

Justification by the Management Board of ENEA S.A. of the proposed distribution of the net profit for the financial year covering the period from 1 January 2019 to 31 December 2019

In justification of the proposal for the distribution of the ENEA S.A.'s net profit of the reporting period from 1 January 2019 to 31 December 2019, the Management Board hereby reports that the Company generated net profit of PLN 283,331 thousand in the financial year 2019.

The justification of the proposed profit distribution is presented below:

1. Taking into account the main directions of the ENEA Group's investments presented in item 2 below, we hereby propose to allocate 100% of the net profit in the amount of PLN 283,331 thousand to increase the reserve capital, designated for investment financing.
2. Following the implementation of the "Development Strategy of the ENEA Group until 2030 with an outlook to 2035" (hereinafter: "Strategy"), the ENEA Group will develop seven consistent features, which will differentiate it not only from the energy groups operating in Poland, but will also allow it to compete effectively on international markets. According to the vision, the ENEA Group will be a leader of strategic changes on the raw material and energy markets, also by implementing innovative solutions that are non-existent on mature markets.



According to the Strategy, continuous growth of the value of the ENEA Group, while ensuring sustainable development is the overriding strategic goal. The Strategy assumes implementation of 18 strategic objectives supporting the overriding goal in the following four perspectives:

a. the owner:

- large, controlled share in selected market segments;
- lasting relationships with Customers, systematically decreasing costs of reaching and retaining Customers;
- ensuring financial security of the ENEA Group;
- high mark-ups earned on bundled products and services;
- innovativeness in all aspects of the ENEA Group's activity;

- reliability and continuity of electricity supply;
- diversification of the ENEA Group's generation portfolio;

b. the Customer:

- ability to satisfy comprehensive needs;
- delivery of what is needed at the right time;
- attractive price to quality ratio of the offered product and service bundles;
- low total purchase cost, support in financing purchases from ENEA Group's offering;
- ethical, reliable and innovative supplier;
- responsible partner in sustainable management of relations with local communities, the environment and Customers;

c. the processes:

- producing an optimum and sustainable mix of products and services for well-identified Customers in cooperation with business and social partners;
- reaching Customers efficiently and delivering the promised value, on time, at the right price and quality point, while ensuring responsible and ethical marketing and reliable information;
- efficient, integrated and sustainable management of flexible, open competence groups in clearly defined business lines, in the preferred role of Business Operators on entrusted assets;

d. development:

- modern, transparent and ethical Organizational Governance system at all levels across the entire ENEA Group;
- sustainable investments in tangible and intangible assets.

More than 50% of the innovation initiatives defined by ENEA S.A. in the Strategy are aimed at increasing the business potential and their implementation will support, among others, development of innovative products, services and business lines of the ENEA Group.



According to the assumptions, if the Strategy is implemented, the ENEA Group will reduce its unit CO₂ emissions to 550 kg CO₂/MWh in 2030, with the intent to achieve 434 kg CO₂/MWh by 2035. The share of RES in electricity production will reach 22% by 2025 and 33% in 2030. On the other hand, the share of zero- and low-emission generation sources in the ENEA Group's total electricity production will reach 22% in 2025 and 41% in 2030, striving to reach 60% by 2035. The installed capacity should amount to 7,447 MW in 2025 and 8,287 MW in 2030, with the intention to achieve 9,672 MW by 2035.

According to the guidelines in the Strategy, it is assumed that the volume of electricity sales by the ENEA Group will reach 24.8 TWh in 2030, while the share of ENEA S.A. in the electricity sales market should reach 14% in 2025 and 15% in 2030.

On the other hand, the SAIDI index (system average duration index of long interruptions in the supply of electricity, calculated in minutes per user) should be 105 minutes in 2025 and 100 minutes in 2030, while SAIFI (system average frequency index of long interruptions in the supply of electricity) should be 2.14 in 2025 and 2.03 in 2030. Network losses in distribution are estimated to be 5.4% in 2025 and 5.3% in 2030.

According to the plan, the market share of coal sales to the commercial energy sector will increase to 25% in 2025 and 30% in 2030;

Return on equity (ROE) should be 10% in both 2025 and 2030, while return on assets (ROA) will reach 5% in both 2025 and 2030. On the other hand, EBITDA (the company's earnings before interest on interest-bearing debt, taxes, depreciation of property, plant and equipment and amortization of intangible assets) as compared to 2018 will increase by 35% in 2025 and 39% in 2030. It is estimated that the EBITDA contribution of new business lines to will be 7-12% in 2030 and the EBITDA amount generated by the new business lines will amount to PLN 360 million in 2030. The share of R&D&I (research, development and innovation) expenditures in the ENEA Group's total capital expenditures is to reach 2% in 2030.

The Group estimates that the capital expenditures necessary to maintain continuity of its operations and to launch new generating capacity by 2035 will exceed PLN 64 billion, including:

1. Distribution Area – PLN 26.9 billion;
2. Mining Area – PLN 9.2 billion;
3. Generation Area – PLN 12.5 billion;
4. Renewable Energy Sources – PLN 14.7 billion;
5. Other Activities – PLN 1.2 billion.

The capital expenditures for implementation of new generating capacity projects supporting the concern's transformation towards a low-emission company were estimated at about PLN 22 billion.

The profit distribution presented above is justified by the Group's significant investment needs resulting, among others, from the plans set forth in the "Development Strategy of the ENEA Group until 2030 with an outlook to 2035". From the ENEA Group's point of view, it is important to build its equity levels in the long-term, in order to be able to carry out the necessary capital expenditures. The earnings will constitute a supplementary source of financing of capital expenditures, in particular financing of projects related to the development of the Group.