(+) Greater generation of electricity<br>(+) Optimisation of costs of the area of Water | (-) Upholding the perspective<br>(-) Lower generation of electricity<br>(+) Upholding the perspective |
| Distribution | Drop | Drop | (-) Drop of WACC to 5.675% may result in EBITDA lower by ca. PLN 58 mln<br>(-) Lower volumes of electricity for covering book-tax difference in the Tariff<br>(+) Management optimisation in the segment<br>(+) Works over the improvement of service quality (SAIDI and SAIFI index reduction) | (-) Upholding the perspective<br>(-) Upholding the perspective<br>(+) Upholding the perspective<br>(+) Upholding the perspective |
| Trade | Drop | Drop | (-) Threat from the side of new energy sellers<br>(+) Sales channels development<br>(+) Development of the range of products<br>(-) Lower gas prices as a result of collapse in oil prices<br>(-) Lower price of electricity | (-) Upholding the perspective<br>(+) Upholding the perspective<br>(+) Upholding the perspective<br>(-) Upholding the perspective<br>(-) Upholding the perspective |

## Key events in H1 2016

| Capital expenditures [PLN mln] | H1 2015 | H1 2016 | Change % | 2016 Plan |
|---|---|---|---|---|
| Generation | 821.3 | 556.8 | -32.2% | 1 969.5 |
| Distribution | 257.6 | 424.3 | 64.7% | 847.7 |
| Mining | - | 152.7 | - | 437.9 |
| Support and other | 43.8 | 37.2 | -15.1% | 155.1 |
| TOTAL | 1 122.7 | 1 171.0 | 4.3% | 3 410.2 |

Capital expenditures in H1 2016




## Investments implemented in H1 2016

### Mining

- Obtaining new licences:
  - application for a new licence for the mining use in K-6 and K-7 area of "Cyców" deposit
  - acquisition of access to the geological information of "Ostrów"
  - 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 12.1 km of new excavations
  - central air conditioning of Bogdanka field - completed construction of the installation and all the objects of the central air conditioning of Bogdanka field
  - extension of the plant for mining waste neutralisation in Bogdanka
  - continuation of the power grids extension and modernisation of elements of the switching station and 110/6 kV station in Nadrybie

### Generation

- 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 and 1-2
- Construction of flue gas desulphurisation plant on K7 and K8 boilers
- 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

### Distribution

- 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, including:
  - Pakość- Żnin 110 kV line reconstruction
  - construction of 110 kV Chocicza switching station
  - Stęszew-Kościan 110 kV line reconstruction
  - Drawski Młyn – Wronki 110 kV line reconstruction
  - Pniewy - Sieraków 110 kV line reconstruction
- Continuation of improving the connections of Customers to the power grid
- Continuation of the development of information tools supporting the grid management

## Investments planned until the end of 2016 within the currently held assets

### Mining

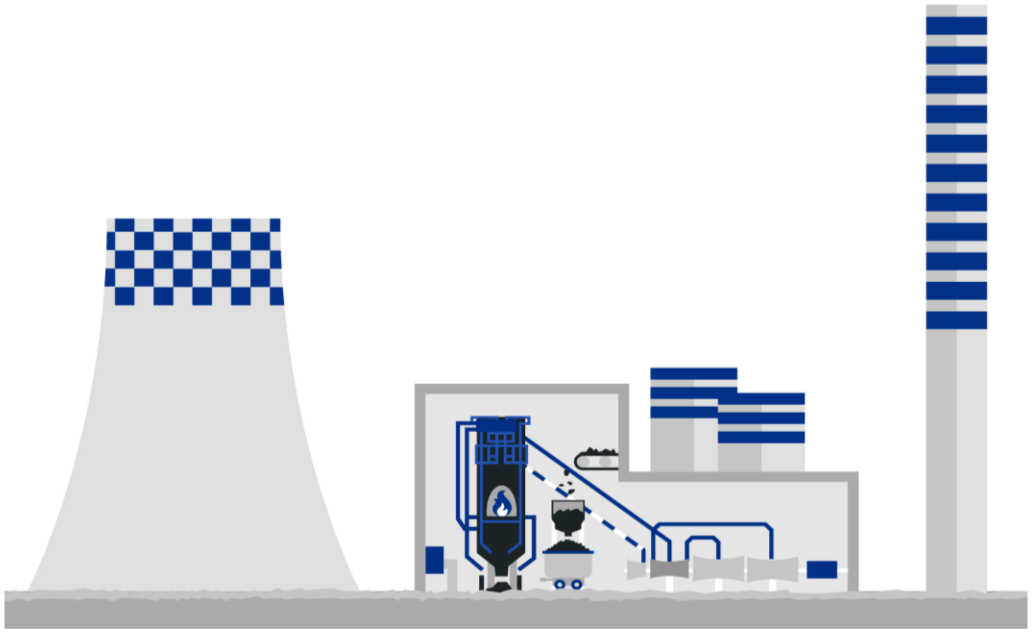
| | |
|---|---|
| **Development investments** | Obtaining new licences:<br>• continuation of the process of applying for a licence as regards K-6 and K-7 and "Ostrów" and "Orzechów" areas<br>• commencement of exploratory works in "Orzechów"<br>Maintaining the machine park:<br>• purchase and assembly of new machines and equipment<br>• modernisation and renovations of machinery and equipment |
| **Operating investments** | New excavations and modernisation of the existing ones:<br>• performance of excavations, mainly wall roadways, face lines and other technological and access excavations, enabling exploitation of walls<br>• reconstruction of mining excavations |
| **Other investments** | Other development and replacement investments:<br>• central air conditioning of Bogdanka field - the other expenditures will be devoted for the installation of a heat exchanger for fire water cooling<br>• extension of the mining waste neutralisation in Bogdanka - continuation of the acquisition of plots located on the area of Stage II and Stage III<br>• continuation of the power grids expansion |

### Generation

| | | |
|---|---|---|
| **Segment of System Power Plants** | New | • Modernisation of unit No. 4 |
| | Continuation | • Construction of power unit No. 11 (completion in 2017)<br>• IOS IV Flue Gas Desulphurisation Plant - within flue gas channels<br>• Installation of flue gases denitrification - SCR for units No. 4-8 and 1-2 (completion in 2017)<br>• Installation of flue gases denitrification - SCR for units No. 9-10 (completion in 2018)<br>• Construction of industrial waste and rainwater treatment<br>• Modernisation of cooling water intake - temporary stabilising checkdam on the Vistula River (completion in 2017)<br>• Modernisation of the slag and ash depot - modernisation of field 5 |
| **Segment of Heat** | | • Construction of flue gas desulphurisation plant on K7 and K8 boilers (completion in 2017) |
| **Segment of RES** | | • Searching for a bargain investment and acquisition projects |

### Distribution

| | |
|---|---|
| **New** | • Construction of GPZ Śmiłowo<br>• Reconstruction of GPZ Pniewy<br>• Reconstruction of GPZ Niemierzyn<br>• Reconstruction of GPZ Tanowska<br>• Reconstruction of GPZ Załom<br>• Reconstruction of GPZ Stargard Wschód |
| **Continuation** | • Continuation of the programme of smart grid solutions development (AMI) within the application test of smart meters and installation of balancing meters<br>• Continuation of a programme enhancing grid reliability<br>• Continuation of the Grid Information System project<br>• Construction and modernisation of a range of grid infrastructure elements, such as high, medium and low voltage lines and transformer stations |



## Status of works on the key investment projects

| Investment | Project status | CAPEX H1 2016 [PLN mln] | Total CAPEX [PLN mln] | Work progress (%) | Anticipated date of completion |
|---|---|---|---|---|---|
| Construction of a 1,075 MW power unit No. 11 | In Q2 2016 the following works were completed on the construction site:<br>• Launching the fire installation within the scope required to run 110kV voltage<br>• Assembly of MV switchboards in the electrical devices building<br>• Leakage and pressure test of pipelines of the condensate water treatment plant<br>• Foundations up to the level of 0.0 - slag container and foundations and reinforced concrete strip foundations of the carriage defrosting building<br>• Leakage and pressure test of pipelines of boiler blowers<br>• Completion of coal container assembly<br>• Assembly of HVAC control and steering and fire systems in electrical devices building<br>• Assembly of boiler main burners<br>• Boiler bricklining<br>• OFA channel assembly<br>• Flue gas ventilator assembly (static and dynamic part) | 372 | 5 922.0 | 86% | 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% | 2016 |
| Modernisation of unit No. 4 | Organisation and preparation of particular tender procedures relating to the works connected with the modernisation of unit No. 4 are in progress Workshop works are executed in order to prepare sub-assemblies and elements for assembly during the modernisation outage of the unit in the period from 1 August to 13 December 2016. | 2.6 | 31.8 | 19% | 2017 |
| Modernisation of unit No. 5 | On 7 June 2016 unit No. 5 was commissioned. The other works are in progress which are not related to the unit outage. | 73.5 | 87.9 | 99% | 2016 |
| Construction of industrial waste and rainwater treatment | 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). After Enea Wytwarzanie obtained the new decision - Integrated permit -the scope of works cancelled in the original Agreement will be completed as a separate order. | 7.1 | 29.4 | 95% | 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. Annex to the Agreement is being arranged with the Contractor relating to the amendment of the unit parameters and reducing the contract value due to the resignation from some scope of the Agreement. | 6.2 | 97.9 | 98% | 2016 |
| Modernisation of unit No. 9 as a part of 2 x 500 MW units modernisation programme | In 2017 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. | 0 | 90.0 | 1% | 2017 |
| 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. | 0.2 | 33.0 | 2% | 2017 |
| 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. | The most beneficial offer was selected for the General Contractor who will perform the SCR installation on units No. 9 and 10 along with the replacement of the electric precipitator on unit No. 9 and modernisation of the electric precipitator on unit No. 10. | 0.9 | 321.9 | 15% | 2018 |
| Installation of flue gases denitrification - SCR for units No. 4-8 | Completion of the SCR installation of flue gases denitrification 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 started and is pending commissioning. Some works were also performed relating to the SCR installation on unit No. 8. Currently, SCR installation for unit No. 4 is being performed. | 31.6 | 203.7 | 78% | 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 modernisation/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. | 16.1 | 105.5 | 35% | 2017 |
| Modernisation of unit No. 10 as part of 2 x 500 MW units modernisation programme | In 2018 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. | 0 | 88.1 | 1% | 2018 |

## Area of Retail Sales

**Activities implemented in H1 2016**

- Realisation of a promotional campaign for individual Customers promoting the offer of Energy + Expert
- Realisation of the promotional action dedicated to SOHO customers
- Activities promoting the offer on sponsored events
- Updating the product range dedicated to households in the context of its implementation for sale in new channels of remote communication
- Growth in gaseous fuel sales
- Launching the e-commerce platform

**Activities to be realised until the end of 2016**

- Sales channel optimisation
- Further development and optimisation of the product range
- Continuation of marketing campaigns for mass Customers
- Activation of promotional activities on sponsored events
- Development of analytical and operating systems supporting sales

## Area of Customer Service

**Activities implemented in H1 2016**

- 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
- Launching new services for all Enea CG Companies on Enea Group's on-line service

**Activities to be realised until the end of 2016**

- 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
- Commencement of the purchase process of a new contact centre multichannel platform whose implementation is planned for December 2016 - it will grant access for Customers to new contact channels
- Development of new concepts of functioning of Customer service and settlement support areas and preparation of the implementation plan

## Area of Wholesale Trade

**Activities implemented in H1 2016**

- Signing of a cooperation agreement with Polish Trading Point
- Development and approval of the *"Method of managing the portfolio of proprietary interests resulting from certificates of origin of electricity from RES in Enea Group"*
- 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

**Activities to be realised until the end of 2016**

- Improvement of competences and development of trading strategies on the German wholesale market (EPEX, EEX)
- Integration of TT trade supporting systems (LuxTrade, MidOSS and MidOSS-RISK applications)
- Development and implementation of a model of long-term price paths for products listed on wholesale markets
- Improvement of tools and methods of portfolio management and securing the position within the full chain of added value in the field of trading in electricity, derivative products and natural gas
- Development of trading systems and their integration with systems used in Enea CG




## 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. 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.

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

Enea SA holds the programme agreement relating to the bond issue programme up to the amount of PLN 3 billion 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. As at 30 June 2016 the value of the bonds issued within the aforementioned Programme totalled to PLN 1,501 mln.

50% Rate of utilisation of the financing source

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

On 30 June 2014, Enea SA concluded a programme agreement relating to the bond issue programme up to the amount of PLN 5 billion 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. As at 30 June 2016 the value of the bonds issued within the aforementioned Programme totalled to PLN 1,500 mln.

30% Rate of utilisation of the financing source

### The 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 billion 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 realisation of the investments by Enea SA and its subsidiaries.
Enea SA issued bonds in the said Programme of the total value of the Programme being PLN 1 billion. 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 realisation of the investments and financing the current operations of Enea SA and its subsidiaries. As at 30 June 2016 Enea SA did not issue bonds within the aforementioned Programme.

59% Rate of utilisation of the financing source

### 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. 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 designated for 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. The 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 June 2030. In January 2016 the loan tranche was disbursed in the amount of PLN 100 mln. As at 30 June 2016, the amount of the used loan within tranche "C" was PLN 200 mln.

69% Rate of utilisation of the financing source

### LW Bogdanka investment programme financing sources - programme agreements relating to the issue of LW Bogdanka SA's bonds

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 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 ended 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 30 June 2016 PLN 600 mln worth of bonds were issued within the two above mentioned agreements.

67% Rate of utilisation of the financing source

## Issue of Enea SA's securities in 2016

Enea SA issued securities of the total amount of PLN 300 mln in 2016. The nominal debt for the bonds issued by Enea SA as at 30 June 2016 totalled to PLN 4,001 mln.

## Granted sureties and guarantees

During H1 2016, Enea Group companies did not issue any guarantees or sureties, the total value of which would constitute at least 10% of Enea SA's equity.

As at 30 June 2016 the total value of corporate sureties and guarantees granted by Enea SA for hedging the liabilities of Enea Group companies amounted to PLN 214,295.3 thou., and the total value of bank guarantees issued on request of Enea SA and being the security for the liabilities of Enea Group companies for the account of external entities amounted to PLN 23,099.1 thou.

## Interest rate risk hedging transactions

Implementing the Interest Rate Risk Management Policy Enea SA concluded transactions in the period of six months of 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 permanent change of variable interest streams.

## Agreements of significance to Enea Capital Group operations

During H1 2016, and until the preparation of this report, Enea Group companies did not conclude any significant agreements, i.e. agreements exceeding 10% of Enea's equity.

## Transactions with related parties

During January - June 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 20 to the condensed interim consolidated financial statements of Enea Group for the period from 1 January to 30 June 2016.

## Subsidiaries' equity contributions

On 21 March 2016, Enea SA made additional redistributable capital payments of Enea Wytwarzanie sp z o.o in the amount of PLN 199,899 thou. On 31 May 2016, Enea SA made subsequent tranches of additional redistributable capital payments of Enea Wytwarzanie sp z o.o in the total amount of PLN 936,067.6 thou. The funds will be allocated to the funding of Enea Wytwarzanie's investment expenditures. The repayment date was not determined.

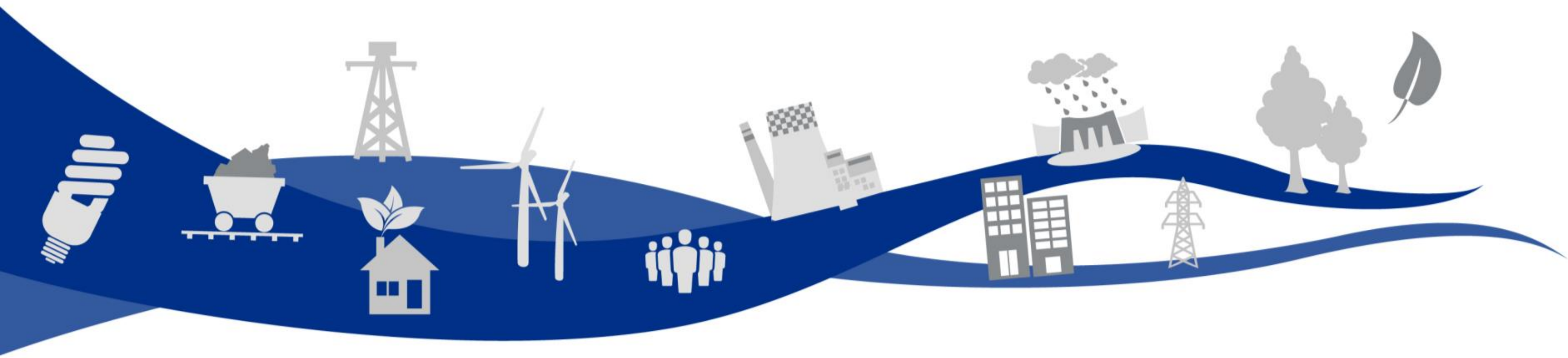
## Settlement of intergroup transactions

The total trade (in electricity, proprietary interests, gaseous fuel, $CO_2$) in intergroup transactions between Enea Trading and Enea SA:

| 2015 | | 2016 |
|---|---|---|
| H1 | H2 | H1 |
| PLN 1 420.40 mln | PLN 1 462.95 mln | PLN 1 380.9 mln |
| Including electricity: PLN 1 368.04 mln | Including electricity: PLN 1 377.32 mln | Including electricity: PLN 1 279.79 mln |

The total trade (in electricity, proprietary interests, gaseous fuel, $CO_2$) in intergroup transactions between Enea Trading and Enea Wytwarzanie:

| 2015 | | 2016 |
|---|---|---|
| H1 | H2 | H1 |
| PLN 1 200.28 mln | PLN 1 544.56 mln | PLN 1 437.53 mln |
| Including electricity: PLN 1 172.24 mln | Including electricity: PLN 1 235.74 mln | Including electricity: PLN 1 331.35 mln |



## Distribution of cash - subsidiaries' bond issue programme

### PLN 3 billion - Programme Agreement of 8 September 2012 Enea Wytwarzanie

As at 30 June 2016, Enea Wytwarzanie issued bonds in the said Programme of the total value of PLN 1,501 mln.

### PLN 1,425 mln - Enea Operator's Bonds

The programme 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 billion - 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 billion. As at 30 June 2016, Enea Wytwarzanie issued bonds in the said Programme of the total value of PLN 1 billion. The programme 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. Within the agreement Enea Operator may perform up to 10 issues of bonds until March 2017. 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 30 June 2016, Enea Wytwarzanie 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 AII07/2015 series in the total amount of PLN 936 mln.

### PLN 740 mln - Bond Issue Programme Agreement Enea Wytwarzanie

As at 30 June 2016, Enea Wytwarzanie issued bonds in the said Programme of the total value of PLN 350 mln.

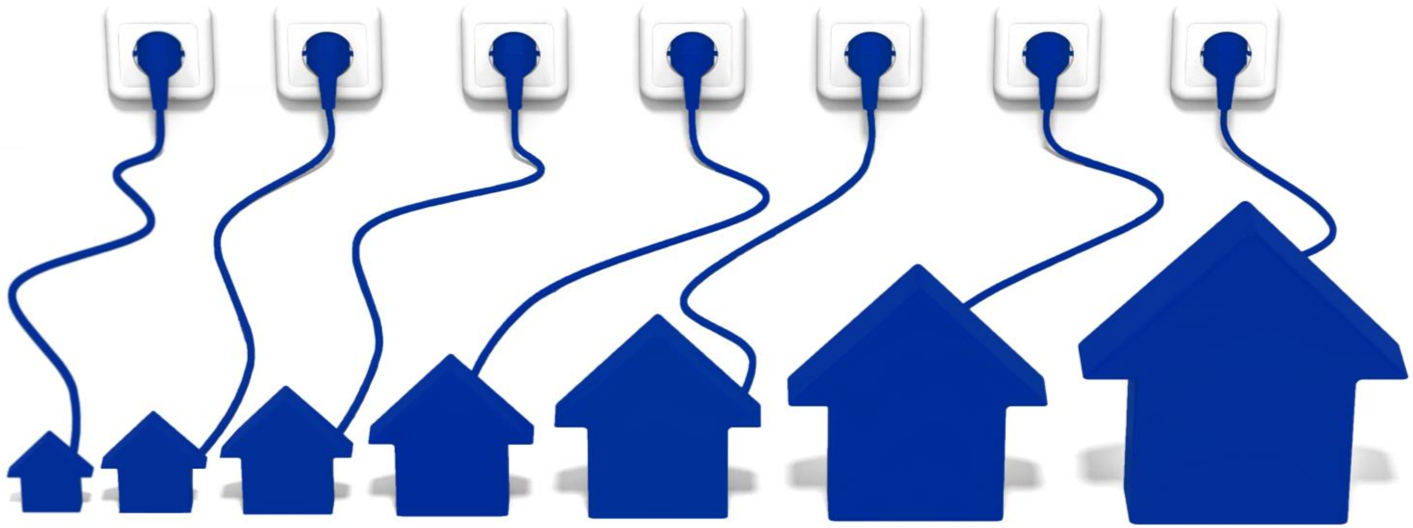
### PLN 260 mln - Programme Agreement of 12 August 2014 Enea Wytwarzanie

The programme 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.

### 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 segment 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 119,450 thou. as at 30 June 2016.

Additionally, on 18 July 2016, Enea Wytwarzanie, Enea and PKO Bank Polski concluded the Executive Bond Issue Programme Agreement for the amount of PLN 360 mln. As at the publication date of this Report, Enea Operator issued bonds of the total value of PLN 360 mln within this Agreement.

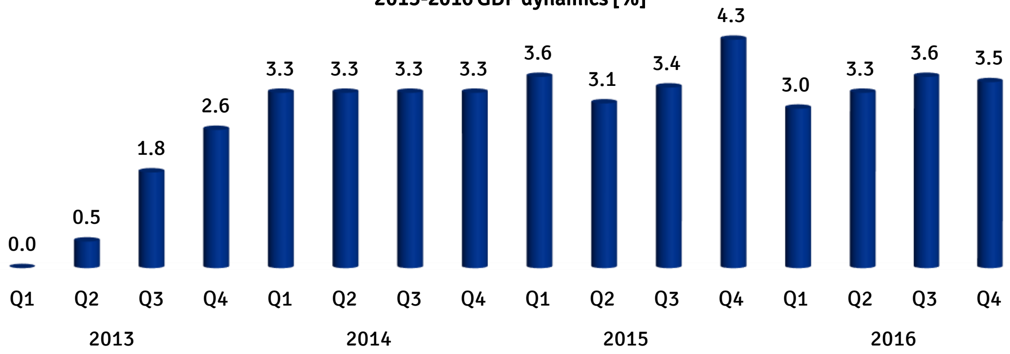


## Macroeconomic situation

Enea Group's operations are focused basically on the territory of Poland. The same core macroeconomic factor affecting both the achieved results and the 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, Institute) in Q2 2016 the economic growth rate was 3.3%. Thus, the drop in the growth rate in Q1 was not the beginning of a longer tendency of lowering the dynamics of economic growth. Taking into account the seasonal factors, the GDP growth rate in Q2 was higher by 0.8% in relation to the previous quarter.

**2013-2016 GDP dynamics [%]**




The key factor of the economic growth in Q2 2016 was the domestic demand. Economic growth was additionally strengthened with foreign demand. From among the elements of the domestic demand the greatest dynamics were reported for gross expenditures on fixed assets, i.e. capital expenditures. The total consumption grew slightly slower than in Q1 and its most important component, i.e. individual consumption grew slightly faster than in the previous quarter. As regards sectors the fastest growing area of economy in Q2 2016 was the industry.

Pursuant to the forecast of IBnGR the rate of growth of the gross domestic product in 2016 will amount to 3.4%, which means it will be weaker by 0.2 p.p. as compared with the previous year. According to the Institutes's forecast, the quarterly growth rate will be slightly higher in H2 2016 than in H1 2016. GDP growth will total to 3.6% in Q3 to 3.5% in Q4. In 2017, the Institute expects a slightly worse macroeconomic situation in Poland, although GDP will grow slightly slower than in the current year. According to IBnGR's forecast the economic growth in 2017 will be 3.1%.

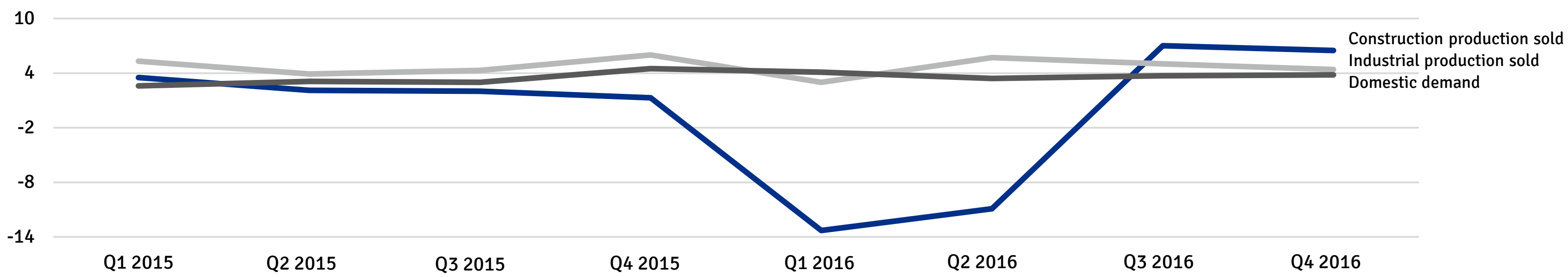
In 2016, the added value in the industry will grow by 4.7%. At the same time, not much weaker result will be reported in the service sector, where the added value will amount to 4.1%. The worst situation will occur in the construction sector which will report a lower added value by (-) 0.7%. However, in the second half of the year the sector situation should improve.

Pursuant to the forecast by IBnGR, almost until the end of Q3 2016 deflation will be still reported in Poland. In Q3 consumer prices will drop by 0.7% on average. Inflation will occur just in Q4 when the average level of prices remains on the same level as in the previous year, and the growth as at the end of the quarter will total to 0.2%. According to the Institute's forecast, in the whole 2016 prices will decrease by 0.6% on average in relation to the previous year. On the other hand, in 2017 the average annual inflation level will be 1.2%.

The summary of the key macroeconomic ratios characteristic for the Polish economy in 2015-2017 is presented below.

| Description | unit | 2015 | 2016 | 2017 |
|---|---|---|---|---|
| GDP | % growth | 3.6 | 3.4 | 3.1 |
| Value added in industry | % growth | 5.6 | 4.7 | 4.3 |
| Value added in construction sector | % growth | 4.6 | (-) 0.7 | 6.5 |
| Domestic demand | % growth | 3.4 | 3.7 | 3.4 |
| Gross expenditures on fixed assets | % growth | 5.8 | 4.2 | 5.3 |
| Industrial production sold | % growth | 4.8 | 4.5 | 4.2 |
| Construction production sold | % growth | 2.9 | (-) 0.7 | 4.8 |
| Inflation | in % | (-) 0.9 | (-) 0.6 | 1.2 |

**Projected dynamics of domestic demand and sold production [%]**




Source: Developments by IBnGR and economic situation forecast No. 91 (July 2016)

## 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 adjusted to 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 performs 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 lunching 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 Art. 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 $CO_2$ 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

The act of 20 May 2016 on investments in wind power plants (J. L. of 2016 item 961 of 1 July 2016; entry into force on 16 July 2016) introduces new regulations, of which the most important include:

1. Location of a wind power plant occurs exclusively based on the local zoning plan mentioned in Art. 4 of the act of 27 March 2003 on spatial planning and development (J. L. of 2015, item 199, as amended [1)]), further on referred to as local zoning plan

2. Establishment of the location requirement 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 Art. 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 Art. 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

The above mentioned regulations forced the Company to make the decision on the write-down in H1 2016 totalling to PLN 42 mln, of which it informed in the current report No. 23/2016.

1) Amendments to the consolidated text of the above mentioned act were published in J. L. of 2015 item 443, 774, 1265, 1434, 1713, 1777, 1830 and 1890

### 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(2) sentence 3 and 4 of the Commission (EU) implementing regulation No. 1348/2014 of 17 December 2014 on data reporting implementing Article 8(2) and Article 8(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.

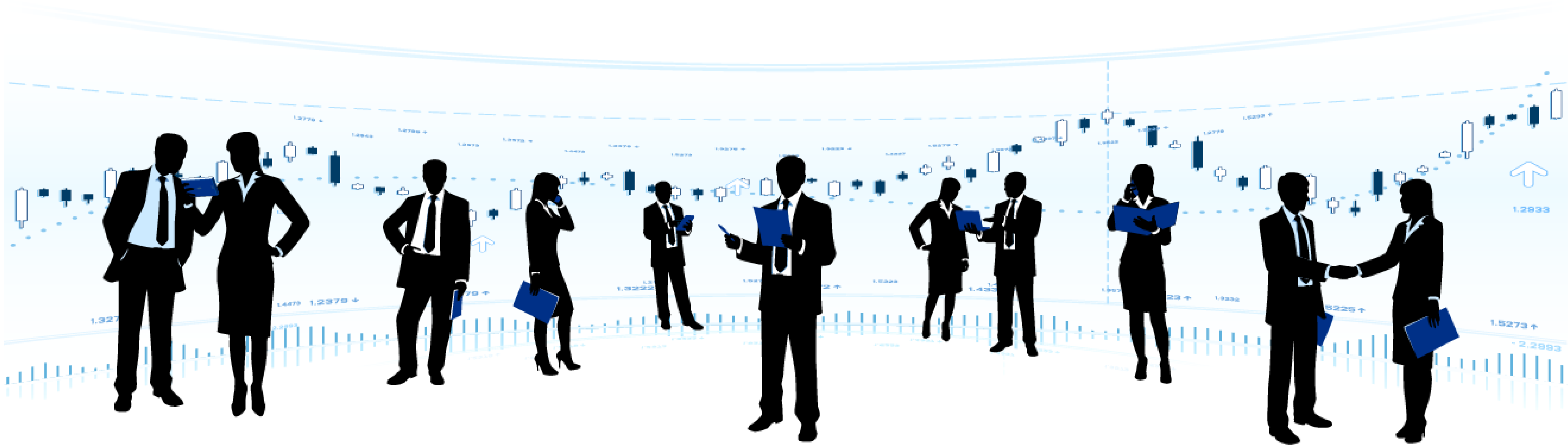
### Directive of the European Parliament and of the Council No. 2015/2193 of 25 November 2015 on the limitation of emissions of certain pollutants into the air from medium combustion plants

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 ($SO_2$), 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(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 Cieplnej sp. z o.o. in Oborniki (PEC Oborniki), Miejska Energetyka Cieplna Piła sp. z o.o. in Piła (MEC Piła) and Miejskie Przedsiębiorstwo Energetyki Cieplnej sp. z o.o. in Białystok (MPEC Białystok).



### Allowances for emissions of $CO_2$

Poland, until the launching of the national trading platform, is organising sales of Polish EUA allowances on the community auction platform. So far, in 8 offers it was possible to sell 63% of the whole volumes for 2016. On 25 May 2016 EEX exchange seated in Germany cancelled the auction in which Poland offered 3,526,000 allowances. The reason for cancelling was occurrence of grounds included in Art. 7 item 6 of the Commission Regulation (EU) No. 1031/2010 of 12 November 2010 on the timing, administration and other aspects of auctioning of greenhouse gas emission allowances pursuant to Directive 2003/87/EC of the European Parliament and of the Council establishing a scheme for greenhouse gas emission allowances trading within the Community (O. J. EU L 302 of 18 November 2010, p. 1, as amended), pursuant to which the auction settlement price did not reach the so-called reference price, i.e. "(…) the settlement price was significantly lower than the price on the secondary market in the period and directly before the period of submission of tenders (…)".

In relation to the above EUA will be distributed evenly in four next auctions. 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 | - | 14 104 000 | 35% |
| 22 June 2016 | 4 407 500 | 5.55 | 18 511 000 | 46% |
| 20 July 2016 | 4 407 500 | 4.65 | 22 919 000 | 57% |
| 17 August 2016 | 2 644 500 | 4.65 | 25 563 500 | 63% |

### 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 dated 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. Due to the IOS IV flue gas desulphurisation plant commissioned in 2015, Kozienice Power Plant reduced emissions of $SO_2$ for H1 2016 by 70,2% as compared to H1 2015 despite a growth in the gross production of electricity in that period by 9.0%.

| 2016/2015 | $SO_2$ | | | $NO_X$ | | | Dust | | | Gross generation of electricity [MWh] |
|---|---|---|---|---|---|---|---|---|---|---|
| | $SO_2$ emission [Mg] | $SO_2$ emission ratio [kg/MWh] | $SO_2$ emission fee [PLN '000] | $NO_x$ emission [Mg] | $NO_x$ emission ratio [kg/MWh] | $NO_x$ emission fee [PLN '000] | Dust emissions [Mg] | Dust emission ratio [kg/MWh] | Dust emission fee [PLN '000] | |
| H1 2016 | 4 680.9 | 0.681 | 2 480.852 | 7 450.8 | 1.085 | 3 948.932 | 241.3 | 0.035 | 84.458 | 6 868 269.6 |
| H1 2015 | 15 725.8 | 2.497 | 8 334.675 | 7 862.2 | 1.248 | 4 166.966 | 438.8 | 0.070 | 153.848 | 6 298 702.5 |
| Change % | -70.2 | -72.7 | -70.2 | -5.2 | -13.1 | -5.2 | -45.0 | -50.0 | -45.1 | 9.0 |

### Observing regulatory and formal requirements

Enea Wytwarzanie sp. z o.o. uses the derogation resulting from IED directive, which is the Transitional National Plan (TNP):

- within sulphur dioxide and dust emissions: Kozienice Power Plant together with Białystok Heat and Power Plant
- within $NO_x$ emission: Białystok Heat and Power Plant individually

In the period of TNP validity, i.e. from 1 January 2016 to 30 June 2020, annual emission thresholds are in force. Pollutant emission within TNP for H1 2016 and the level of using annual emission thresholds was listed in the table below.

| Installation | | $SO_2$ [Mg] | $SO_2$ % used | Dust [Mg] | Dust % used | $NO_x$ [Mg] | $NO_x$ % used |
|---|---|---|---|---|---|---|---|
| Kozienice Power Plant | emission | 4 232.60 | 28.17% | 197.73 | 10.53% | n/a | n/a |
| | annual threshold | 15 027.00 | | 1 878.40 | | | |
| Białystok Heat and Power Plant | emission | 798.70 | 21.91% | 63.63 | 22.09% | 408.90 | 23.66% |
| | annual threshold | 3 644.77 | | 288.02 | | 1 728.50 | |
| Total | emission | 5 031.30 | 26.95% | 261.36 | 12.06% | 408.90 | 23.66% |
| | annual threshold | 18 671.77 | | 2 166.42 | | 1 728.50 | |

In H1 2016:

- $CO_2$ emissions annual report of 2015 was verified with a positive result
- emission standards specified in the integrated permit were not exceeded

Kozienice Power Plant continued efforts to obtain an integrated permit for the modernised treatment plant of rainwater and industrial waste from 500 MW units and unit No. 11 (1,075 MW).

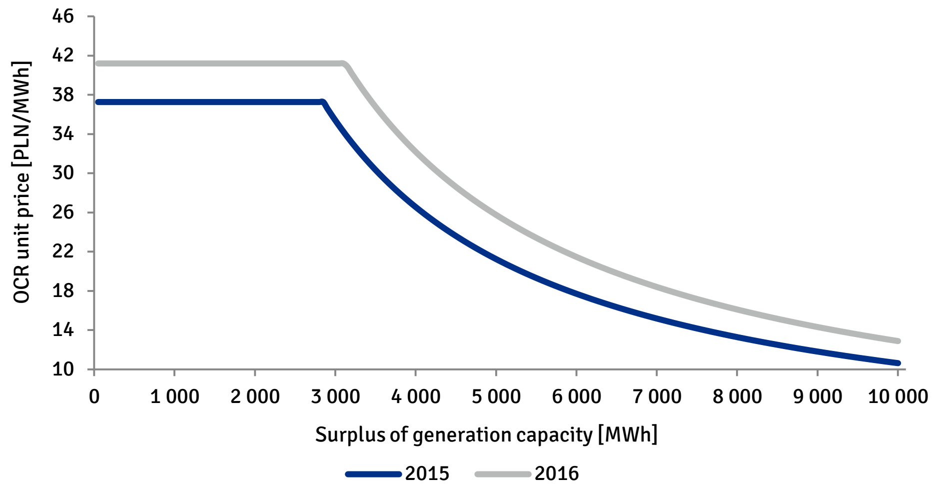
Kozienice Power Plant obtained the following administrative decisions:

- integrated permit for rainwater and industrial waste treatment plant for 500 MW units
- integrated permit for unit No. 11's run up boiler house
- amendment to the integrated permit for unit No 11
- new decision granting a greenhouse gas emissions permit

### 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 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
- 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 PLN 37.28, and for 2016 amounts to PLN 41.20.

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 2015-2016:

| Parameter | 2015 | 2016 |
|---|---|---|
| Hourly budget [PLN] | 106 246.72 | 128 758.72 |
| Reference price [PLN/MWh] | 37.28 | 41.20 |
| Hourly volume of required OCR [MWh] | 4 155.37 | 3 451.09 |
| Number of demand peak hours | 3 810 | 3 780 |
| OCR annual budget [PLN mln] | 404.8 | 486.7 |

OCR settlement rules in force in 2015 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. In relation to this fact, in 2015, with an active participation of Enea Wytwarzanie, there were consultations and works which aimed at the modification of the OCR mechanism with the complementary settlement of the OCR budget unused by OTS.

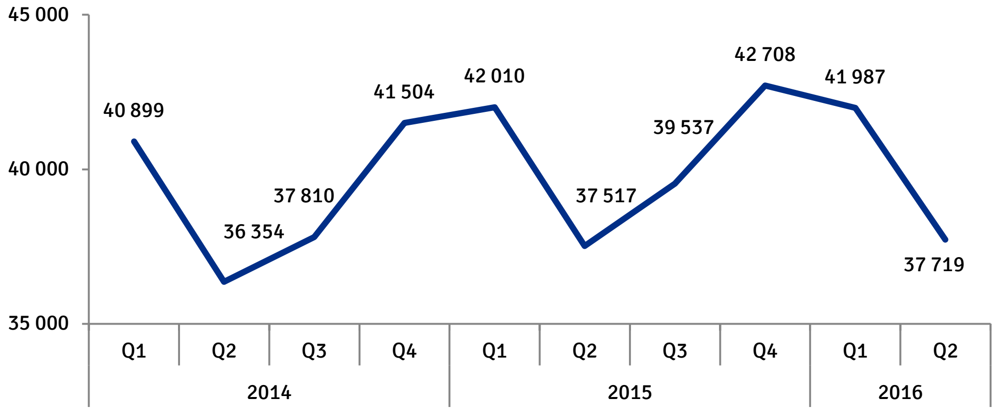
The result of these works is updating, as of 1 January 2016, of the Transmission Network Traffic and Exploitation Guidance, introducing e.g. monthly and annual settlements complementing the unused, hourly OCR budget of OTSs.

## Situation on the electricity market

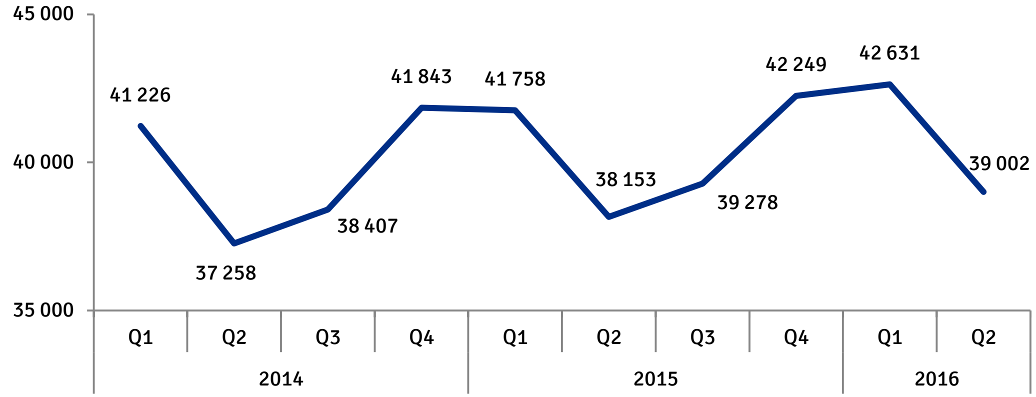
### Production of electricity

Pursuant to the data published by Polskie Sieci Energetyczne the domestic production of electricity in H1 2016 amounted to 79,706 GWh.

**Domestic production of electricity [GWh]**




**Domestic consumption of electricity [GWh]**



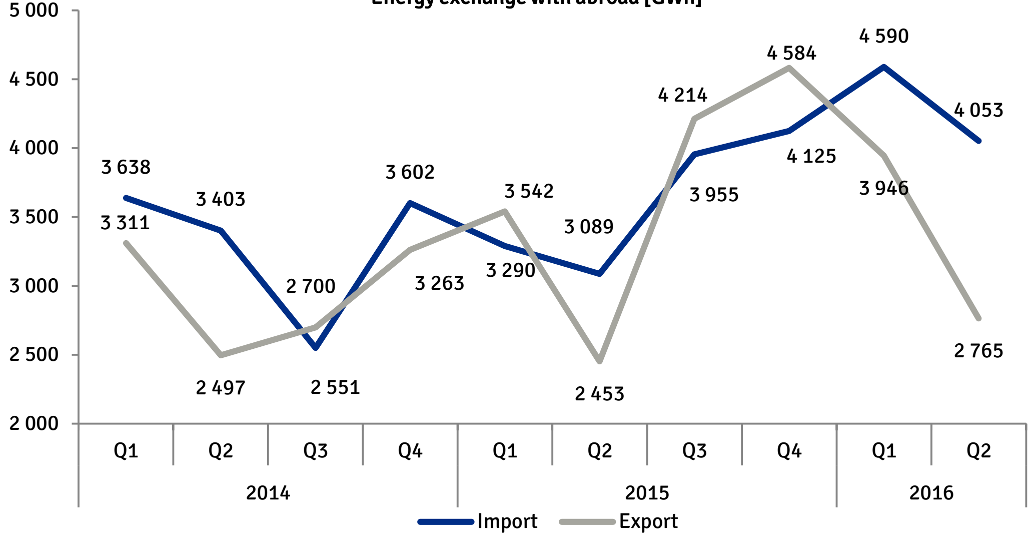

**Electricity generation structure in Polish power plants [GWh]**

| Types of power plants | H1 2015 | H1 2016 |
|---|---|---|
| Commercial on bituminous coal | 39 511 | 40 792 |
| Commercial on brown coal | 26 776 | 24 110 |
| Industrial | 4 940 | 5 033 |
| Gaseous | 2 224 | 2 912 |
| Commercial hydroelectric | 1 362 | 1 280 |
| Wind | 4 679 | 5 506 |
| Other renewable | 36 | 72 |

### Intersystemic exchange

In H1 2016 a negative balance of intersystemic exchange was generated as a result of a surplus of energy imported from abroad over the energy exported in the amount of (-) 1,927 GWh. For comparison, in H1 2015 the balance of intersystemic exchange of electricity amounted to (-) 384 GWh. In H1 2016, in January alone, the monthly balance of electricity exchange with abroad was positive which indicated prevalence of energy exports.

**Energy exchange with abroad [GWh]**




### Domestic consumption of electricity

Pursuant to the data published by Polskie Sieci Energetyczne, in H1 2016 the domestic consumption of electricity was greater by 2.15% as compared to the energy consumption in the same period of 2015.

## Market coal prices

H1 2016 on the global coal market was reported to maintain its prices on low levels. For Amsterdam-Rotterdam-Antwerpia (ARA) port group it amounted to from 43 to 54 USD/t, for Richards Bay (RB) from 48 to 59 USD/t, and for Newcastle port from 47 to 52 USD/t.

In Europe, the reason for this state is a moderate economic growth rate, weak seasonal demand (due to mild winter and spring), growing supply of energy from renewable sources and greater energy efficiency. The growing trend of prices in ARA port group has been observed since June 2016 due to a drop in Q2 of USD prices and melting stocks.

Greater demand for imported coal in India raised the trading activity and strengthens the index in RB towards 60 USD/t.

A growth was also reported for coal prices on the Australian market in relation to typical climatic conditions in this region (intense raindrops and floods in Indonesia) and higher oil prices which translated in turn into higher freight rates from Newcastle to South China, which was favourable for coal price growths.

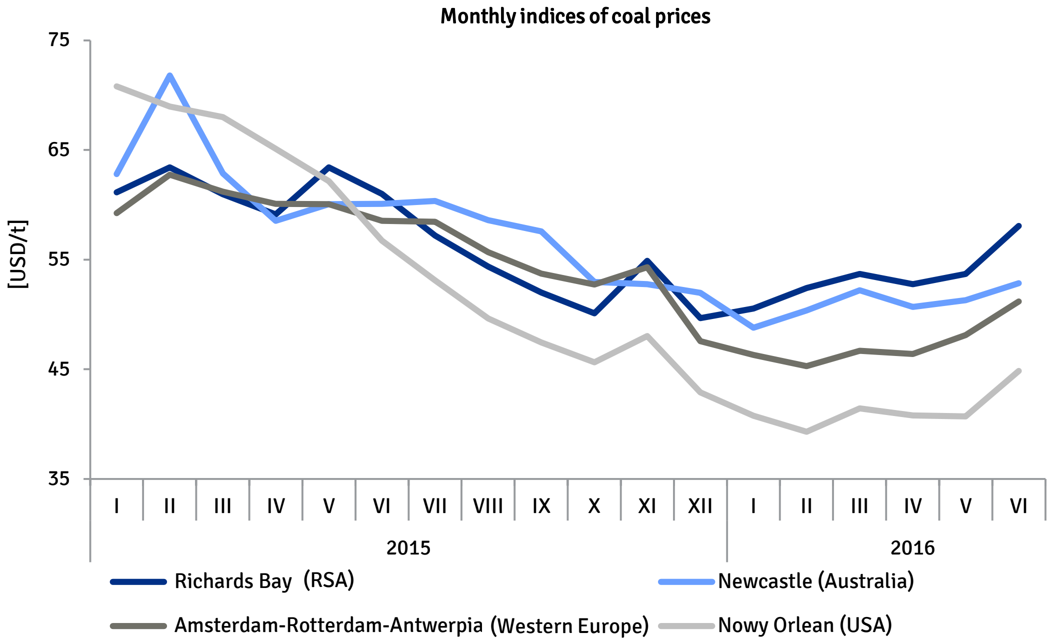
Coal prices in USA followed the global growth trend. It translated into ca. 10% growth in prices in June as compared to January.

Coal production in the area of the Appalachian Mountains and in the western part of the region dropped by 20%, with a concurrent drop in energy generation from coal in the region by 11%. However, what proves to be supportive here is an invariable level of export (mainly to the Latin America countries) which with a reduced number of operating drilling rigs of oil and shale gas fosters coal price growths.

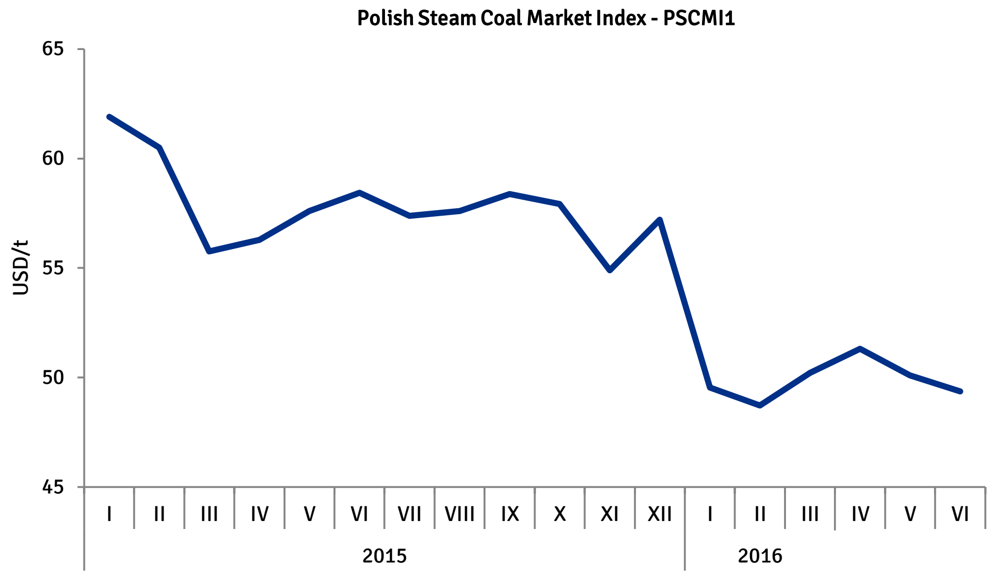
Global coal indices returned to the medium-term balance in the range of 50-60 USD/t.

The greatest dynamics was observed in European ARA ports. Reduction of mining volumes and growing prices of oil favoured strengthening of coal indices.

The value of the Polish Steam Coal Market Index PSCMI1, dedicated to the commercial and industrial power industry in H1 2016 oscillated in the range of 48 USD/t – 50 USD/t.
The average price for H1 2016 amounted to 49.88 USD/t and was lower than the average price for H1 2015 totalling to 58.41 USD/t by 14.6%.




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




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

### Wholesale electricity prices

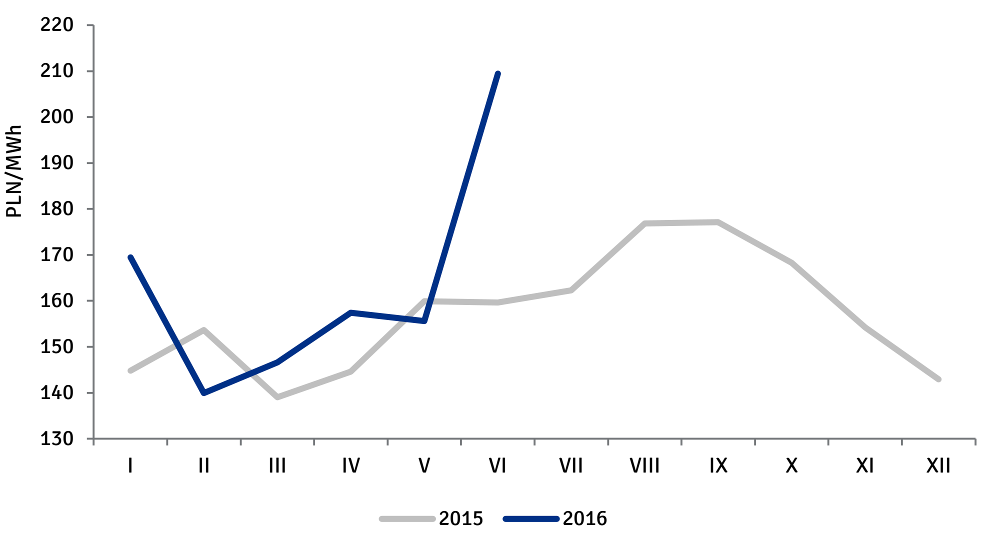
The average price on SPOT market in H1 2016 was higher by 8.6% in comparison with the same period of 2015. It was a result of e.g. higher prices in March and April, and most of all in June 2016, which stemmed from the following factors:

- power losses in PPS
- high failure to launch NordBalt intersystemic connection (Sweden-Lithuania) which completes LitPol connection (Poland-Lithuania)
- hydrological problems
- growth in demand for energy

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

| Period | Average price [PLN/MWh] | Change [%] |
|---|---|---|
| H1 2015 | 150.20 | ↓ 11.0% |
| H1 2016 | 163.10 | ↑ 8.6% |

Source: Own paper based on data from PPE.




Source: Own paper based on data from PPE.

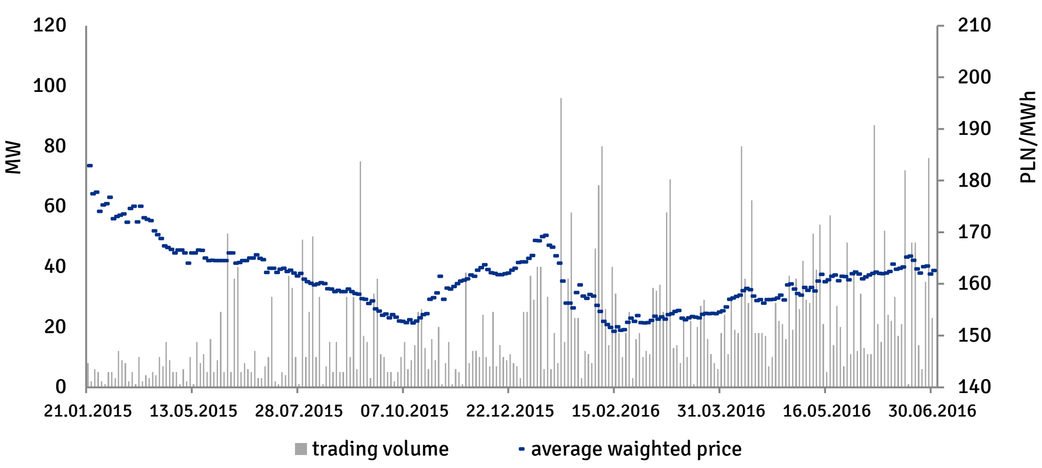
We observed drops in electricity prices on the forward market. In H1 2016, the price of the most liquid product, BASE Y-17, dropped from 165.00 PLN/MWh at the beginning of January to 162.50 PLN/MWh at the end of June.

Table 2. Prices on the forward market

| Product | Price at the end of quotations [PLN/MWh] | Change yoy [%] | Average price from quotations [PLN/MWh] | Change yoy [%] |
|---|---|---|---|---|
| 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 | 162.50 [1)] | ↓ 3.0% | 160.60 | ↓ 3.5% |

1) at the end of June 2016

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




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

On PPE forward market a very low liquidity is observed - when comparing turnover in H1s of 2015 and 2016 then the turnover drop for e.g. BASE-Y amounts to as much as 52%. The main reason for this situation maybe extinguishing of the so-called 100% exchange obligation related to Long-term Agreements.

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 June 2016 to 216.00 - 217.00 PLN/MWh.

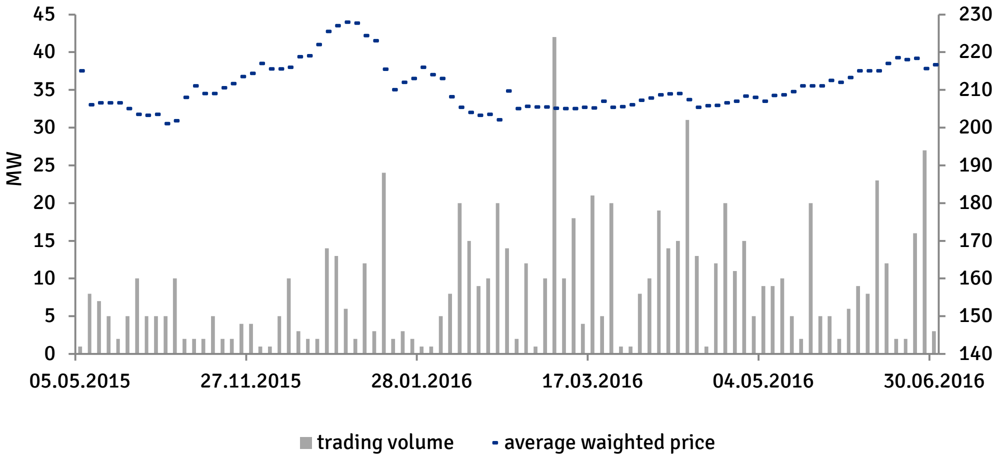
In H1 2016, the forward market reported slow growth in electricity prices. It was related to e.g. a great volatility in prices of allowances for emissions of $CO_2$ (a range between the maximum and minimum - 3.63 EUR/t). What had a great importance for the shaping of the market situation was also a significantly 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 $CO_2$ (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 PPS

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

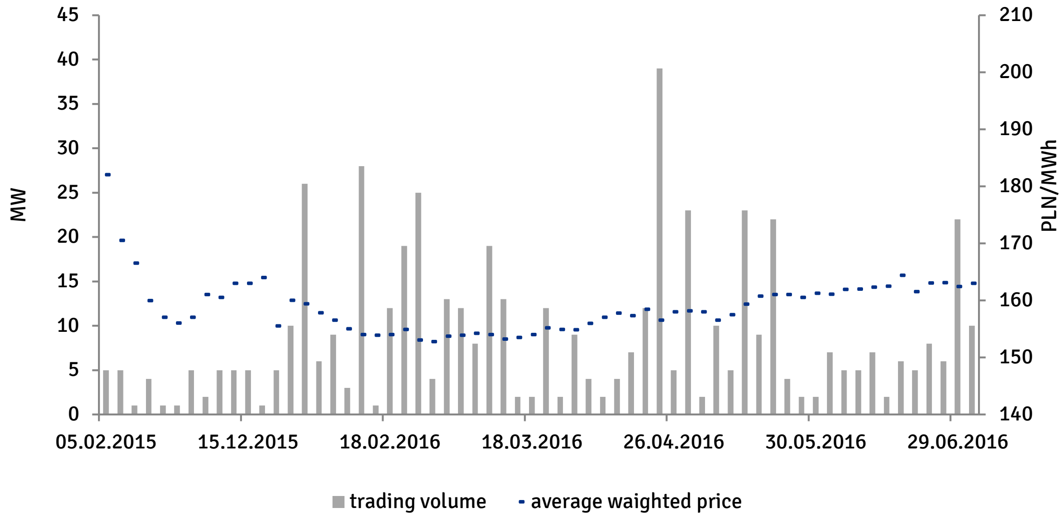
**Transaction prices and volumes - PEAK Y-17**




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

In H1 2016, transactions were also concluded for BASE Y-18, however due to a distant delivery horizon, the trading volumes were significantly lower than for BASE Y-17.

**Transaction prices and volumes - BASE Y-18**




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

## 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 are 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 2016
- 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 2016
- 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 H1 2016 is presented on the next page. The analysis excludes PMOZE "green" PIs due to lack of trading volumes and their entire replacement with PMOZE_A.

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

| | | Average price in H1 2016 | Change in relation to H2 2015 | | Maximum price | Minimum price |
|---|---|---|---|---|---|---|
| | | | % | PLN/MWh | PLN/MWh | PLN/MWh |
| OZEX_A ("green" proprietary interests) | | 101.95 | ↓ -10.8% | ↓ -12.38 | 118.98 | 65.00 |
| KGMX ("yellow" proprietary interests) | 2015 | 118.85 | ↑ 1.1% | ↑ 1.35 | 122.00 | 118.00 |
| | 2016 | 119.31 | - | - | 120.60 | 114.00 |
| KECX ("red" proprietary interests) | 2015 | 10.77 | ↑ 0.8% | ↑ 0.09 | 11.00 | 9.20 |
| | 2016 | 10.61 | - | - | 10.66 | 10.00 |
| KMETX ("violet" proprietary interests) | 2015 | 62.24 | ↑ 0.8% | ↑ 0.48 | 63.00 | 61.80 |
| | 2016 | 61.18 | - | - | 61.50 | 61.00 |
| EFX ("white" proprietary interests) | | 980.09 | ↑ 1.8% | ↑ 17.40 | 999.99 | 963.05 |

Source: own development based on data from PPE.

## Limits of $CO_2$ emission allowances and their market prices

In H1 2016, the prices of allowances for emissions of $CO_2$ (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.

During the international earth's day, on 23 April 2016, a Paris agreement negotiated during COP21 was signed. 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.

The situation on the market of emission allowances is affected by the condition of the leading economies. The estimated economic growth rate in China was lower than projected (6.9% against the anticipated 7%), which in the case of the Middle Kingdom is equivalent to an economic weakening. It translates e.g. into the development of surpluses of bituminous coal and drop in emissions (as estimated by Greenpeace) by almost 3% yoy.

Table 4. EUA and CER price change

| Product | Price [EUR/t] | | Change % |
|---|---|---|---|
| | Beginning of January 2016 | End of June 2016 | |
| EUA Spot | 8.04 | 4.46 | ↓ 44.5% |
| CER SPOT | 0.49 | 0.38 | ↓ 22.4% |
| EUA Dec-16 | 8.11 | 4.48 | ↓ 44.8% |
| CER Dec-16 | 0.47 | 0.38 | ↓ 19.1% |

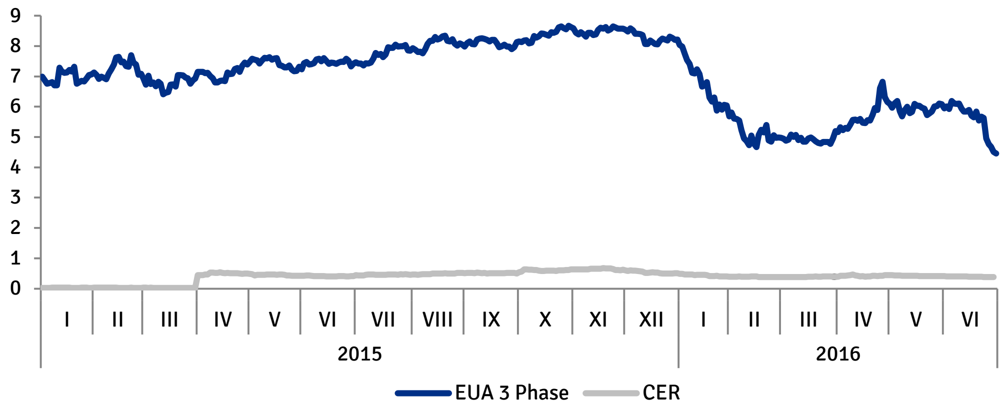
Source: own development based on data from ICE.

The second, sudden price reduction in allowances for emissions of $CO_2$ occurring in June was a result of a referendum in Great Britain as a consequence of which the majority of citizens was 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 reached the minimum on the level of 4.28 EUR/t.

Until 12 May 2016 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 billion after the realisation of the duty for 2015 (drop by 0.3 billion). The emissiveness in the Union dropped by 0.4%.

EUA and CER quotations - closing prices on SPOT market




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). ERM frames are specified by the uniform Corporate Risk Management Policy in force in Enea Group. ERM system is based on the comprehensive coverage of the risk management objective, specification of detailed rules of risk identification and 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.

## 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.
- Particular 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

## Enea Group's Risk Committee

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

**Risk Committee's competences:**

1. issuing opinions on policies regulating the processes of managing risks, continuity of operations, insurance and compliance and update changed within this area
2. approving operating documentation regulating the processes of managing risks, continuity of operations (strategies, procedures, methods, tools, instructions, guidelines) and taking decisions in the Committee's competence resulting from the documentation
3. accepting and analysis of the information from within risk management, continuity of operations and insurance and issuing recommendations in this regard
4. issuing opinions on annual and quarterly reports within compliance and formulating recommendations and interpretations as regards the Compliance Policy in Enea Group

## Risk management process

The risk management process in Enea Group is a multi-stage process, engaging all the significant organisational units of the key Group Companies.

Corporate risk management process includes 6 stages:

1. context setting
2. risk identification
3. risk assessment
4. selection of core and significant risks and approving owners for these risks
5. specification and implementation of risk handling plans
6. monitoring and reporting

| Context setting | Risk identification | Risk assessment | Selection of core and significant risks and approving risk owners | Specification and implementation of Risk handling plans | Monitoring and reporting |
|---|---|---|---|---|---|
| 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 particular risks as regards the likelihood of materialisation, potential effect and quality of control measures | Selection of core and significant risks based on the estimate and determination of managers relevant as regards the business for the given risk to hold the function of the so called risk owner | Development and approval of action plans for core risks covering e.g. planned mitigating actions, indices monitoring the level of risk exposure and response plan in case the risk materialises | On-going monitoring and reporting to the Risk Committee within the adopted procedure of handling the core risk and as regards the change in significant risk rating |

## 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 ACTIONS IN AREA CATEGORIES |
|---|---|---|---|
| STRATEGIC | Shareholders/ Stakeholders<br>Environment<br>Corporate governance<br>Strategy and its implementation | • Risk of unfavourable legal changes in Poland and EU and legislative environment uncertainty<br>• Risk of unfavourable changes in the macroeconomic situation in Poland<br>• Risk of operations performed contrary to regulators' requirements, in particular of Energy Regulatory Office, Office of Competition and Consumer Protection<br>• Risk of ineffective process of implementation of strategic investments and initiatives<br>• Risk of loss of core generating and distribution infrastructure as a result of natural disasters and other fortuitous events<br>• Risk of loss of income due to unfavourable volatility of atmospheric factors | • Monitoring of probable directions of legislative changes in Poland and EU<br>• Performing compliance related activities<br>• Analysis and verification of efficiency of implemented strategic investments and initiatives<br>• Implementation and supervision over Enea Group's insurance policy |
| MARKET | Market<br>Market structure | • Risk of volatile prices of electricity and derivative products (price risk)<br>• Risk of volatile demand reported by consumers for electricity and gas volumes (volumetric risk)<br>• Risk of volatile currency exchange rates<br>• Risk of volatile percentage rates<br>• Risk of increased operations of the competition and insufficiently flexible adjustment to changes in sectoral trends | • Dedicated market risk management corporate systems (price, currency, interest rate risks)<br>• Risk transferring to third parties<br>• Undertaking pre-emptive activities as regards market directions |
| FINANCIAL | Liquidity<br>Credit<br>Controlling | • Risk of deterioration or loss of financial liquidity<br>• Risk of breaches of financing agreements<br>• Risk of failure to obtain receivables for electricity sales (credit risk) | • Performance of a strict monitoring of keeping the core provisions of financing agreements<br>• Adjusting the schedule of key investments to the Group's predicted "balance sheet volume"<br>• Implementation of systematised methods of credit assessment of key Customers of Enea Group |
| OPERATING | People and organisational culture<br>Processes<br>Support | • Risk of failures to the core generating and distribution infrastructure<br>• Risk of discontinuation of fuel supplies<br>• Risk of no access to key IT systems<br>• Risk of inefficient process of sales agreement proceeding within notifications, readings and invoicing<br>• Risk related to human errors in key business processes<br>• Risk of no access to, improper allocation and non-optimal development of human resources | • Maintenance and modernisation of assets<br>• Optimisation of asset management<br>• Internal supervision and control<br>• Succession and competence planning |

# 3. Financial position

## Consolidated Profit and Loss Statement - H1 2016

| [PLN '000] | H1 2015 | H1 2016 | Change | Change % |
|---|---|---|---|---|
| Revenue from sale of electricity | 2 836 730 | 3 292 897 | 456 167 | 16.1% |
| Revenue from sale of heat energy | 154 629 | 170 652 | 16 023 | 10.4% |
| Revenue from sale of natural gas [1] | 32 506 | 82 397 | 49 891 | 153.5% |
| Revenue from sale of distribution services | 1 456 088 | 1 483 536 | 27 448 | 1.9% |
| Revenue from certificates of origin | 5 010 | 10 765 | 5 755 | 114.9% |
| Revenue from sales of $CO_2$ emission allowances | - | 12 644 | 12 644 | 100.0% |
| Revenue from sale of goods and materials [1] | 54 461 | 44 461 | -10,000 | -18.4% |
| Revenue from sale of other services | 72 823 | 90 524 | 17 701 | 24.3% |
| Sale of coal | - | 411 556 | 411 556 | 100.0% |
| **Net sales revenue** | **4 612 247** | **5 599 432** | **987 185** | **21.4%** |
| Amortisation/depreciation | 369 934 | 553 951 | 184 017 | 49.7% |
| Employee benefit costs | 473 473 | 708 494 | 235 021 | 49.6% |
| Consumption of materials and raw materials and value of goods sold | 935 138 | 706 231 | -228 907 | -24.5% |
| Costs of energy purchases for resale | 1 605 192 | 2 076 235 | 471 043 | 29.3% |
| Transmission services | 380 946 | 418 078 | 37 132 | 9.7% |
| Other outsourced services | 140 203 | 291 229 | 151 026 | 107.7% |
| Taxes and charges | 147 374 | 170 899 | 23 525 | 16.0% |
| **Cost of sales** | **4 052 260** | **4 925 117** | **872 857** | **21.5%** |
| Other operating revenue | 31 667 | 56 698 | 25 031 | 79.0% |
| Other operating expenses | 67 128 | 67 859 | 731 | 1.1% |
| Profit / (loss) on sales and liquidation of tangible fixed assets | -319 | -10 583 | -10 264 | -3 217.6% |
| Non-financial fixed assets impairment write-down | - | 42 000 | 42 000 | 100.0% |
| **Operating profit / (loss)** | **524 207** | **610 571** | **86 364** | **16.5%** |
| Financial expenses | 30 591 | 65 168 | 34 577 | 113.0% |
| Financial revenue | 27 399 | 42 282 | 14 883 | 54.3% |
| Dividend revenue | 1 833 | 148 | -1 685 | -91.9% |
| **Profit / (loss) before tax** | **522 848** | **587 833** | **64 985** | **12.4%** |
| Income tax | 104 578 | 116 607 | 12 029 | 11.5% |
| **Net profit / (loss) for the reporting period** | **418 270** | **471 226** | **52 956** | **12.7%** |
| **EBITDA** | **894 141** | **1 206 522** | **312 381** | **34.9%** |

**H1 2016:**

**Change factors of EBITDA of Enea CG (growth by PLN 312 mln):**

- (+) higher revenue from sales of electricity by PLN 456 mln:
  - (+) higher volumes of electricity sold in wholesale trading by 1,616 GWh and growth in the average selling price by 15.9%, which affects a growth in revenue by PLN 479 mln
  - (-) higher volumes of sales of electricity to retail users in the area of Trade by 128 GWh with a concurrent drop in the average selling price by 2.7%, which affects lower revenue by PLN 20 mln
- (+) higher sales of distribution services by PLN 27 mln stem mainly from a higher rate of quality charge by 12.3%
- (+) higher sales of natural gas stem from higher volumes of sales by 592 GWh despite the average selling price lower by 23.0%
- (+) higher sales of heat energy by PLN 16 mln result from higher sales volumes of heat energy by 11% (acquisition of LW Bogdanka) and concurrently lower average selling price
- (+) higher revenue from certificates of origin resulted in higher volumes of sales of PI RES despite a drop in the average selling price by 16.2%
- (-) higher costs of employee benefits by PLN 235 mln resulting from LW Bogdanka's takeover
- (+) lower use of materials and value of goods sold stems from the takeover of the key coal supplier
- (-) higher costs of outsourced services by PLN 151 mln resulting from the takeover of LW Bogdanka
- (-) higher costs of transmission services by PLN 37 mln stem from higher transitory charge and quality charge
- (+) higher costs of electricity purchases by PLN 471 mln:
  - (+) lower average purchase price by 2.6% with a growth in volumes by 2,224 GWh
  - (+) higher costs of gas purchase by PLN 35 mln in relation to a dynamic growth in sales
  - (-) higher costs of duties by PLN 31 mln
- (+) higher result on the other operating activity by PLN 14 mln:
  - (+) provisions for claims for damages and litigation PLN 10 mln
  - (+) revenue from shift of electrical equipment to the assets by PLN 7 mln
  - (+) written-off debts PLN 8 mln
  - (+) revenue from damages and contractual penalties PLN 3 mln
  - (-) loss on liquidation of tangible assets PLN 10 mln, stems mainly from the liquidation and reconstruction of excavations
  - (-) impairment of receivables PLN 6 mln

**Q2 2016:**

**Settlement of non-financial fixed assets impairment write-down:**

- (-) tangible assets impairment write-down within the area of energy generation from wind sources (PLN 42 mln)

1) Change in presentation of data published for H1 2015

## Consolidated Profit and Loss Statement - Q2 2016

| [PLN '000] | Q2 2015 | Q2 2016 | Change | Change % |
|---|---|---|---|---|
| Revenue from sale of electricity [1] | 1 329 378 | 1 591 778 | 262 400 | 19.7% |
| Revenue from sale of heat energy | 51 573 | 53 276 | 1 703 | 3.3% |
| Revenue from sale of natural gas [1] | 16 466 | 27 559 | 11 093 | 67.4% |
| Revenue from sale of distribution services | 694 192 | 710 096 | 15 904 | 2.3% |
| Revenue from certificates of origin | 4 523 | 5 866 | 1 343 | 29.7% |
| Revenue from sales of $CO_2$ emission allowances | -3 | 11 793 | 11 796 | 393 200.0% |
| Revenue from sale of goods and materials [1] | 28 602 | 20 047 | -8 555 | -29.9% |
| Revenue from sale of other services | 41 102 | 55 282 | 14 180 | 34.5% |
| Sale of coal | - | 186 984 | 186 984 | 100.0% |
| **Net sales revenue** | **2 165 833** | **2 662 681** | **496 848** | **22.9%** |
| Amortisation/depreciation | 188 198 | 274 243 | 86 045 | 45.7% |
| Employee benefit costs | 234 917 | 345 763 | 110 846 | 47.2% |
| Consumption of materials and raw materials and value of goods sold | 481 780 | 339 241 | -142 539 | -29.6% |
| Costs of energy purchases for resale | 711 569 | 953 193 | 241 624 | 34.0% |
| Transmission services | 193 618 | 227 689 | 34 071 | 17.6% |
| Other outsourced services | 80 332 | 160 224 | 79 892 | 99.5% |
| Taxes and charges | 68 110 | 77 328 | 9 218 | 13.5% |
| **Cost of sales** | **1 958 524** | **2 377 681** | **419 157** | **21.4%** |
| Other operating revenue | 9 325 | 26 534 | 17 209 | 184.5% |
| Other operating expenses | 29 893 | 37 436 | 7 543 | 25.2% |
| Profit / (loss) on sales and liquidation of tangible fixed assets | 10 146 | -10 164 | -20 310 | -200.2% |
| Non-financial fixed assets impairment write-down | - | 42 000 | 42 000 | 100.0% |
| **Operating profit / (loss)** | **196 887** | **221 934** | **25 047** | **12.7%** |
| Financial expenses | 13 949 | 29 432 | 15 483 | 111.0% |
| Financial revenue | 8 825 | 28 218 | 19 393 | 219.8% |
| Dividend revenue | 1 833 | 148 | -1 685 | -91.9% |
| **Profit / (loss) before tax** | **193 596** | **220 868** | **27 272** | **14.1%** |
| Income tax | 40 661 | 40 047 | -614 | -1.5% |
| **Net profit / (loss) for the reporting period** | **152 935** | **180 821** | **27 886** | **18.2%** |
| **EBITDA** | **385 085** | **538 177** | **153 092** | **39.8%** |

**Q2 2016:**

**Change factors of EBITDA of Enea CG (growth by PLN 153 mln):**

- (+) higher revenue from sales of electricity by PLN 262 mln:
  - (+) higher volumes of electricity sold in wholesale trading by 904 GWh and growth in the average selling price by 15.7% affect a growth in revenue by PLN 257 mln
  - (-) higher volumes of sales of electricity to retail users in the area of Trade by 14 GWh with a concurrent drop in the average selling price by 0.4%, which affects lower revenue by PLN 0.4 mln
- (+) higher sales of natural gas stem from higher volumes of sales (181 GJ) despite the average selling price lower by 34%
- (+) higher sales of distribution services by PLN 16 mln stem from a higher rate of quality charge by 12.3%
- (+) higher revenue from certificates of origin resulted in higher volumes of sales of PI RES despite a drop in the average price by 19.6%
- (-) higher costs of employee benefits by PLN 111 mln resulting from LW Bogdanka's takeover
- (+) lower consumption of materials stems from the takeover of the key coal supplier
- (-) higher costs of outsourced services by PLN 80 mln resulting from the takeover of LW Bogdanka
- (-) higher costs of transmission services by PLN 34 mln stem from higher costs of the transitory charge and quality charge
- (+) higher costs of electricity purchases by PLN 242 mln:
  - (+) lower average purchase price by 1% with a growth in volumes by 1,074 GWh
  - (+) higher purchases of natural gas PLN 7 mln
  - (-) higher costs of duties by PLN 25 mln
- (-) lower results on the other operating activities by PLN 11 mln:
  - (-) loss on liquidation of tangible assets PLN 10 mln, stems mainly from the liquidation and reconstruction of excavations
  - (-) lower revenue from removal of collisions by PLN 8 mln
  - (-) impairment of receivables PLN 7 mln
  - (+) provisions for claims for damages and litigation PLN 5 mln
  - (+) written-off debts PLN 10 mln

**Q2 2016:**

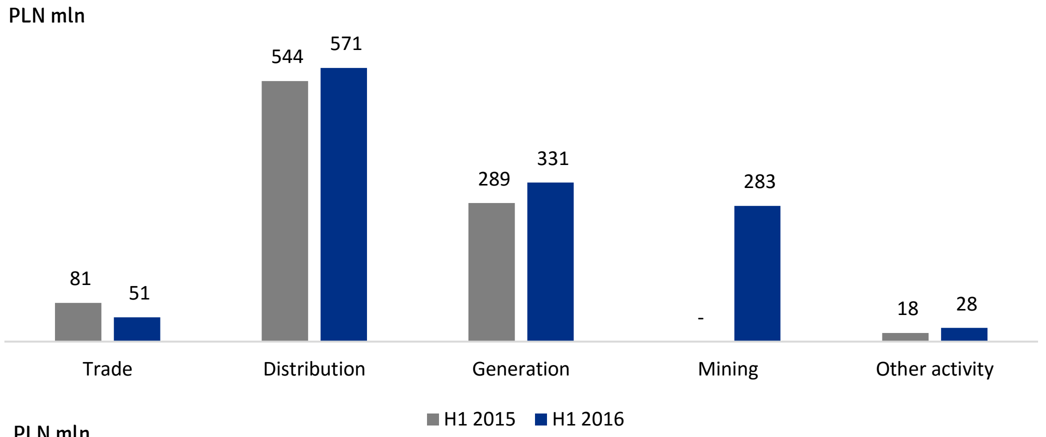
**Settlement of non-financial fixed assets impairment write-down:**

- (-) tangible assets impairment write-down within the area of energy generation from wind sources (PLN 42 mln)

1) Change in presentation of data published for Q2 2015

## Results on particular areas of operations of Enea Capital Group

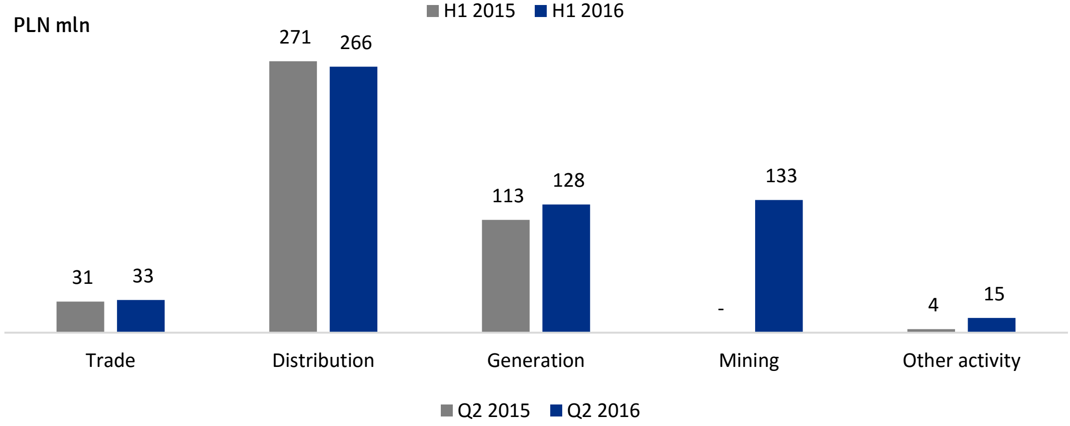
| EBITDA [PLN '000] | H1 2015 | H1 2016 | Change | Change % | Q2 2015 | Q2 2016 | Change | Change % |
|---|---|---|---|---|---|---|---|---|
| Trade | 81 065 | 50 560 | -30 505 | -37.6% | 31 197 | 32 751 | 1 554 | 5.0% |
| Distribution | 543 560 | 570 685 | 27 125 | 5.0% | 270 783 | 265 555 | -5 228 | -1.9% |
| Generation | 289 072 | 331 493 | 42 421 | 14.7% | 112 698 | 127 937 | 15 239 | 13.5% |
| Mining | - | 282 891 | 282 891 | 100.0% | - | 132 574 | 132 574 | 100.0% |
| Other activity | 18 337 | 28 495 | 10 158 | 55.4% | 3 726 | 14 913 | 11 187 | 300.2% |
| Undistributed items and exclusions | - 37 893 | -57 602 | -19 709 | -52.0% | -33 319 | - 35 553 | -2 234 | -6.7% |
| **Total EBITDA** | **894 141** | **1 206 522** | **312 381** | **34.9%** | **385 085** | **538 177** | **153 092** | **39.8%** |




**Enea CG H1 2016:**

**The highest EBITDA in the area of Distribution**

**The highest growth in EBITDA in the area of Generation**




**Enea CG Q2 2016:**

**The highest EBITDA in the area of Distribution**

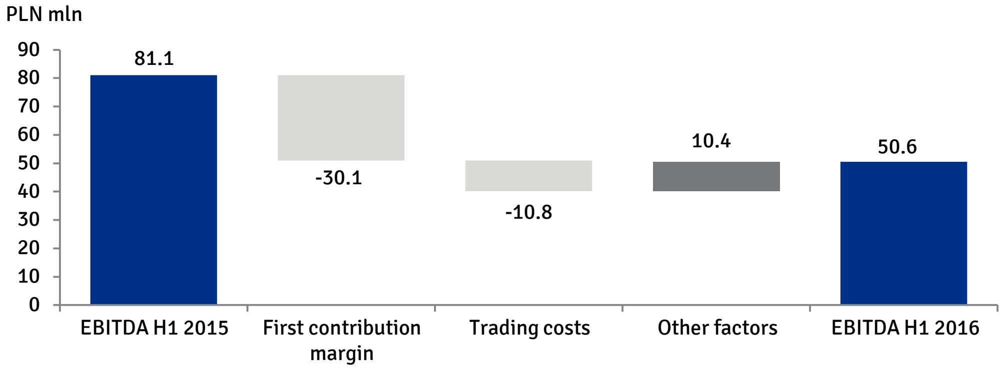
**The highest growth in EBITDA in the area of Generation**

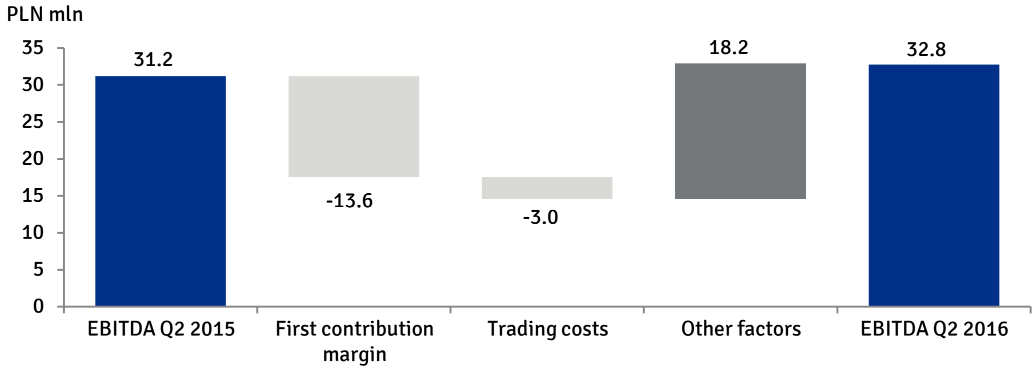
## Area of Trade

| [PLN '000] | H1 2015 | H1 2016 | Change | Change % | Q2 2015 | Q2 2016 | Change | Change % |
|---|---|---|---|---|---|---|---|---|
| Sales revenue | 2 844 877 | 3 446 677 | 601 800 | 21.2% | 1 337 303 | 1 649 971 | 312 668 | 23.4% |
| EBIT | 80 697 | 50 226 | -30 471 | -37.8% | 31 018 | 32 582 | 1 564 | 5.0% |
| Amortisation/depreciation | 368 | 334 | -34 | -9.2% | 179 | 169 | -10 | -5.6% |
| **EBITDA** | **81 065** | **50 560** | **-30 505** | **-37.6%** | **31 197** | **32 751** | **1 554** | **5.0%** |
| CAPEX | 17 073 | 912 | -16 161 | -94.7% | 17 027 | 769 | -16 258 | -95.5% |
| Share of sales revenue of the area in the Group's net sales revenue | 46% | 44% | -2 p.p. | | 45% | 44% | -1 p.p. | |

**Enea SA deals with retail sales of electricity and gaseous fuel**

**Wholesale is realised by Enea Trading sp. z o.o.**




**H1 2016 Change factors of EBITDA:**

**First contribution margin**
- (-) lower average selling price by 2.7%
- (-) higher costs of ecological obligations by 16.6%
- (+) lower average purchase price of energy by 0.5%
- (+) growth in sale volumes by 5.0%
- (+) result on gaseous fuel

**Internal costs**
- (-) higher selling costs costs of customer service by PLN 4 mln
- (-) higher costs of general management by PLN 3 mln (mainly costs of salaries)
- (-) higher costs of common services by PLN 3 mln

**Other factors**
- (+) lower costs of impairment of receivables by PLN 9 mln
- (+) lower provisions for litigation by PLN 5 mln
- (-) higher impairment of receivables by PLN 6 mln

**Q2 2016 Change factors of EBITDA:**

**First contribution margin**
- (-) lower average selling price by 0.4%
- (-) higher costs of ecological obligations by 25.7%
- (-) higher average purchase price of energy by 1.8%
- (+) growth in sale volumes by 3.9%
- (+) result on gaseous fuel

**Internal costs**
- (-) higher costs of common services by PLN 3 mln

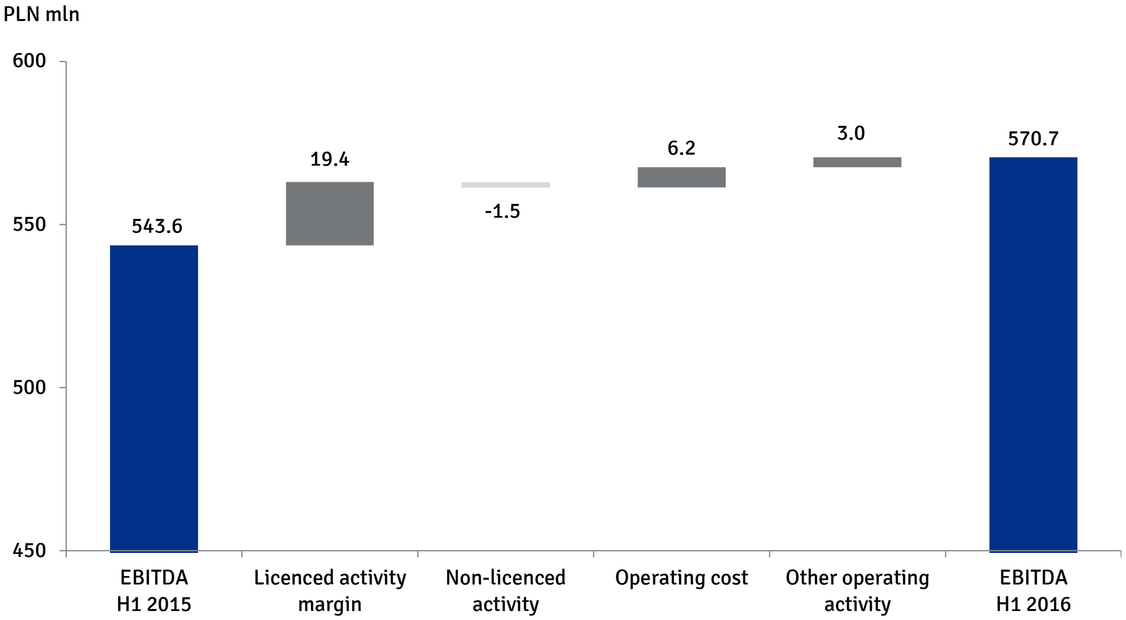
**Other factors**
- (+) lower costs of impairment of receivables by PLN 11 mln
- (+) lower provisions for litigation by PLN 8 mln
- (-) higher impairment of receivables by PLN 6 mln

## Area of Distribution

| [PLN '000] | H1 2015 | H1 2016 | Change | Change % | Q2 2015 | Q2 2016 | Change | Change % |
|---|---|---|---|---|---|---|---|---|
| Sales revenue | 1 500 355 | 1 531 261 | 30 906 | 2.1% | 722 309 | 742 912 | 20 603 | 2.9% |
| *distribution services to end users* | 1 408 830 | 1 432 869 | 24 039 | 1.7% | 666 818 | 684 971 | 18 153 | 2.7% |
| *fees for grid connection* | 31 161 | 31 298 | 137 | 0.4% | 19 680 | 15 599 | -4 081 | -20.7% |
| *other* | 60 364 | 67 094 | 6 730 | 11.1% | 35 811 | 42 342 | 6 531 | 18.2% |
| EBIT | 326 322 | 328 747 | 2 425 | 0.7% | 160 133 | 155 748 | -4 385 | -2.7% |
| Amortisation/depreciation | 217 238 | 241 938 | 24 700 | 11.4% | 110 650 | 109 807 | -843 | -0.8% |
| **EBITDA** | **543 560** | **570 685** | **27 125** | **5.0%** | **270 783** | **265 555** | **-5 228** | **-1.9%** |
| CAPEX | 257 645 | 424 315 | 166 670 | 64.7% | 174 813 | 249 448 | 74 635 | 42.7% |
| Share of sales revenue of the area in the Group's net sales revenue | 24% | 20% | -4 p.p. | | 24% | 20% | -4 p.p. | |

**Enea Operator sp. z o.o. is responsible for electricity distribution to 2.5 mln Customers in the western and north-western Poland on the area of 58,192 km². 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 Pomiary sp. z o.o.**
- **Annacond Enterprises sp. z o. o.**




**H1 2016 Change factors of EBITDA:**

**Margin on the licensed operations:**

(+) higher revenue from the sale of distribution services to end users by PLN 24 mln
(-) higher costs of purchase of transmission services by PLN 10 mln
(+) higher revenue from the sale of distribution services to other entities by PLN 3 mln
(+) lower costs of purchasing energy for coverage of book-tax difference by PLN 2 mln

**Non-licensed operations:**

(+) higher revenue from non-licensed services by PLN 10 mln as a result of realisation of agreements relating to the reconstruction of the existing power infrastructure ordered by an external entity
(-) lower revenue in relation to the resignation from rendering the street lighting maintenance services by PLN 6 mln
(-) lower revenue from execution of exploitation orders (costs of non-invoiced works) and from execution of connections by PLN 4 mln (Enea Serwis)
(-) lower revenue from execution of reading services and from legalisation and repairs of meters and unlawful consumption of electricity by PLN 2 mln (Enea Pomiary)

**Operating expenses:**

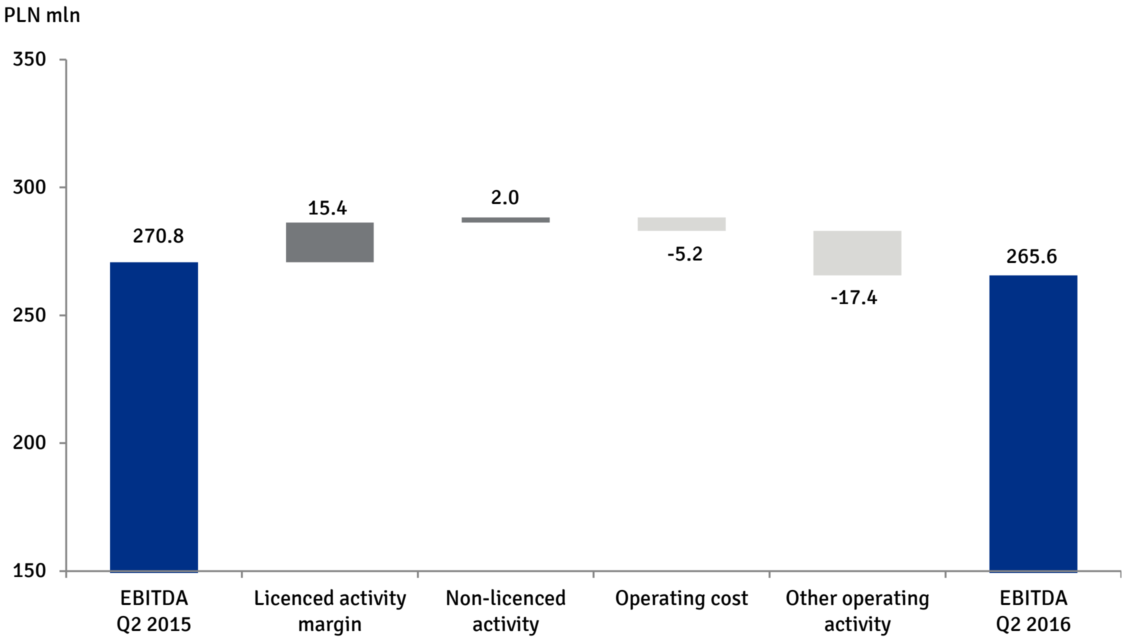
(+) optimisation of employee benefits and material costs by PLN 12 mln
(-) higher costs of taxes and charges by PLN 7 mln (greater value of grid assets as a result of performed investments)

**Other operating activity:**

(+) higher revenue from shift of electrical equipment to the assets by PLN 7 mln
(-) higher costs of provisions relating to grid assets PLN 5 mln
(+) lower costs of removing fortuitous events (balance) PLN 6 mln
(-) higher liquidation costs (balance) PLN 2 mln
(-) higher other operating expenses by PLN 3 mln

## Area of Distribution

| [PLN '000] | H1 2015 | H1 2016 | Change | Change % | Q2 2015 | Q2 2016 | Change | Change % |
|---|---|---|---|---|---|---|---|---|
| Sales revenue | 1 500 355 | 1 531 261 | 30 906 | 2.1% | 722 309 | 742 912 | 20 603 | 2.9% |
| *distribution services to end users* | 1 408 830 | 1 432 869 | 24 039 | 1.7% | 666 818 | 684 971 | 18 153 | 2.7% |
| *fees for grid connection* | 31 161 | 31 298 | 137 | 0.4% | 19 680 | 15 599 | -4 081 | -20.7% |
| *other* | 60 364 | 67 094 | 6 730 | 11.1% | 35 811 | 42 342 | 6 531 | 18.2% |
| EBIT | 326 322 | 328 747 | 2 425 | 0.7% | 160 133 | 155 748 | -4 385 | -2.7% |
| Amortisation/depreciation | 217 238 | 241 938 | 24 700 | 11.4% | 110 650 | 109 807 | -843 | -0.8% |
| **EBITDA** | **543 560** | **570 685** | **27 125** | **5.0%** | **270 783** | **265 555** | **-5 228** | **-1.9%** |
| CAPEX | 257 645 | 424 315 | 166 670 | 64.7% | 174 813 | 249 448 | 74 635 | 42.7% |
| Share of sales revenue of the area in the Group's net sales revenue | 24% | 20% | -4 p.p. | | 24% | 20% | -4 p.p. | |




**Q2 2016 Change factors of EBITDA:**

**Margin on the licensed operations:**

- (+) higher revenue from the sale of distribution services to end users by PLN 18 mln
- (-) higher costs of purchase of transmission services by PLN 4 mln
- (+) lower costs of purchasing energy for coverage of book-tax difference by PLN 4 mln
- (-) lower revenue from grid connection fees by PLN 4 mln
- (+) higher revenue from the sale of distribution services to other entities by PLN 1 mln

**Non-licensed operations:**

- (+) higher revenue from sales of non-licensed services by PLN 10 mln as a result of realisation of agreements relating to the reconstruction of the existing power infrastructure ordered by an external entity
- (-) lower revenue from execution of exploitation orders (costs of non-invoiced works) and from execution of connections by PLN 5 mln (Enea Serwis)
- (-) lower revenue in relation to the resignation from rendering the street lighting maintenance services by PLN 3 mln
- (-) lower revenue from execution of reading services and from legalisation and repairs of meters and unlawful consumption of electricity by PLN 1 mln (Enea Pomiary)

**Operating expenses:**

- (-) higher costs related to the area of support by PLN 10 mln (in Q2 2015 adjustment of costs for the entire H1 2015)
- (+) optimisation of employee benefits and material costs by PLN 9 mln
- (-) higher costs of outsourced services by PLN 2 mln mainly in the area of measurements, exploitation of assets
- (-) higher costs of taxes and charges by PLN 2 mln (greater value of grid assets as a result of performed investments)

**Other operating activity:**

- (-) lower revenue from removal of collisions by PLN 10 mln
- (-) higher costs of provisions relating to grid assets by PLN 9 mln
- (-) higher liquidation costs PLN 1 mln

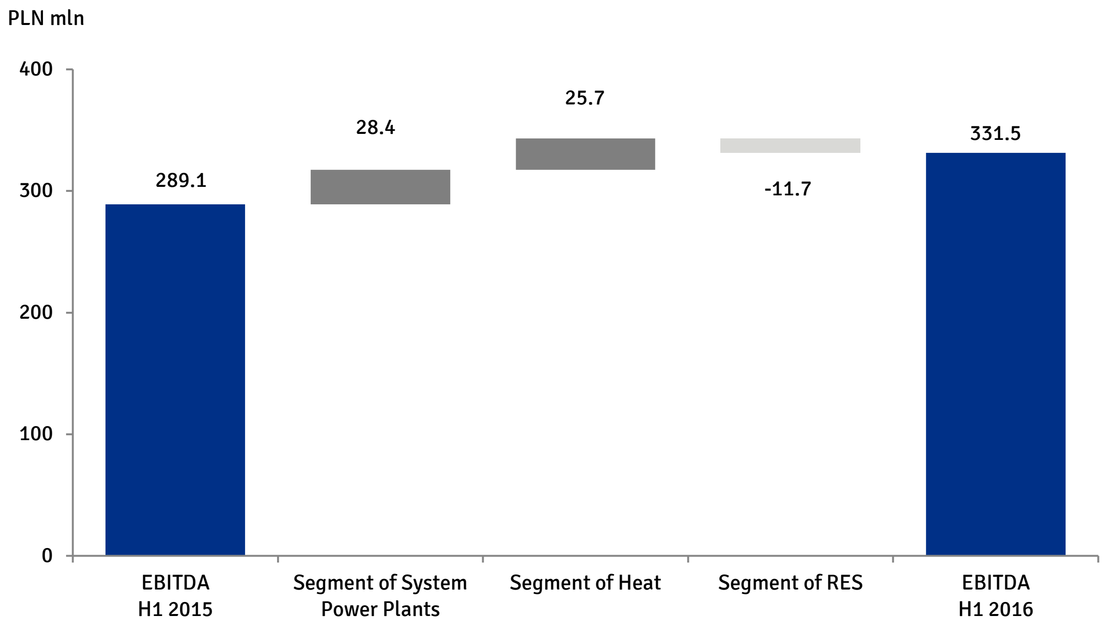
## Area of Generation

| [PLN '000] | H1 2015 | H1 2016 | Change | Change % | Q2 2015 | Q2 2016 | Change | Change % |
|---|---|---|---|---|---|---|---|---|
| Sales revenue | 1 608 448 | 1 689 259 | 80 811 | 5.0% | 781 503 | 812 431 | 30 928 | 4.0% |
| *electricity* | 1 376 553 | 1 475 822 | 99 269 | 7.2% | 701 625 | 739 218 | 37 593 | 5.4% |
| *certificates of origin* | 63 698 | 26 924 | -36 774 | -57.7% | 20 080 | 4 831 | -15 249 | -75.9% |
| *sale of allowance for emissions of $CO_2$* | - | 12 562 | 12 562 | 100.0% | - | 10 941 | 10 941 | 100.0% |
| *heat* | 155 627 | 162 792 | 7 165 | 4.6% | 52 571 | 51 457 | -1 114 | -2.1% |
| *other* | 12 570 | 11 159 | -1 411 | -11.2% | 7 227 | 5 984 | -1 243 | -17.2% |
| EBIT | 142 998 | 168 565 | 25 567 | 17.9% | 38 115 | 25 689 | -12 426 | -32.6% |
| Amortisation/depreciation | 146 074 | 120 928 | -25 146 | -17.2% | 74 583 | 60 248 | -14 335 | -19.2% |
| Non-financial fixed assets impairment write-down | - | 42 000 | 42 000 | 100.0% | - | 42 000 | 42 000 | 100.0% |
| **EBITDA** | **289 072** | **331 493** | **42 421** | **14.7%** | **112 698** | **127 937** | **15 239** | **13.5%** |
| CAPEX | 821 295 | 556 781 | -264 514 | -32.2% | 314 286 | 421 342 | 107 056 | 34.1% |
| Share of sales revenue of the area in the Group's net sales revenue | 26% | 22% | -4 p.p. | | 26% | 22% | -4 p.p. | |

**The area of Generation presents financial data of Enea Wytwarzanie sp. z o.o. and it 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.**




**H1 2016 Change factors of EBITDA:**

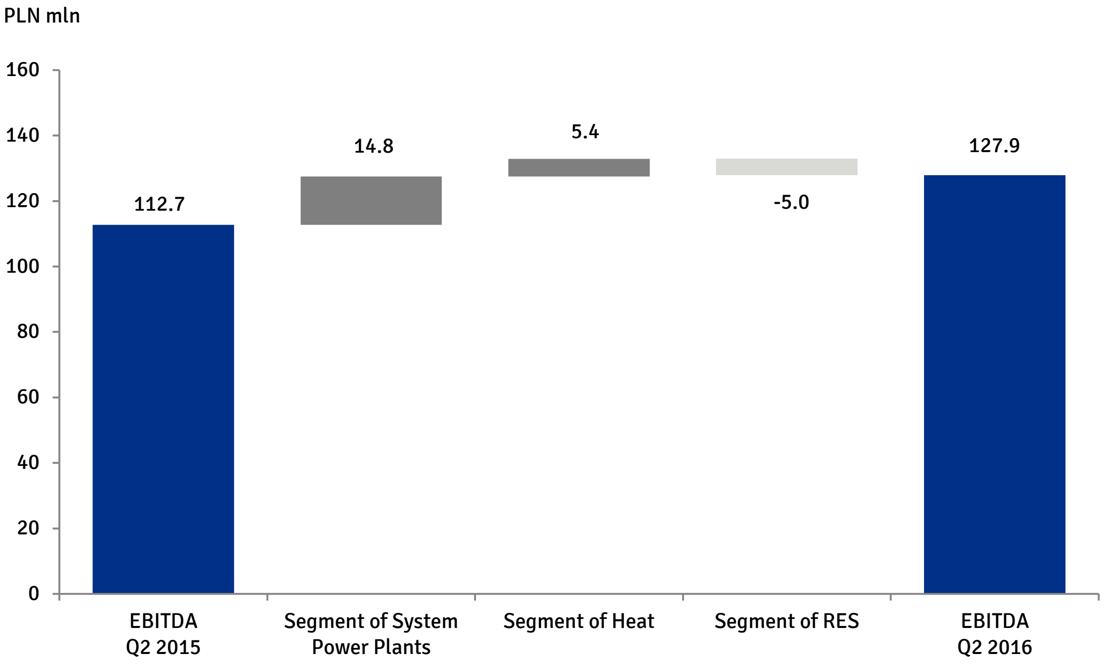
**Segment of System Power Plants:**
- (+) higher margin on generation by PLN 50.2 mln
- (+) higher result on other activity by PLN 4.5 mln
- (-) lower revenue from Regulatory System Services by PLN 3.8 mln
- (-) higher fixed costs by PLN 9.2 mln
- (-) lower margin on trade and the Balancing Market by PLN 13.3 mln

**Segment of Heat:**
- (+) higher revenue from sales of heat by PLN 8.4 mln
- (+) higher revenue from electricity by PLN 8.3 mln
- (+) lower costs of materials by PLN 14.1 mln
- (-) lower revenue from certificates of origin by PLN 1.5 mln
- (-) higher purchases of energy for sales by PLN 2.2 mln

**Segment of RES:**
- (-) area of Water (PLN -7.1 mln): lower revenue from certificates of origin by PLN 5.6 mln and revenue from electricity by PLN 1.4 mln
- (-) area of Wind (PLN -5.0 mln): lower revenue from certificates of origin by PLN 4.6 mln and lower revenue from electricity by PLN 0.5 mln
- (+) area of Biogas (PLN +0.4 mln)

## Area of Generation

| [PLN '000] | H1 2015 | H1 2016 | Change | Change % | Q2 2015 | Q2 2016 | Change | Change % |
|---|---|---|---|---|---|---|---|---|
| Sales revenue | 1 608 448 | 1 689 259 | 80 811 | 5.0% | 781 503 | 812 431 | 30 928 | 4.0% |
| *electricity* | 1 376 553 | 1 475 822 | 99 269 | 7.2% | 701 625 | 739 218 | 37 593 | 5.4% |
| *certificates of origin* | 63 698 | 26 924 | -36 774 | -57.7% | 20 080 | 4 831 | -15 249 | -75.9% |
| *sale of allowance for emissions of $CO_2$* | - | 12 562 | ,562 | 100,0% | - | 10 941 | 10 941 | 100.0% |
| *heat* | 155 627 | 162 792 | 7 165 | 4.6% | 52 571 | 51 457 | -1 114 | -2.1% |
| *other* | 12 570 | 11 159 | -1 411 | -11.2% | 7 227 | 5 984 | -1,243 | -17.2% |
| EBIT | 142 998 | 168 565 | 25 567 | 17.9% | 38 115 | 25 689 | -12 426 | -32.6% |
| Amortisation/depreciation | 146 074 | 120 928 | -25 146 | -17.2% | 74 583 | 60 248 | -14 335 | -19.2% |
| Non-financial fixed assets impairment write-down | - | 42 000 | 42 000 | 100.0% | - | 42 000 | 42 000 | 100.0% |
| **EBITDA** | **289 072** | **331 493** | **42 421** | **14.7%** | **112 698** | **127 937** | **15 239** | **13.5%** |
| CAPEX | 821 295 | 556 781 | -264 514 | -32.2% | 314 286 | 421 342 | 107 056 | 34.1% |
| Share of sales revenue of the area in the Group's net sales revenue | 26% | 22% | -4 p.p. | | 26% | 22% | -4 p.p. | |




**Q2 2016 Change factors of EBITDA:**

**Segment of System Power Plants:**

- (+) higher margin on generation by PLN 21.2 mln
- (+) higher revenue from Regulatory System Services by PLN 0.8 mln
- (-) higher fixed costs by PLN 2.8 mln
- (-) lower margin on trade and the Balancing Market by PLN 4.5 mln

**Segment of Heat:**

- (+) lower costs of materials by PLN 13.4 mln
- (-) lower revenue from sales of heat by PLN 4.5 mln
- (-) lower revenue from sales of certificates of origin by PLN 1.1 mln
- (-) higher costs of other outsourced services by PLN 2.7 mln

**Segment of RES:**

- (-) area of Wind (PLN -3.2 mln): lower revenue from certificates of origin by PLN 2.6 mln and higher cost of other outsourced services by PLN 0.5 mln
- (-) area of Water (PLN -2.5 mln): lower revenue from certificates of origin by PLN 2.5 mln
- (+) area of Biogas (PLN +0.7 mln)

## Area of Mining

| [PLN '000] | H1 2015 | H1 2016 | Change | Change % | Q2 2015 | Q2 2016 | Change | Change % |
|---|---|---|---|---|---|---|---|---|
| Sales revenue | - | 848 662 | 848 662 | 100.0% | - | 428 376 | 428 376 | 100.0% |
| *coal* | - | 819 369 | 819 369 | 100.0% | - | 414 632 | 414 632 | 100.0% |
| *other products and services* | - | 23 058 | 23 058 | 100.0% | - | 10 602 | 10 602 | 100.0% |
| *goods and materials* | - | 6 235 | 6 235 | 100.0% | - | 3 142 | 3 142 | 100.0% |
| EBIT | - | 100 357 | 100 357 | 100.0% | - | 32 924 | 32 924 | 100.0% |
| Amortisation/depreciation | - | 182 534 | 182 534 | 100.0% | - | 99 650 | 99 650 | 100.0% |
| **EBITDA** | **-** | **282 891** | **282 891** | **100.0%** | **-** | **132 574** | **132 574** | **100.0%** |
| CAPEX | - | 152 764 | 152 764 | 100.0% | - | 91 985 | 91 985 | 100.0% |
| Share of sales revenue of the area in the Group's net sales revenue | - | 11% | 11 p.p. | | - | 11% | 11 p.p. | |

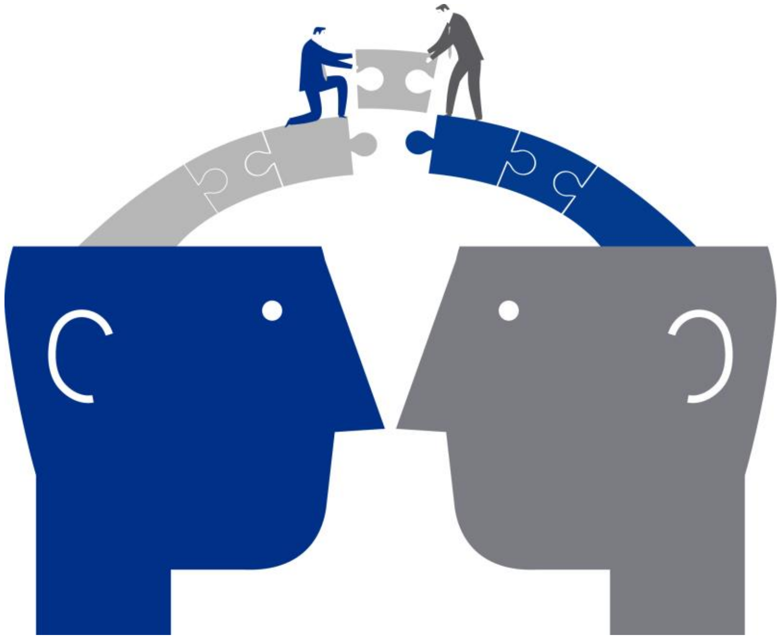
**LW Bogdanka CG**

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

**Mining realised on three fields: Bogdanka, Nadrybie, Stefanów**

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

**Key recipients: commercial and industrial power industry**



**H1 2016 Factors of generated EBITDA:**

- (-) 33.3% EBITDA profitability at 11.8% EBIT profitability
- (+) quantitative sales of coal in the analysed period higher by almost 15%
- (-) lower selling price of coal – yoy the price dropped by ca. 11%
- (+) growth in revenue from sales of materials is a derivative of greater sales of scrap metal (ca. 98% of revenue in this group)
- (-) lower export sales relating to mainly ceramic products

**Q2 2016 Factors of generated EBITDA:**

- (+) growth in sale revenue by over 3%
- (+) quantitative sales of coal in the analysed period higher by 17%
- (-) 30.9% EBITDA profitability at 7.7% EBIT profitability
- (-) lower selling price of coal in Q2 2016 in relation to Q2 2015 (drop by over 11%)

## Area of Other activity

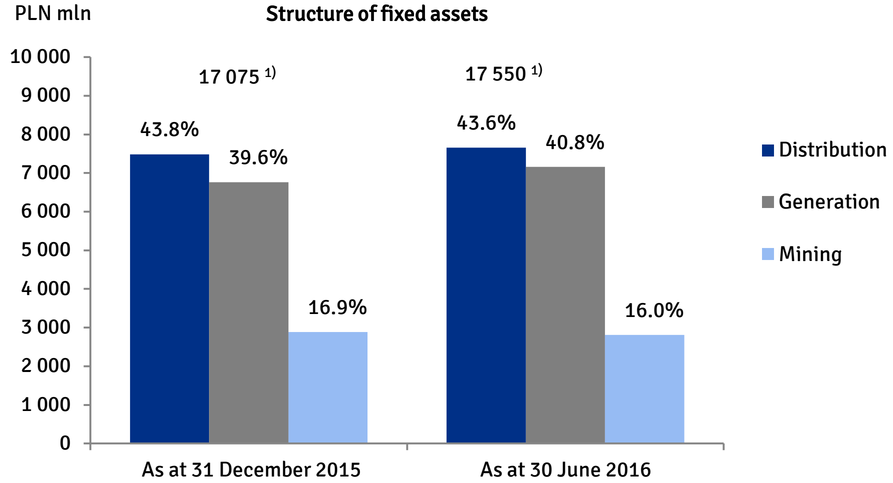
| [PLN '000] | H1 2015 | H1 2016 | Change | Change % | Q2 2015 | Q2 2016 | Change | Change % |
|---|---|---|---|---|---|---|---|---|
| Sales revenue | 247 715 | 268 548 | 20 833 | 8.4% | 118 820 | 129 574 | 10 754 | 9.1% |
| EBIT | 9 338 | 15 813 | 6 475 | 69.3% | -602 | 8 255 | 8 857 | 1471.3% |
| Amortisation/depreciation | 8 999 | 12 682 | 3 683 | 40.9% | 4 328 | 6 658 | 2 330 | 53.8% |
| **EBITDA** | **18 337** | **28 495** | **10 158** | **55.4%** | **3 726** | **14 913** | **11 187** | **300.2%** |
| CAPEX | 26 721 | 36 274 | 9 553 | 35.8% | 20 098 | 26 693 | 6 595 | 32.8% |
| Share of sales revenue of the area in the Group's net sales revenue | 4% | 3% | -1 p.p. | | 4% | 3% | -1 p.p. | |

**In the Other Activity companies from three areas are presented:**

- **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.
  This group includes Szpital Uzdrowiskowy ENERGETYK

## Assets - structure of assets and liabilities of Enea Capital Group

| Assets [PLN '000] | As at: 31 December 2015 | As at: 30 June 2016 | Change | Change % |
|---|---|---|---|---|
| **Fixed assets** | **18 203 442** | **18 598 255** | **394 813** | **2.2%** |
| Tangible fixed assets | 17 074 978 | 17 549 951 | 474 973 | 2.8% |
| Perpetual usufruct | 74 160 | 73 720 | - 440 | -0.6% |
| Intangible assets | 272 116 | 330 237 | 58 121 | 21.4% |
| Investment properties | 20 624 | 24 911 | 4 287 | 20.8% |
| Investments in subsidiaries, joint subsidiaries and associates | 748 | 3 739 | 2 991 | 399.9% |
| Deferred tax assets | 616 795 | 383 388 | -233 407 | -37.8% |
| Financial assets available for sale | 23 982 | 38 982 | 15 000 | 62.5% |
| Derivatives | 844 | - | - 844 | -100.0% |
| Trade and other receivables | 28 323 | 91 967 | 63 644 | 224.7% |
| Cash and cash equivalents | 90 872 | 101 360 | 10 488 | 11.5% |
| **Current assets** | **4 785 554** | **4 777 448** | **-8 106** | **-0.2%** |
| Allowances for emissions of $CO_2$ | 307 521 | 97 008 | -210 513 | -68.5% |
| Inventories | 649 509 | 628 933 | - 20 576 | -3.2% |
| Trade and other receivables | 1 732 744 | 1 664 853 | - 67 891 | -3.9% |
| Current income tax assets | 31 956 | 30 247 | -1 709 | -5.3% |
| Financial assets held to maturity | 479 | 483 | 4 | 0.8% |
| Financial assets valued at fair value through profit or loss | 222 011 | 232 503 | 10 492 | 4.7% |
| Cash and cash equivalents | 1 822 094 | 2 103 250 | 281 156 | 15.4% |
| Fixed assets for sale | 19 240 | 20 171 | 931 | 4.8% |
| **Total assets** | **22 988 996** | **23 375 703** | **386 707** | **1.7%** |




1) including exclusions

Change factors of fixed assets (growth by PLN 395 mln):

- higher tangible assets stem from higher expenditures in relation to the realisation of Enea CG's investment strategy
- higher intangible assets by PLN 58 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 233 mln) relate mainly to the last year's impairment of fixed assets
- higher trade receivables stem from a positive valuation of forward contracts

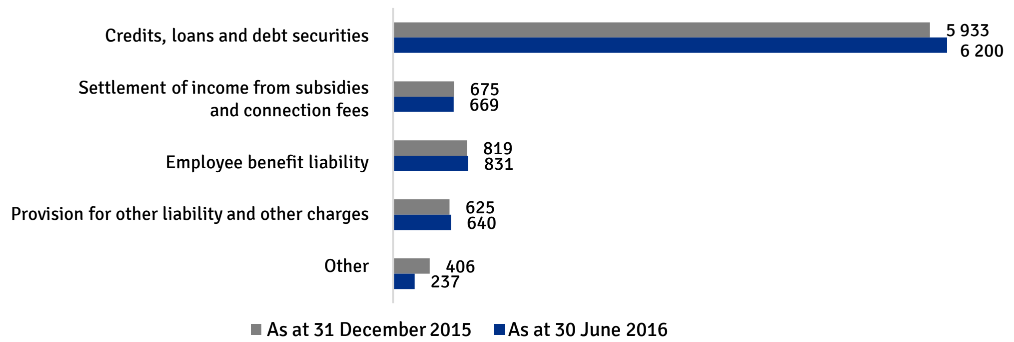
Change factors of current assets (drop PLN 8 mln):

- drop in $CO_2$ emission allowances by PLN 211 mln stems from redemption and sales of $CO_2$ emission allowances
- drop in trade receivables by PLN 68 mln, mainly due to sales of electricity and heat
- drop in the stock balance by PLN 21 mln stems from drop in coal stock levels and growth in the stock of certificates of origin for energy
- growth in cash and cash equivalents by PLN 281 mln resulting mainly from drawing an overdraft facility and locating the funds on a long-term deposit

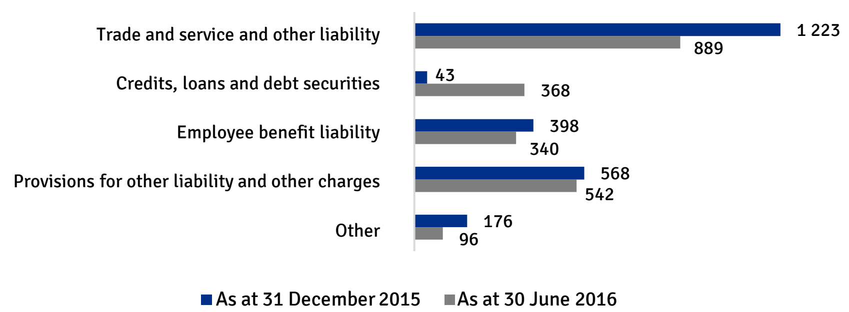
## Assets - structure of assets and liabilities of Enea Capital Group

| Liabilities [PLN '000] | As at: 31 December 2015 | 30 June 2016 | Change | Change % |
|---|---|---|---|---|
| **Total equity** | **12 122 603** | **12 563 366** | **440 763** | **3.6%** |
| Share capital | 588 018 | 588 018 | - | 0.0% |
| Share premium | 3 632 464 | 3 632 464 | - | 0.0% |
| Financial instruments revaluation reserve | 814 | 880 | 66 | 8.1% |
| Other reserves | -45 883 | - 45 883 | - | 0.0% |
| Reserve capital from valuation of hedging instruments | 3 980 | - 19 586 | - 23 566 | -592.1% |
| Retained earnings | 7 158 352 | 7 594 178 | 435 826 | 6.1% |
| Non-controlling interests | 784 858 | 813 295 | 28 437 | 3.6% |
| **Total liabilities** | **10 866 393** | **10 812 337** | **- 54 056** | **-0.5%** |
| Non-current liabilities | 8 457 838 | 8 577 474 | 119 636 | 1.4% |
| Current liabilities | 2 408 555 | 2 234 863 | -173 692 | -7.2% |
| **Total equity and liabilities** | **22 988 996** | **23 375 703** | **386 707** | **1.7%** |

**Structure of non-current liabilities**




**Structure of current liabilities**




**Change factors of non-current liabilities (growth by PLN 120 mln):**

- PLN 267 mln growth in credits, loans and debt securities resulting from e.g.: disbursing another tranche of a loan from EIB in the amount of PLN 100 mln; issue of bonds in the amount of PLN 300 mln; redemption of bonds of LW Bogdanka in the amount of PLN 100 mln and reclassification of a part of a loan from EIB for current liabilities
- PLN 26 mln derivative instruments (valuation of interest rate risk hedging transactions)
- PLN 23 mln growth in trade liabilities
- PLN 218 mln drop in deferred income tax provision

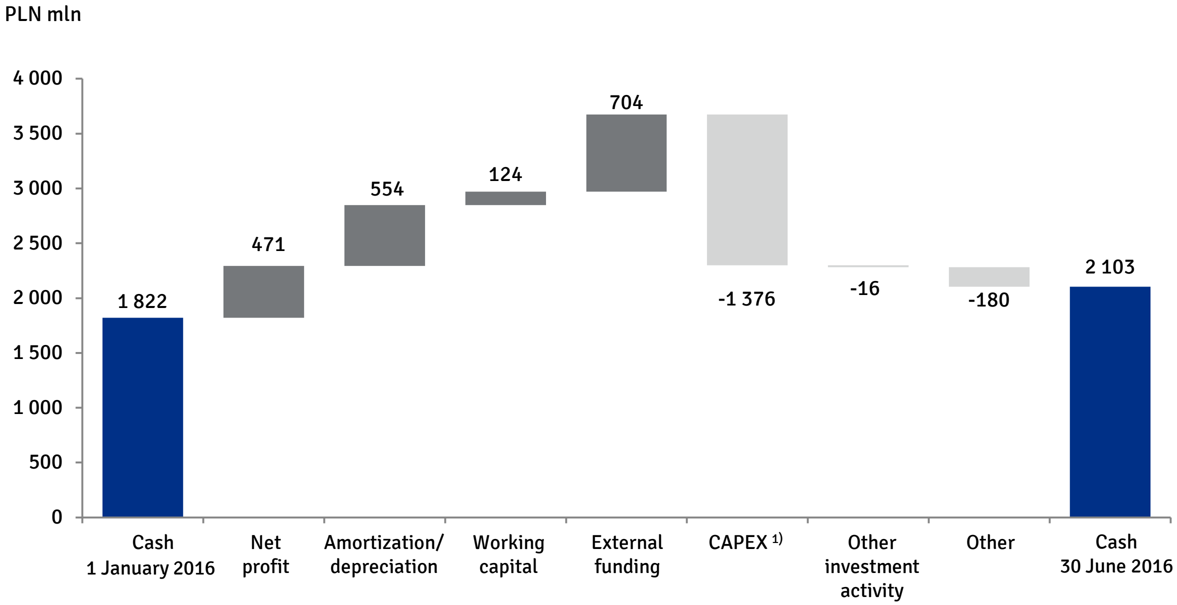
**Change factors of current liabilities (drop by PLN 174 mln)**

- PLN 325 mln growth in credits, loans and 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 and reclassification of loans obtained from community funds
- PLN 334 mln drop in trade and other liabilities, mainly as a result of lower investment liabilities
- PLN 79 mln drop in current income tax liability
- PLN 58 mln drop in employee benefit liabilities

## Cash situation of Enea Capital Group

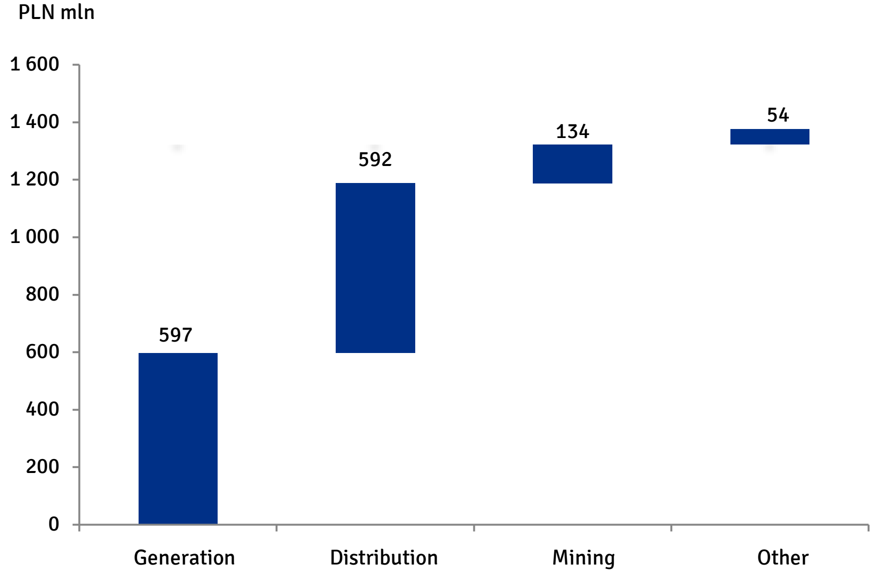
| Cash flow statement [PLN '000] | H1 2015 | H1 2016 | Change | Change % |
|---|---|---|---|---|
| Net cash flows from operating activities | 782 925 | 1 162 073 | 379 148 | 48.4% |
| Net cash flows from investing activities | -1 192 169 | -1 392 491 | -200 322 | -16.8% |
| Net cash flows from financing activities | 1 029 811 | 511 574 | -518 237 | -50.3% |
| Net increase / (Decrease) in cash and cash equivalents | 620 567 | 281 156 | -339 411 | -54.7% |
| Opening balance of cash and cash equivalents | 687 316 | 1 822 094 | 1 134 778 | 165.1% |
| **Closing balance of cash and cash equivalents** | **1 307 883** | **2 103 250** | **795 367** | **60.8%** |

**Cash flows in H1 2016**




1) Acquisition of tangible and intangible assets and acquisition of subsidiaries adjusted with obtained cash

**CAPEX 1) Enea CG H1 2016**



## Ratio analysis [1)]

| | H1 2015 | H1 2016 | Q2 2015 | Q2 2016 |
|---|---|---|---|---|
| **Profitability ratios** | | | | |
| ROE - return on equity | 6.8% | 7.5% | 5.0% | 5.8% |
| ROA - return on assets | 4.3% | 4.0% | 3.1% | 3.1% |
| Net profitability | 9.1% | 8.4% | 7.1% | 6.8% |
| Operating profitability | 11.4% | 10.9% | 9.1% | 8.3% |
| EBITDA profitability | 19.4% | 21.5% | 17.8% | 20.2% |
| **Liquidity and financial structure ratios** | | | | |
| Current ratio | 2.2 | 2.1 | 2.2 | 2.1 |
| Equity-to-fixed assets ratio | 0.8 | 0.7 | 0.8 | 0.7 |
| Total debt ratio | 0.4 | 0.5 | 0.4 | 0.5 |
| Net debt / EBITDA | 0.8 | 1.7 | 0.8 | 1.7 |
| **Economic activity ratios** | | | | |
| Current receivables turnover in days | 59 | 52 | 63 | 55 |
| Turnover of trade and other payables in days | 67 | 47 | 70 | 49 |
| Inventory turnover in days | 34 | 32 | 36 | 33 |

## Principles of preparation of financial statements

Condensed financial statements of Enea SA and Enea Capital Group, respectively, included in the extended consolidated report of Enea SA for H1 2016 were prepared in accordance with International Accounting Standards and International Financial Reporting Standards (IAS/IFRS) approved by the European Union. Condensed financial statements were prepared with an assumption of going concern in the foreseeable future. The Company's Management Board states, as at the execution date of the condensed financial statements, 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 so far activities. Financial data presented in the statements, if not stated otherwise, was presented in thousands of PLN.

1) Ratio definitions are to be found on page 75

## Anticipated financial position

A large share of the regulated area of Distribution in Enea CG's EBITDA (in H1 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 will decrease EBITDA in the area by ca. PLN 58 mln in 2016.

Area of Generation which in H1 2016 accounted for 27% 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.

In Q4 2015, as a result of LW Bogdanka’s acquisition Enea CG’s chain of values was supplemented with the area of Mining. In H1 2016 LW Bogdanka CG generated the best financial results in the sector, however its operations are still under the pressure of an unstable coal market situation. In 2016 the full compensation of the forecast drop in coal prices with a higher volume of its sales will not be probably achieved. Therefore, keeping the unit costs on a relevant level and optimisation of investment expenditures will be a priority.

In the area of Trade the operations focus on increasing sales of electricity and gaseous fuel - 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.

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 June 2016, including current financial assets kept to maturity and financial assets evaluated at fair value through result, amounted to over PLN 2.3 billion. 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 due to:

- Agreement relating to the bond issue programme up to the amount of PLN 3 billion concluded with PKO BP, Bank Pekao, BZ WBK and Bank Handlowy w Warszawie
- Agreement relating to the bond issue programme up to the maximum amount of PLN 5 billion concluded with PKO BP, ING Bank Śląski, Pekao and mBank
- Two Programme Agreements relating to the issue of long-term bonds totalling to PLN 1.7 billion concluded with Bank Gospodarstwa Krajowego
- Three Loan agreements with the European Investment Bank for the total amount of PLN 2.371 billion

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).

The implementation of the investment programme and efficiency improvement programme will positively affect the financial results of Enea CG. Due to the planned optimisation activities in 2016 Enea Group plans a reduction in operating costs by PLN 362 mln (in relation to the base year).

## Financial results forecasts

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

# 4. Shares and shareholding

## Share capital structure

Enea SA's share capital as at the publication date of this report for H1 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.

## Shareholding structure

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

The table and diagram below present Enea SA's shareholding structure as at the publication date of the periodic report for H1 2016, i.e. 26 August 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% |
| Others | 214 078 150 | 48.5% |
| **TOTAL** | **441 442 578** | **100.0%** |

## Changes in the shareholding structure from the date of publication of the previous quarterly report

The Company holds no information on any changes in the structure of the Company's significant shareholders occurring from the date of publication of the extended consolidated report for Q1 2016.

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

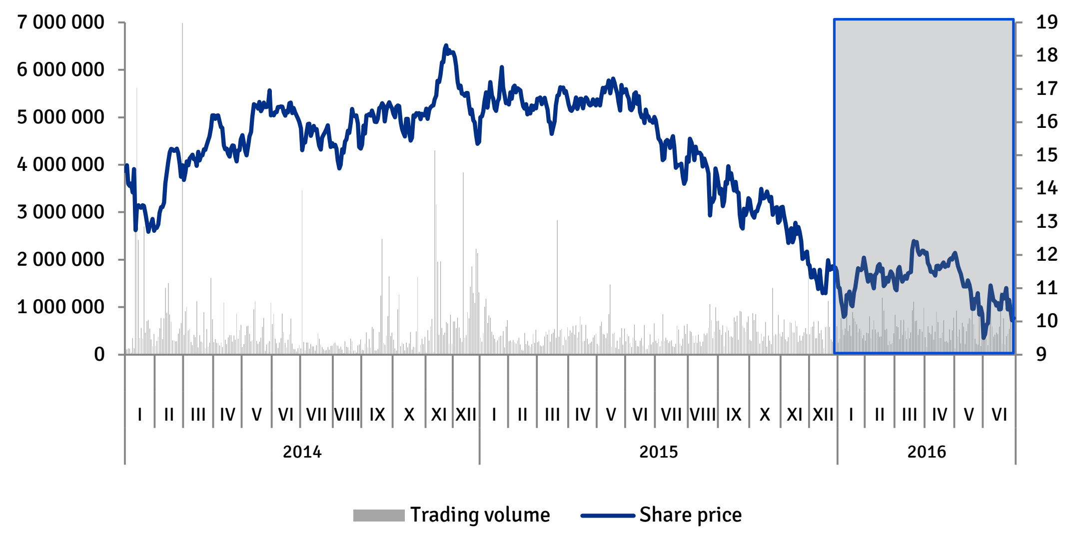
Enea SA's shares have been listed on the Warsaw Stock Exchange (WSE) since 17 November 2008.
Percentage of the Company's shares in the indices as at 30 June 2016

| WIG20 | WIG30 | WIG energia | WIG Poland | MSCI |
|---|---|---|---|---|
| 1.38% | 1.33% | 11.53% | 1.14% | 1.30% |

The table below demonstrates data relating to the Company's shares in H1 2016.

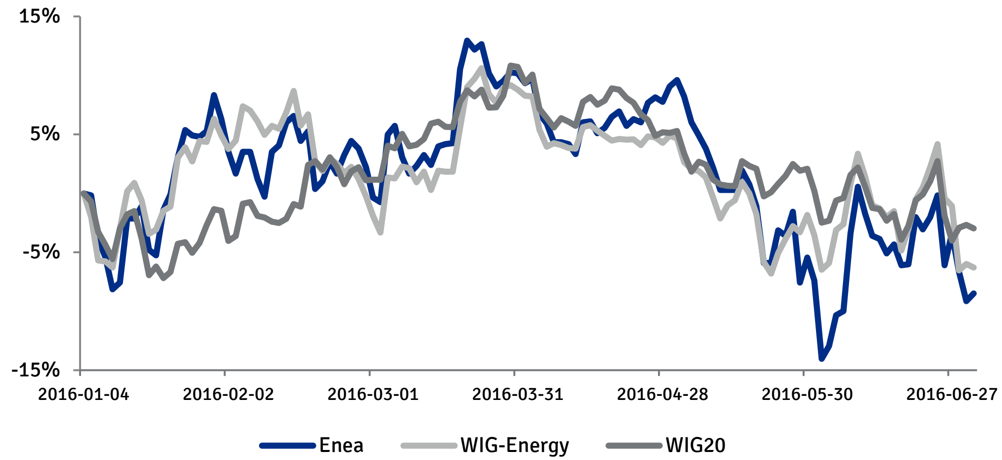
| Data | H1 2016 |
|---|---|
| Number of shares [pcs] | 441 442 578 |
| Minimum [PLN] | 9.3 |
| Maximum [PLN | 12.22 |
| Closing price [PLN] | 9.90 |
| Opening price [PLN] | 10.82 |
| Average volume [pcs] | 547 583 |

**Prices of Enea SA's shares in 2014 - H1 2016**




In the period from 1 January to 30 June 2016 the price of Enea's shares dropped from PLN 10.82 to PLN 9.90, i.e. by PLN 0.92 or 9.3%. The highest price in the period was achieved for Enea's shares on 18 March, and the lowest - on 1 June 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. 26 August 2016, 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 Management 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. 26 August 2016, the Supervisory Board of the Company of the 9th term is composed of nine 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 Control and 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

### 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

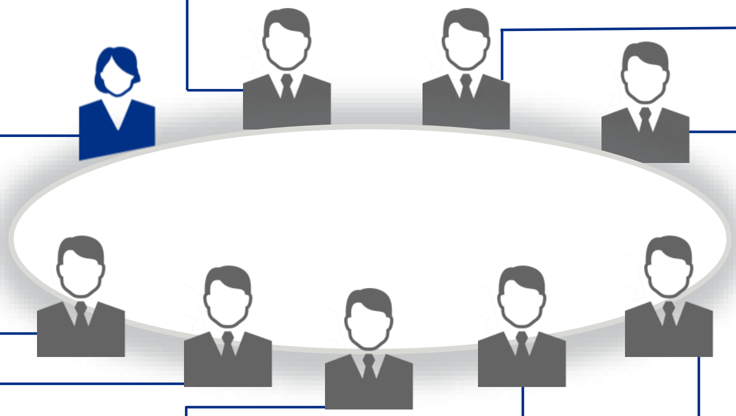
Mr. Wojciech Klimowicz graduated from MA studies at Adam Mickiewicz University in Poznań, Faculty of Social Sciences, majoring in Politology (specialisation: local government administration). He also graduated from Postgraduate studies: Data statistical analysis in administration and business at the 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. Was a member of numerous Supervisory Boards of commercial law companies from 1997. Tadeusz Mikłosz holds a higher qualification within team management and political science. He also graduated from Post-graduate Studies in commercial law at Poznań University of Economics.



### 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 S.A. 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 Cieplnej in Radom on the position of an Operations Director. During 1989-1998 worked as the Head of the Heating Networks Department in Wojewódzkie Przedsiębiorstwo Energetyki Cieplnej in Radom. Piotr Mirkowski is a graduate of the Engineering School in Radom, specialisation in machine construction technology. 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.

### Sławomir Brzeziński

**Member of the Supervisory Board**

**Date of appointment: 2 July 2015**

Sławomir Brzeziński has been connected with Enea SA since 2008. Currently, he is holding the position of the Compliance and Organisation Office's Manager. Previously he was related to the International Fair of Poznań.

Sławomir 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.

### 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 reprivatisation 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 Control and Supervision Department. His professional duties include e.g. ownership supervision of State Treasury companies. So far, he has been an employee of the Ministry of Treasury where he was e.g. the Head of the Department supervising the companies from the power sector with the share of the State Treasury. Rafał Szymański graduated from the studies at the within ecological engineering and Postgraduate studies in Energy Market Operation at the Warsaw School of Economics.

### 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.

## Changes in the composition of the Management Board of Enea SA

| Date | Event |
|---|---|
| 30 December 2015 | 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:<br>• Dalida Gepfert - Vice-President of the Management Board for Financial Affairs<br>• 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. |
| | 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 :<br>• Piotr Adamczak to the position of the Vice-President of the Management Board for Commercial Affairs<br>• 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, Radosław Winiarski and Tomasz Gołebiowski - 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, Rafał Bargiel, Roman Stryjski and Piotr Mirkowski |

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

In relation to the nomination of the Supervisory Board of the 9th term the Audit Committee and Nominations and Remuneration Committee were appointed. As at the date of publication of the report the composition of the above mentioned committees was as follows:

**Audit Committee**

| Name | Position |
|---|---|
| Małgorzata Niezgoda | Chairman |
| Sławomir Brzeziński | Member |
| Piotr Kossak [1)] | Member |
| Roman Stryjski | Member |
| Wojciech Klimowicz | Member |

**Nominations and Remuneration Committee**

| Name | Position |
|---|---|
| Rafał Szymański | Chairman |
| Rafał Bargiel | Member |
| Piotr Kossak [1)] | Member |
| Tadeusz Mikłosz | Member |
| Piotr Mirkowski | Member |

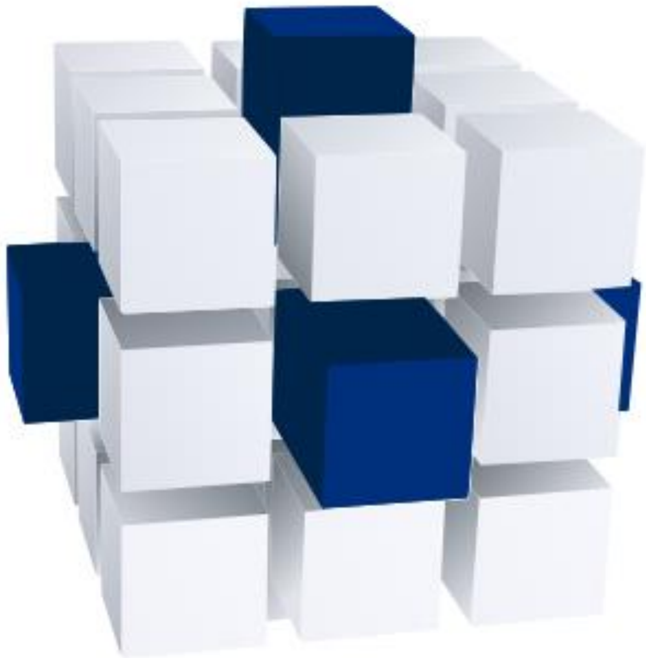
## List of shares and allotment certificates to shares of Enea SA held by members of the Management and Supervisory Boards

| Name | Position | Number of Enea SA's shares as at 16 May 2016 | Number of Enea SA's shares as at 26 August 2016 |
|---|---|---|---|
| Wiesław Piosik | Vice-President of the Management Board | 4 140 | 4 140 |
| Tadeusz Mikłosz | Member of the Supervisory Board | 4 140 | 4 140 |

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

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

In the period from the publication of the previous quarterly report, i.e. the extended consolidated periodic report for Q1 2016, members of the Management Board and members of the Supervisory Board did not acquire/sell shares or allotment certificates relating to Enea SA's shares.



# 6. Other information significant for the assessment of the Issuer's situation

**Demand for energy**

According to the Ministry of Economy the demand for electricity in the next years will grow in all the sectors of economy. Net production of electricity will increase until 2030 to 193.3 TWh - as results from forecasts by the Ministry of Economy included in "Update of the projection of demand for fuels and energy until 2030". 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 until 2010 to 223 TWh in 2050.[1)]

**Exemption form 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 part 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 June 2016 amounted to 170,107, thus grew from the end of March 2016 by 11,511 (7.3%). And among households (tariff group set G) the TPA principle was used, as at the end of June 2016, by 427,214 customers, which means a growth by 35,863 (9.2%) in relation to the end of December 2015.[2)]

**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 will be 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 (Integrated Proceedings). Enea's financial engagement at the Development stage will not exceed the amount of ca. PLN 107 mln.

On 29 July 2015 the Extraordinary General Meeting of Shareholders of PGE EJ 1 was held during which the Shareholders decided to raise the share capital of the Company by ca. PLN 70 mln, through the issue of 496,450 new shares of the nominal value of PLN 141 each, subscribe for the newly created shares and cover them with cash contribution. Pursuant to the decision of the EGM Enea took up 49,645 shares of the total nominal value of ca. PLN 7 mln and covered them with cash totalling to ca. PLN 7 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, directly before making the final decision within the Integrated proceedings.

**Limits of allowances for emissions of $CO_2$**

A material element within costs, conditioning the profitability of electricity generation is the allocation of free allowances for emissions of $CO_2$ and other gases and substances in a given settlement period. Obtaining a free allocation of $CO_2$ 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.

**Structure of generating portfolio**

Within the realisation of the superlative goal of Enea CG, i.e. higher value for shareholders, the Group pursues the improvement in the core financial ratios. Building a competitive generating portfolio is one of the basic elements of realisation of the above strategic goal. The Group pursues the development of generation capacity to the level of additional 1,075 $MW_e$ in the segment of system power plants in 2017.

**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 billion 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 consortium submitted a contractual offer to Enea Wytwarzanie relating to the updated schedule of the contract with a proposal of postponing the commissioning date of the Investment from 21 July 2017 to 19 December 2017, of which Enea SA informed in the current report No. 24/2016. The proposal of postponing the completion date of the investment results from technical and organisational issues presented by the contractor. The schedule submitted by it shall be analysed, pursuant to the agreement in force. The analysis shall relate in particular to the presented reasons for postponing the completion date, efficiency of the proposed corrective actions and consequences resulting from postponing the date of the investment completion.

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 Kozienice 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 Kozienice 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,Zmianasprzedawcymonitoring.html

### Rating

Maintaining on 29 October 2015 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's takeover 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" (reuslting also from methodological changes). The outlook of Enea's ratings is stable. Fitch Ratings has performed the Company's credit rating since 2011.

On 26 April 2016 EuroRating affirmed the credit rating of Enea on the level of "BBB" a stable outlook. The rating mentioned above was awarded by EuroRating on its own initiative, in reply to the information needs of market participants, and the credit risk assessment process was based on the publicly available information.

### 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.

### 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.

A detailed description of proceedings is presented in note 22 to the condensed interim consolidated financial statements of Enea CG for the period from 1 January to 30 June 2016.

### Enhancing the efficiency of the support area

In Enea Group the support services are rendered by Enea Centrum. In H1 2016 the servicing of support services was taken over from the next three Enea CG's Companies - Enea Serwis, Enea Pomiary and Enea Oświetlenie.

In 2015, changes were introduced in particular areas as regards the organisation of works, new IT systems were implemented, which in the further perspective will allow for the optimisation of processes and raising the efficiency of realised tasks. Enea Centrum implements a range of optimisation projects whose goal is the reduction in costs and raising the quality of services rendered for the other companies in Enea CG.

### 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.

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

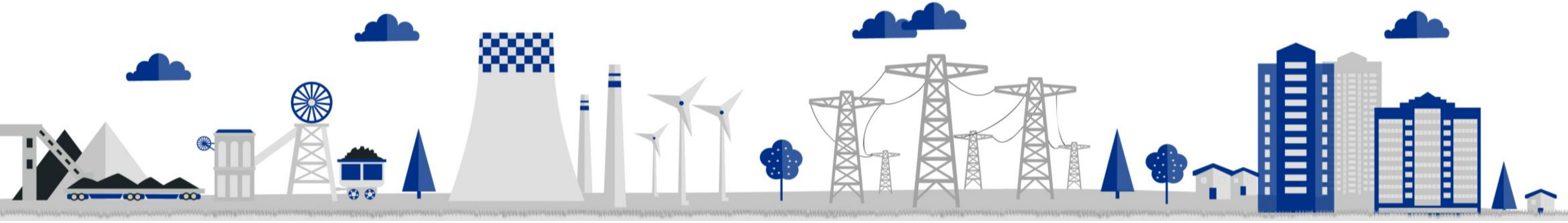
The plan foresees that the development of the Polish economy will be based on five pillars:

- reindustrialisation
- innovation
- capital
- foreign expansion
- 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.

### 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 $CO_2$ 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. 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.



## Enea Group's corporate social responsibility in H1 2016 was concentrated on the implementation of the following actions:

### Enea Group's corporate social responsibility report for 2015

With the end of Q2 2016 Enea Group published the fifth "Corporate Social Responsibility Report of Enea Group for 2015" covering the period from 1 January to 31 December 2015. This year's reporting of non-financial data was prepared compliant with the guidelines of the international standard - Global Reporting Initiative G4, on the level of Core application. This is the fourth report of Enea disclosing non-financial data on-line, only the first one was issued traditionally. The document is available on a dedicated, interactive website and in English.

The report presents the most important issues from Enea Group's responsible business and sustainable development perspective, i.e. the so-called significant aspects of reporting sustainable development. They describe the scale and nature of the Group's impact on the social environment and implemented and planned investments for the environmental protection. Employees from all the reporting companies: both CSR coordinators in the Group companies and employees responsible for crucial areas take part in works over the development of data for the CSR report. The reporting process is coordinated by a dedicated organisational unit responsible for CSR in Enea SA.

This year's report is opened with a transparent animation presenting the complete, after the takeover in 2015 of Lubelski Węgiel Bogdanka SA, supply chain which was completed with the last (after generation, energy distribution and its sale to Customers) link - mining the raw material.

### Enea Sports Academy Programme


In H1 2016 Enea Group developed the programme of Enea Sports Academy, dedicated to children and young people from four provinces operating on the distribution area of the Group.

70 schools from the following provinces: Wielkopolskie, Lubuskie, Kujawsko-Pomorskie and Zachodniopomorskie were covered with the Academy's operations as part of the Programme. In H1 2016 already several hundred children benefited from sport activities (out-of-school or realised on the area of partner sports clubs).

### Corporate volunteering

Enea Group's corporate volunteering operations in H1 2016 focused e.g. on:

- continuation of the competence volunteering via realisation of programmes: "Power-not so scary" and "First aid - pre-medical rescue"
- completing Huge Power Packet for Easter - collecting sweets and small toys for over 260 children living in school and educational centres on the area of our Group's operations, i.e.: in Szamotuły, Kiekrz, Zielona-Góra, Dębno, Police, Więcbork, Piła and Poznań
- organisational support during workshops for children at the Poznań Grand Theatre. Volunteers helped by the organisation and conduct of workshops

**Activities connected with the programmes: "Power-not so scary" and "Pre-medical rescue" and accompanied activation of activities during the image-related projects and sponsoring actions of Enea Group**

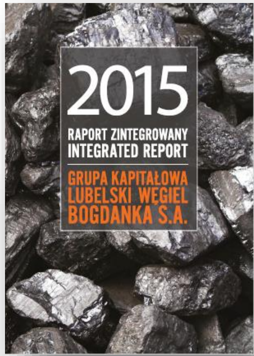





## LW Bogdanka's corporate social responsibility in H1 2016 was concentrated on the implementation of the below actions:

### Corporate responsibility report of LW Bogdanka for 2015

In June 2016 LW Bogdanka published another corporate responsibility report. Integrated report for 2015 joins both financial results and non-financial data. The report was developed based on GRI G4 guidelines using indices specific for the mining industry.





### Supply chain audit

In February 2016 LW Bogdanka positively underwent an audit of the supplier's chain of deliveries 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

### Corporate volunteering in LW Bogdanka

As corporate volunteering LW Bogdanka realised the following initiatives in H1 2016:

- **"Positively stoked" campaign –** collection of caps for children and young people of Lublin Hospice under the name of Little Prince in Lublin.
- **Gold rush** - project consisting in collecting low-denomination coins from the wallet - 1 gr, 2 gr, and 5 gr.
- **Great Power of Helping campaign** - collection of Easter gifts for the needs of the Juvenile Shelter (SDN) in Dominów near Lublin
- **Increasing knowledge on blood and bone marrow donations** – a meeting of representatives of the Regional Centre of Blood Donation and Treatment in Lublin with the management of LW Bogdanka - cyclical meetings are planned for the future.

### 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. In June 2016 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 Górnicy and Regionalne Centrum Krwiodawstwa i Krwiolecznictwa w Lublinie agreed upon the scope of joint actions for 2016, including blood donation campaigns and meetings propagating knowledge in this area among employees.

### 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 SA - H1 2016

| [PLN '000] | H1 2015 | H1 2016 | Change | Change % |
|---|---|---|---|---|
| Sales of electricity to retail users | 1 925 096 | 1 968 440 | 43 344 | 2.3% |
| Sales of gaseous fuel to retail users | 32 287 | 73 611 | 41 324 | 128.0% |
| Sales of distribution services to users holding comprehensive agreements | 745 904 | 752 951 | 7 047 | 0.9% |
| Sales of energy and gaseous fuel to other entities | 98 383 | 63 286 | -35 097 | -35.7% |
| Sales of services | 1 706 | 1 854 | 148 | 8.7% |
| Other revenue | 8 485 | 639 | -7 846 | -92.5% |
| Excise tax | 114 679 | 125 169 | 10 490 | 9.1% |
| **Net sales revenue** | **2 697 182** | **2 735 612** | **38 430** | **1.4%** |
| Amortisation/depreciation | 2 954 | 1 784 | -1 170 | -39.6% |
| Employee benefit costs | 23 038 | 27 134 | 4 096 | 17.8% |
| Consumption of materials and energy and value of sold materials | 757 | 972 | 215 | 28.4% |
| Costs of energy purchases for resale | 1 781 031 | 1 842 413 | 61 382 | 3.4% |
| Cost of providing distribution services for the performance of comprehensive agreements for the provision of electricity and distribution services | 745 940 | 753 028 | 7 088 | 1.0% |
| Other outsourced services | 71 657 | 78 772 | 7 115 | 9.9% |
| Taxes and charges | 1 867 | 2 012 | 145 | 7.8% |
| **Cost of sales** | **2 627 244** | **2 706 115** | **78 871** | **3.0%** |
| Other operating revenue | 11 425 | 7 639 | -3 786 | -33.1% |
| Other operating expenses | 28 177 | 15 462 | -12 715 | -45.1% |
| Profit / loss on sales of fixed assets | 1 011 | -8 | -1 019 | -100.8% |
| **Operating profit** | **54 197** | **21 666** | **-32 531** | **-60.0%** |
| Financial revenue | 74 955 | 94 921 | 19 966 | 26.6% |
| Dividend revenue | 874 236 | 548 874 | -325 362 | -37.2% |
| Financial expenses | 44 533 | 116 051 | 71 518 | 160.6% |
| **Profit before tax** | **958 855** | **549 410** | **-409 445** | **-42.7%** |
| Income tax | 17 456 | 10 668 | -6 788 | -38.9% |
| **Net profit** | **941 399** | **538 742** | **-402 657** | **-42.8%** |
| **EBITDA** | **57 151** | **23 450** | **-33 701** | **-59.0%** |

**H1 2016:**

**Change factors of EBITDA of Enea SA (drop by PLN 34 mln):**

- (-) lower first contribution margin by PLN 30 mln:
  - (-) lower average selling price by 2.7%
  - (-) higher costs of ecological obligations by 16.6%
  - (+) lower average purchase price of energy by 0.5%
  - (+) growth in sale volumes by 5.0%
- (+) result on gaseous fuel
- (-) higher employee benefits costs by PLN 4 mln
- (-) higher costs of outsourced services by PLN 7 mln:
  - (-) higher selling costs and costs of customer service by PLN 5 mln
  - (-) higher costs of consulting and legal services by PLN 2 mln
- (+) higher result on the other operating activity by PLN 8 mln:
  - (+) written-off debts PLN 9 mln
  - (+) provisions for litigation by PLN 5 mln
  - (-) impairment of receivables PLN 6 mln

**H1 2016:**

**Settlement of share value impairment write-down (impact on net result):**

- (-) performed tests on the impairment of share value demonstrated the need of recognising a write-down in the amount of PLN 42 mln (recognised as financial costs)

## Profit and loss statement of Enea SA - Q2 2016

| [PLN '000] | Q2 2015 | Q2 2016 | Change | Change % |
|---|---|---|---|---|
| Sales of electricity to retail users | 878 618 | 908 879 | 30 261 | 3.4% |
| Sales of gaseous fuel to retail users | 19 247 | 28 690 | 9 443 | 49.1% |
| Sales of distribution services to users holding comprehensive agreements | 343 711 | 349 025 | 5 314 | 1.5% |
| Sales of energy and gaseous fuel to other entities | 33 246 | 26 742 | -6 504 | -19.6% |
| Sales of services | 902 | 918 | 16 | 1.8% |
| Other revenue | 585 | 121 | -464 | -79.3% |
| Excise tax | 51 215 | 56 707 | 5 492 | 10.7% |
| **Net sales revenue** | **1 225 094** | **1 257 668** | **32 574** | **2.7%** |
| Amortisation/depreciation | 1 364 | 860 | -504 | -37.0% |
| Employee benefit costs | 13 969 | 12 484 | -1 485 | -10.6% |
| Consumption of materials and energy and value of sold materials | 628 | 502 | -126 | -20.1% |
| Costs of energy purchases for resale | 794 534 | 835 393 | 40 859 | 5.1% |
| Cost of providing distribution services for the performance of comprehensive agreements for the provision of electricity and distribution services | 345 268 | 349 104 | 3 836 | 1.1% |
| Other outsourced services | 41 159 | 41 091 | -68 | -0.2% |
| Taxes and charges | 333 | 464 | 131 | 39.3% |
| **Cost of sales** | **1 197 255** | **1 239 898** | **42 643** | **3.6%** |
| Other operating revenue | 6 051 | 5 048 | -1 003 | -16.6% |
| Other operating expenses | 22 492 | 8 249 | -14 243 | -63.3% |
| Profit / loss on sales of fixed assets | 1 011 | - | -1 011 | -100.0% |
| **Operating profit** | **12 409** | **14 569** | **2 160** | **17.4%** |
| Financial revenue | 32 047 | 46 255 | 14 208 | 44.3% |
| Dividend revenue | 874 236 | 548 874 | -325 362 | -37.2% |
| Financial expenses | 24 002 | 80 750 | 56 748 | 236.4% |
| **Profit before tax** | **894 690** | **528 948** | **-365 742** | **-40.9%** |
| Income tax | 3 530 | 5 356 | 1 826 | 51.7% |
| **Net profit** | **891 160** | **523 592** | **-367 568** | **-41.2%** |
| **EBITDA** | **13 773** | **15 429** | **1 656** | **12.0%** |

**Q2 2016:**

**Change factors of EBITDA of Enea SA (growth by PLN 2 mln):**

- (-) lower first contribution margin by PLN 13 mln:
  - (-) lower average selling price by 0.4%
  - (-) higher costs of ecological obligations by 25.7%
  - (-) higher average purchase price of energy by 1.8%
  - (+) growth in sale volumes by 3.9%
- (+) result on gaseous fuel
- (+) lower costs of employee benefits by PLN 1 mln
- (+) higher result on the other operating activity by PLN 13 mln:
  - (+) written-off debts PLN 11 mln
  - (+) provisions for litigation PLN 8 mln
  - (-) impairment of receivables PLN 7 mln

**Q2 2016:**

**Settlement of share value impairment write-down (impact on net result):**

- (-) performed tests on the impairment of share value demonstrated the need of recognising a write-down in the amount of PLN 42 mln (recognised as financial costs)

## Profit and loss statement of Enea Operator sp. z o.o. - H1 2016

| [PLN '000] | H1 2015 | H1 2016 | Change | Change % |
|---|---|---|---|---|
| Revenue from sales of distribution services to end users | 1 409 504 | 1 432 311 | 22 807 | 1.6% |
| Revenue from additional fees | 2 417 | 2 768 | 351 | 14.5% |
| Revenue from non-invoiced sales of distribution services | -674 | 558 | 1 232 | 182.8% |
| Clearing of the Balancing Market | 430 | 1 031 | 601 | 139.8% |
| Fees for customer grid connection | 31 161 | 31 298 | 137 | 0.4% |
| Revenue from the illegal collection of electricity | 3 346 | 3 031 | -315 | -9.4% |
| Revenue from services | 22 014 | 25 378 | 3 364 | 15.3% |
| Sales of distribution services to other entities | 9 905 | 12 540 | 2 635 | 26.6% |
| Sales of goods and services and other revenue | 794 | 1 232 | 438 | 55.2% |
| **Sales revenue** | **1 478 897** | **1 510 146** | **31 249** | **2.1%** |
| Depreciation and amortisation of fixed and intangible assets | 214 307 | 238 908 | 24 601 | 11.5% |
| Employee benefit costs | 194 484 | 183 546 | -10 938 | -5.6% |
| Consumption of materials and raw materials and value of goods sold | 16 158 | 15 259 | -899 | -5.6% |
| Purchase of energy for own needs and grid losses | 127 902 | 125 917 | -1 985 | -1.6% |
| Costs of transmission services | 385 953 | 395 993 | 10 040 | 2.6% |
| Other outsourced services | 123 331 | 112 631 | -10 700 | -8.7% |
| Taxes and charges | 86 242 | 93 014 | 6 772 | 7.9% |
| **Cost of sales** | **1 148 377** | **1 165 268** | **16 891** | **1.5%** |
| Other operating revenue | 8 901 | 19 438 | 10 537 | 118.4% |
| Other operating expenses | 33 502 | 38 908 | 5 406 | 16.1% |
| Profit / loss on sales and liquidation of tangible fixed assets | -1 355 | -3 460 | -2 105 | -155.4% |
| **Operating profit/loss** | **304 564** | **321 948** | **17 384** | **5.7%** |
| Financial revenue | 4 664 | 2 409 | -2 255 | -48.3% |
| Financial expenses | 14 889 | 18 967 | 4 078 | 27.4% |
| **Profit/loss before tax** | **294 339** | **305 390** | **11 051** | **3.8%** |
| Income tax | 57 751 | 56 955 | -796 | -1.4% |
| **Net profit/loss** | **236 588** | **248 435** | **11 847** | **5.0%** |
| **EBITDA** | **518 871** | **560 856** | **41 985** | **8.1%** |

**H1 2016:**

**Change factors of EBITDA of Enea Operator sp. z o.o. (growth by PLN 42 mln):**

- (+) higher volume of sales of distribution services to end users by PLN 340 GWh with rates lower by 3.1 PLN/MWh (PLN 24 mln)
- (+) lower costs of employee benefits as a result of the performed optimisation of resources consumption and changes in the balance of employee provisions (PLN 11 mln)
- (+) lower costs of other outsourced services (PLN 11 mln – optimisation of processes realised by Enea Centrum, lower costs of telecommunication services, insurance and administration costs)
- (+) higher result relating to the revenue from grid insurance and costs of removing fortuitous events and higher revenue from shift of electrical equipment to the assets (PLN 11 mln)
- (+) higher revenue from services (PLN 3 mln) - higher revenue from execution of contracts for the reconstruction of the existing power infrastructure on order of an external entity with a concurrent resignation from activities elated to the street lighting conservation
- (+) higher revenue from sale of distribution services to other entities (PLN 3 mln) – greater volume of electricity exported to other ODSs by 45.6 GWh
- (+) volumes lower by 13 GWh and lower purchase price of electricity for own needs and grid losses by 0.43 zł/MWh (PLN 2 mln)
- (-) higher costs of transmission services (PLN 10 mln) – higher rates of the quality and transitory charges
- (-) higher property tax in relation to new investments commissioning and fees for using the roads (PLN 7 mln)
- (-) higher costs of legal provisions relating to grid assets (PLN 5 mln)
- (-) higher liquidation costs - balance (PLN 2 mln)

## Profit and loss statement of Enea Operator sp. z o.o. - Q2 2016

| [PLN '000] | Q2 2015 | Q2 2016 | Change | Change % |
|---|---|---|---|---|
| Revenue from sales of distribution services to end users | 685 597 | 705 584 | 19 987 | 2.9% |
| Revenue from additional fees | 1 146 | 1 863 | 717 | 62.6% |
| Revenue from non-invoiced sales of distribution services | -18 779 | -20 613 | -1 834 | -9.8% |
| Clearing of the Balancing Market | 145 | 392 | 247 | 170.3% |
| Fees for customer grid connection | 19 680 | 15 598 | -4 082 | -20.7% |
| Revenue from the illegal collection of electricity | 1 704 | 1 483 | -221 | -13.0% |
| Revenue from services | 10 909 | 18 144 | 7 235 | 66.3% |
| Sales of distribution services to other entities | 4 772 | 5 788 | 1 016 | 21.3% |
| Sales of goods and services and other revenue | 558 | 931 | 373 | 66.8% |
| **Sales revenue** | **705 732** | **729 170** | **23 438** | **3.3%** |
| Depreciation and amortisation of fixed and intangible assets | 109 183 | 108 288 | -895 | -0.8% |
| Employee benefit costs | 90 132 | 83 095 | -7 037 | -7.8% |
| Consumption of materials and raw materials and value of goods sold | 9 236 | 7 634 | -1 602 | -17.3% |
| Purchase of energy for own needs and grid losses | 60 593 | 57 130 | -3 463 | -5.7% |
| Costs of transmission services | 190 742 | 194 631 | 3 889 | 2.0% |
| Other outsourced services | 61 607 | 63 991 | 2 384 | 3.9% |
| Taxes and charges | 38 455 | 40 307 | 1 852 | 4.8% |
| **Cost of sales** | **559 948** | **555 076** | **-4 872** | **-0.9%** |
| Other operating revenue | 6 952 | -584 | -7 536 | -108.4% |
| Other operating expenses | 10 265 | 19 005 | 8 740 | 85.1% |
| Profit / loss on sales and liquidation of tangible fixed assets | -1 789 | -2 948 | -1 159 | -64.8% |
| **Operating profit/loss** | **140 682** | **151 557** | **10 875** | **7.7%** |
| Financial revenue | 3 028 | 2 087 | -941 | -31.1% |
| Financial expenses | 7 206 | 9 226 | 2 020 | 28.0% |
| **Profit/loss before tax** | **136 504** | **144 418** | **7 914** | **5.8%** |
| Income tax | 27 020 | 27 817 | 797 | 2.9% |
| **Net profit/loss** | **109 484** | **116 601** | **7 117** | **6.5%** |
| **EBITDA** | **249 865** | **259 845** | **9 980** | **4.0%** |

**Q2 2016:**

**Change factors of EBITDA of Enea Operator sp. z o.o. (growth by PLN 10 mln):**

- (+) higher volume of sales of distribution services to end users by PLN 259 GWh with rates lower by 4.7 PLN/MWh (PLN 18 mln)
- (+) lower costs of employee benefits as a result of the performed optimisation of resources consumption and changes in the balance of employee provisions (PLN 7 mln)
- (+) volumes lower by 21.7 GWh of purchases for own needs and grid losses (PLN 3 mln)
- (-) higher costs of legal provisions relating to grid assets (PLN 9 mln)
- (-) higher costs of purchase of transmission services (PLN 4 mln)
- (-) lower revenue from grid connection fees as a result of a shift of the realisation of significant investments in 2nd connection group (PLN 4 mln)
- (-) higher property tax in relation to new investments commissioning (PLN 2 mln)

## Profit and loss statement of Enea Wytwarzanie sp. z o.o. - H1 2016

| [PLN '000] | H1 2015 | H1 2016 | Change | Change % |
|---|---|---|---|---|
| Revenue from sale of electricity | 1 372 036 | 1 470 106 | 98 070 | 7.1% |
| *generating licence* | *1 189 697* | *1 283 729* | *94 032* | *7.9%* |
| *trade licence* | *182 339* | *186 377* | *4 038* | *2.2%* |
| Revenue from certificates of origin | 60 582 | 22 597 | -37 985 | -62.7% |
| Revenue from sales of $CO_2$ emission allowances | - | 12 562 | 12 562 | 100.0% |
| Revenue from sale of heat | 91 649 | 93 563 | 1 914 | 2.1% |
| Revenue from services | 6 908 | 6 193 | -715 | -10.4% |
| Sales of goods and services and other revenue | 5 422 | 5 221 | -201 | -3.7% |
| Excise tax | 119 | 103 | -16 | -13.4% |
| **Net sales revenue** | **1 536 478** | **1 610 139** | **73 661** | **4.8%** |
| Depreciation and amortisation of fixed and intangible assets | 135 820 | 108 472 | -27 348 | -20.1% |
| Employee benefit costs | 132 134 | 131 987 | -147 | -0.1% |
| Consumption of materials and raw materials and value of goods sold | 810 808 | 852 589 | 41 781 | 5.2% |
| Costs of energy purchases for resale | 222 320 | 226 882 | 4 562 | 2.1% |
| Transmission services | 1,188 | 1,191 | 3 | 0.3% |
| Other outsourced services | 59 947 | 63 530 | 3 583 | 6.0% |
| Taxes and charges | 46 637 | 41 373 | -5,264 | -11.3% |
| **Cost of sales** | **1 408 854** | **1 426 024** | **17 170** | **1.2%** |
| Other operating revenue | 4 810 | 8 194 | 3 384 | 70.4% |
| Other operating expenses | 4 953 | 3 813 | -1 140 | -23.0% |
| Profit / loss on sales and liquidation of tangible fixed assets | 13 | 485 | 472 | 3 630.8% |
| Non-financial fixed assets impairment write-down | - | 42 000 | 42 000 | 100.0% |
| **Operating profit/loss** | **127 494** | **146 981** | **19 487** | **15.3%** |
| Financial revenue | 6 572 | 1 826 | -4 746 | -72.2% |
| Financial expenses | 10 056 | 10 214 | 158 | 1.6% |
| Dividend revenue | 3 890 | 2 740 | -1 150 | -29.6% |
| **Profit/loss before tax** | **127 900** | **141 333** | **13 433** | **10.5%** |
| Income tax | 22 836 | 28 939 | 6 103 | 26.7% |
| **Net profit/loss** | **105 064** | **112 394** | **7 330** | **7.0%** |
| **EBITDA** | **263 314** | **297 453** | **34 139** | **13.0%** |

**H1 2016:**

**Change factors of EBITDA of Enea Wytwarzanie sp. z o.o. (growth by PLN 34 mln):**

**Segment of System Power Plants - growth in EBITDA by PLN 30 mln:**

- (+) higher margin on generation by PLN 50 mln
- (+) higher result on other activity by PLN 5 mln
- (-) lower revenue from Regulatory System Services by PLN 4 mln
- (-) higher fixed costs by PLN 8 mln
- (-) lower margin on trade and the Balancing Market by PLN 13 mln

**Segment of Heat - growth in EBITDA by PLN 16 mln:**

- (+) lower costs of fuel consumption by PLN 15 mln
- (+) higher revenue from heat and electricity by PLN 10 mln
- (-) lower revenue from certificates of origin by PLN 3 mln
- (-) higher costs of purchases of energy for sale by PLN 2 mln
- (-) impairment of inventory PLN 1 mln
- (-) higher costs of $CO_2$ emissions by PLN 1 mln

**Segment of RES - EBITDA lower by PLN 12 mln:**

- (-) area of Water (PLN -7 mln): lower revenue from certificates of origin by PLN 6 mln and revenue from electricity by PLN 1 mln
- (-) area of Wind (PLN -5 mln): lower revenue from certificates of origin by PLN 5 mln and lower revenue from electricity by PLN 1 mln
- (+) area of Biogas (PLN +0.4 mln)

## Profit and loss statement of Enea Wytwarzanie sp. z o.o. - Q2 2016

| [PLN '000] | Q2 2015 | Q2 2016 | Change | Change % |
|---|---|---|---|---|
| Revenue from sale of electricity | 699 741 | 736 295 | 36 554 | 5.2% |
| *generating licence* | *629 561* | *658 972* | *29 411* | *4.7%* |
| *trade licence* | *70 180* | *77 323* | *7 143* | *10.2%* |
| Revenue from certificates of origin | 18 797 | 2 731 | -16 066 | -85.5% |
| Revenue from sales of CO2 emission allowances | - | 10 941 | 10 941 | 100.0% |
| Revenue from sale of heat | 33 745 | 28 782 | -4 963 | -14.7% |
| Revenue from services | 3 262 | 3 125 | -137 | -4.2% |
| Sales of goods and services and other revenue | 4 231 | 3 425 | -806 | -19.0% |
| Excise tax | 56 | 49 | -7 | -12.5% |
| **Net sales revenue** | **759 720** | **785 250** | **25 530** | **3.4%** |
| Depreciation and amortisation of fixed and intangible assets | 69 398 | 54 111 | -15 287 | -22.0% |
| Employee benefit costs | 68 844 | 68 459 | -385 | -0.6% |
| Consumption of materials and raw materials and value of goods sold | 424 469 | 435 623 | 11 154 | 2.6% |
| Costs of energy purchases for resale | 105 197 | 110 255 | 5 058 | 4.8% |
| Transmission services | 643 | 549 | -94 | -14.6% |
| Other outsourced services | 30 290 | 32 092 | 1 802 | 5.9% |
| Taxes and charges | 23 099 | 20 076 | -3 023 | -13.1% |
| **Cost of sales** | **721 940** | **721 165** | **-775** | **-0.1%** |
| Other operating revenue | -8 061 | 4 495 | 12 556 | 155.8% |
| Other operating expenses | 1 398 | 2 864 | 1 466 | 104.9% |
| Profit / loss on sales and liquidation of tangible fixed assets | 10 938 | -7 | -10 945 | -100.1% |
| Non-financial fixed assets impairment write-down | - | 42 000 | 42 000 | 100.0% |
| **Operating profit/loss** | **39 259** | **23 709** | **-15 550** | **-39.6%** |
| Financial revenue | 3 511 | 1 812 | -1 699 | -48.4% |
| Financial expenses | 4 326 | 4 280 | -46 | -1.1% |
| Dividend revenue | 3 890 | 2 740 | -1 150 | -29.6% |
| **Profit/loss before tax** | **42 334** | **23 981** | **-18 353** | **-43.4%** |
| Income tax | 7 632 | 5 070 | -2 562 | -33.6% |
| **Net profit/loss** | **34 702** | **18 911** | **-15 791** | **-45.5%** |
| **EBITDA** | **108 657** | **119 820** | **11 163** | **10.3%** |

**Q2 2016:**

**Change factors of EBITDA of Enea Wytwarzanie sp. z o.o. (growth by PLN 11 mln):**

**Segment of System Power Plants - growth in EBITDA by PLN 16 mln:**

- (+) higher margin on generation by PLN 21 mln
- (+) higher revenue from Regulatory System Services by PLN 1 mln
- (-) higher fixed costs by PLN 3 mln
- (-) lower margin on trade and the Balancing Market by PLN 5 mln

**Segment of Heat - lower EBITDA by PLN 0.1 mln:**

- (-) lower revenue from heat and electricity by PLN 5 mln
- (-) lower revenue from certificates of origin by PLN 2 mln
- (-) higher costs of purchases of energy for sale by PLN 2 mln
- (-) impairment of inventory PLN 1 mln
- (+) lower costs of fuel consumption by PLN 10 mln

**Segment of RES - EBITDA lower by PLN 5 mln:**

- (-) area of Wind (PLN -3 mln): lower revenue from certificates of origin by PLN 3 mln and higher cost of other outsourced services by PLN 1 mln
- (-) area of Water (PLN -3 mln): lower revenue from certificates of origin by PLN 3 mln
- (+) area of Biogas (PLN +1 mln)

## Profit and loss statement of LW Bogdanka SA - H1 2016

| [PLN '000] | H1 2016 |
|---|---|
| **Net sales revenue** | **848 662** |
| Depreciation and amortisation of fixed and intangible assets | -182 534 |
| Employee benefit costs | -261 142 |
| Consumption of materials and raw materials and value of goods sold | -147 433 |
| Other outsourced services | -140 418 |
| Taxes and charges | -21 854 |
| **Cost of sales** | **-753 381** |
| Other operating revenue | 13 114 |
| Other operating expenses | -2 783 |
| Profit / loss on sales and liquidation of tangible fixed assets | -8 472 |
| **Operating profit/loss** | **97 140** |
| Financial revenue | 10 801 |
| Financial costs | -16 599 |
| **Profit/loss before tax** | **91 342** |
| Income tax | -16 860 |
| **Net profit/loss** | **74 482** |
| **EBITDA** | **279 674** |

**H1 2016:**

**Factors of generated EBITDA of LW Bogdanka SA:**

- (-) EBITDA profitability 32.9%
- (-) EBIT profitability 11.4%
- (+) coal sales +15%
- (-) drop in the price of sold coal by -11 %
- (+) one-off events (e.g. release of provisions for potential claims of Budimex, management options revaluation)

## Profit and loss statement of LW Bogdanka SA - Q2 2016

| [PLN '000] | Q2 2016 |
|---|---|
| **Net sales revenue** | **428 093** |
| Depreciation and amortisation of fixed and intangible assets | -94 712 |
| Employee benefit costs | -135 852 |
| Consumption of materials and raw materials and value of goods sold | -76 045 |
| Other outsourced services | -77 995 |
| Taxes and charges | -10 199 |
| **Cost of sales** | **-394 803** |
| Other operating revenue | 11 795 |
| Other operating expenses | -1 462 |
| Profit / loss on sales and liquidation of tangible fixed assets | -7 809 |
| **Operating profit/loss** | **35 814** |
| Financial revenue | 8 905 |
| Financial costs | -9 598 |
| **Gross profit / loss** | **35 121** |
| Income tax | -1 632 |
| **Net profit / loss** | **33 489** |
| **EBITDA** | **130 526** |

**Q2 2016:**

**Factors of generated EBITDA of LW Bogdanka SA:**

- (-) EBITDA profitability 30.5%
- (-) EBIT profitability 8.4%
- (+) coal sales ca. +17%
- (-) drop in the price of sold coal by ca. -11%
- (+) one-off events (e.g. release of provisions for potential claims of Budimex, management options revaluation)

## Financial ratios

Below please find a glossary of terms and a list of acronyms used in this report.

| 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** | = | $\frac{\text{Average trade and other receivables x number of days}}{\text{Net sales revenue}}$ |
| **Turnover of trade and other payables in days** | = | $\frac{\text{Average trade and other liabilities x number of days}}{\text{Cost of products, goods and materials sold}}$ |
| **Inventory turnover in days** | = | $\frac{\text{Average inventory x number of days}}{\text{Cost of products, goods and materials sold}}$ |
| **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 |
| BlueNext | Trading platform enabling trade in allowances for emissions of $CO_2$ (EUA) and units of certified reduction of emissions (CER) on spot and futures market |
| CAPEX | Capital expenditures |
| $CO_2$ | 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 |

| Abbreviation/term | Full name/explanation |
|---|---|
| ICE | Trading platform enabling trade in allowances for emissions of $CO_2$ (EUA) and units of certified reduction of emissions (CER) on futures market |
| IOS installation | Fue gas desulphurisation plant |
| SCR installation | Installation of the catalytic denitrogenation of flue gases |
| MWe | Megawatt of electrical power |
| MWh | Megawatthour (1 GWh = 1,000 MWh) |
| MWt | Megawatt of heating power |
| NOx | Nitric oxides |
| 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. |
| "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 |

| Abbreviation/term | Full name/explanation |
|---|---|
| **"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 |
| **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") |

| Abbreviation/term | Full name/explanation |
|---|---|
| **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) |
| **$SO_2$** | Sulphur dioxide |
| **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<br>(Journal of Laws 1997 No. 54 item 348, as amended) |
| **WIBOR** | Warsaw Interbank Offered Rate - interest rate for loans on the Polish interbank market |

ISSUE INDEX

**Enea SA**
1 Górecka street
60-201 Poznań
gielda@enea.pl